FIRST LIGHT

29 October 2024

RESEARCH

SUN PHARMA | TARGET: Rs 2,019 | +6% | HOLD

All positives built into current valuations

AMBUJA CEMENTS | TARGET: Rs 640 | +12% | HOLD

Steady 2Q show, gearing for demand revival; retain HOLD

ACC | TARGET: Rs 2,398 | +5% | HOLD

1H below expectations, headroom for improvement

SYRMA SGS | TARGET: Rs 480 | +11% | HOLD

Modest revenue growth; margins to revive

APOLLO PIPES | TARGET: Rs 550 | +10% | HOLD

Dismal performance for fourth consecutive quarter

MARICO | TARGET: Rs 653 | +3% | HOLD

Bangladesh update: Start of something good?

AJANTA PHARMA | TARGET: Rs 2,736 | -6% | SELL

Lower growth forecast in multiple geographies

FIRSTSOURCE SOLUTIONS | NOT RATED

Significant upgrade to revenue guidance

SUMMARY

SUN PHARMA

- SUNP reported 11% domestic sales growth led by 5% volume growth from ~14,000 MRs; leads in Rx count across 13 doctor categories
- US specialty sales to continue growth momentum driven by Levulan in 3QFY25 due to seasonality
- We believe lower R&D, healthy product mix can spur EBITDA margin, which is all built into the CMP. We maintain HOLD

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AMBUJA CEMENTS

- Volume-driven revenue growth as realisation weakens by 6.0% YoY due to weak demand in key markets
- Cost structure pulls EBITDA growth lower to 9% and EBITDA/t stabilising at Rs 810 indicates operating cost stress
- We value ACEM's consolidated business at 13x 1-year forward and lower our TP to Rs 640 (earlier Rs 667). Retain HOLD

Click here **for the full report.**

ACC

- Q2FY25 revenue grew 4% YoY as 15% uptick in volume (supported by inorganic growth) was offset by realisation drop of 6%
- External purchases and inflated raw material dragged EBITDA margin by 305bps YoY to 9.3% and EBITDA/t to below Rs 500
- Retain HOLD as we continue to value ACC at 10x 1-year forward EV/EBITDA, and forecast FY27 EBITDA margin at ~16.0%

Click here **for the full report.**

SYRMA SGS

- Modest topline growth of 17%; EBITDA margin expanded 160bps due to better product mix
- FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion
- We maintain our FY25E/FY26E/FY27E EPS and value the stock at 30x Sep'26 P/E. We roll forward our valuation and raise TP to Rs 480. HOLD

Click here **for the full report.**

APOLLO PIPES

- Weak Q2FY25 due to continued loss of market share and sharp margin contraction
- Target volume to grow at 35% YoY in FY25, which appears overly optimistic based on its poor show in H1FY25
- Maintain HOLD with revised TP of Rs 550 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition

Click here **for the full report.**

MARICO

- Marico Bangladesh (MB), ~22% of Marico's Consolidated (MC) EBITDA, reported 2QFY25 sales +8%, est EBITDA +10%. Dividend payout 97%
- On a YoY basis, MB's constant FX contribution to MC's Sep'24 quarter growth is 1ppts on sales and 2ppts on est EBITDA
- Using FY24 MC B/S cash, the 2QFY25 payout will bring MB's cash contribution to MC to 25% vs its 22% EBITDA contribution

Click here **for the full report.**

AJANTA PHARMA

- Mixed quarter with revenue/EBITDA beat of 4%/3%; however, PAT reported 1% and EBITDA margin was 30bps lower than our estimate
- Branded Africa business lower; US growth guided for low single digit. India to grow at 9-10% for FY25, EBITDAM to sustain at ~28% in FY25
- We maintain SELL and TP of Rs 2,736 due to AJP's concentrated portfolio approach leading to lower EBITDA margin than the industry

Click here **for the full report.**

FIRSTSOURCE SOLUTIONS

- Big upgrade to revenue growth guidance with possibly more on the anvil in 2HFY25
- Likely to hit the US$1bn revenue run rate mark probably one year early. Becomes a more diversified player with acquisition of Ascensos
- Likely to be among the earnings growth leaders in the Tier-2 set in the medium term. Will be initiating coverage soon

Click here **for the full report.**

HOLD
TP: Rs 2,019 | ▲ 6%

SUN PHARMA | Pharmaceuticals | 29 October 2024

All positives built into current valuations

- **SUNP reported 11% domestic sales growth led by 5% volume growth from ~14,000 MRs; leads in Rx count across 13 doctor categories**
- **US specialty sales to continue growth momentum driven by Levulan in 3QFY25 due to seasonality**
- **We believe lower R&D, healthy product mix can spur EBITDA margin, which is all built into the CMP. We maintain HOLD**

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Strong growth in global specialty and India businesses: SUNP's performance in Q2FY25 was marginally above our estimates where sales/EBITDA rose 3%/4% above our estimates. Revenue growth of 9% was led by 22% YoY growth in the US to US$ 517mn and industry-beating growth in the domestic business. We expect SUNP's sales to grow at 8% CAGR from FY25-27 to Rs 619bn.

Levulan to contribute more in Q3 due to seasonality: US growth of 20% was led by double-digit revenue growth in the specialty businesses and higher growth in gRevlimid in Q2 vs Q1. Going forward, we believe US specialty sales growth would be driven by Winlevi, Cequa, Levulan and Ilumya. The US generics business reported sequential growth driven by two new product launches. We expect US sales to grow by 8% CAGR from FY25-27 to US$ 2.3bn, driven by 10% CAGR growth in US specialty sales from FY25-27 to US$ 1.17bn.

Continues to outperform IPM in terms of volume growth: SUNP's India sales grew by 11% in Q2FY25, outperforming the Indian Pharma Market (IPM), on the back of 14 new launches in Q2FY25. During the quarter SUNP's volume grew by 5% vs IPM growth of 0.7% driven by its number 1 position in the Rx count among 13 doctor specialists. The company aims to grow in line with or outperform the Indian Pharma Market in FY25. It is also focusing more on in-house manufacturing.

Lower R&D guidance to boost margins: During the quarter, R&D contribution was lower at 6% due to delay in clinical trials. Management expects R&D expense to ramp up in H2FY25. However, it lowered its FY25 guidance to 7-8% from the earlier 8-10% of sales. We believe lower R&D, healthy product mix and stable employee expense can increase EBITDA margin to 27.4% in FY25E vs 26.8% in FY24.

Maintain HOLD with revised TP of Rs 2,019: We believe lower R&D, healthy product mix amidst higher SG&A expense can boost EBITDA margin. However, we believe most of the positives are built into the CMP, hence, we maintain HOLD. We ascribe a higher P/E of 38x, and roll forward our valuations to Sep'26, with a new TP of Rs 2,019 (from Rs 1,530).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SUNP IN/Rs 1,903
Market cap	US$ 54.3bn
Free float	45%
3M ADV	US$ 41.8mn
52wk high/low	Rs 1,960/Rs 1,068
Promoter/FPI/DII	54%/16%/20%

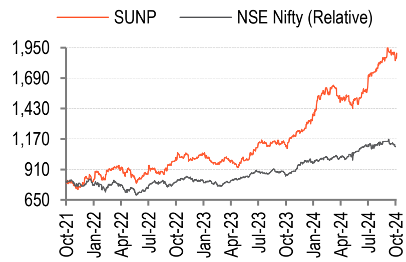
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	484,969	528,532	572,334
EBITDA (Rs mn)	129,884	144,805	159,668
Adj. net profit (Rs mn)	100,359	106,791	119,229
Adj. EPS (Rs)	41.8	44.5	49.7
Consensus EPS (Rs)	41.8	46.8	53.9
Adj. ROAE (%)	15.9	14.9	14.7
Adj. P/E (x)	45.5	42.7	38.3
EV/EBITDA (x)	34.0	30.3	27.0
Adj. EPS growth (%)	17.2	6.4	11.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 640 | 12%

AMBUJA CEMENTS | Cement | 29 October 2024

Steady 2Q show, gearing for demand revival; retain HOLD

- **Volume-driven revenue growth as realisation weakens by 6.0% YoY due to weak demand in key markets**
- **Cost structure pulls EBITDA growth lower to 9% and EBITDA/t stabilising at Rs 810 indicates operating cost stress**
- **We value ACEM's consolidated business at 13x 1-year forward and lower our TP to Rs 640 (earlier Rs 667). Retain HOLD**

Milind Raginwar
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Dent in realisations offsets volume gain, checks revenue growth: ACEM reported Q2FY25 (standalone) revenue growth of 6% YoY (down 6% QoQ) to Rs 42.1bn due to weak realisations as volume grew by a healthy 14% YoY (-6% QoQ) to 8.7mn tonnes. Realisation weakened by 7% YoY (flat QoQ) to Rs 4,843/t. Consolidated revenue growth was flat YoY (-10% QoQ) at Rs 75.2bn, as volumes increased 8% YoY (down 10% QoQ to 14.2mnt. Blended cement formed 84% of total trade volumes and premium product share was 26% (200bps QoQ).

EBITDA margin continues to be under pressure: Operating cost fell 4%/3% YoY/QoQ to Rs 4,033/t. Though energy cost fell 27%/5% YoY/QoQ to Rs 923/t as kiln fuel cost declined 15% YoY to Rs 1.57/kcal (from Rs 1.85/kcal in Q1FY25 the spurt in raw material cost (including clinker purchases) by a strong 50% YoY offset all the other benefits. Logistics cost also fell by 10%/9% YoY/QoQ to Rs 1,001/t. Effectively, EBITDA margin was 16.7%, down 280bps YoY (+240bps QoQ). EBITDA/t fell 20% YoY (+17% QoQ) to Rs 810.

Capacity expansion on track: With the acquisition of Penna Cement and Orient Cement, ACEM's operating cement capacity will reach ~100mn tonnes (mnt) by FY25-end. ACEM is on course to commission the 4mnt clinkerisation unit at Bhatapara (Chhattisgarh) and associated grinding unit at Sankrail and Farakka in West Bengal and Sindri in Jharkhand by FY25-end. In our view, ACEM's capacity expansion road map till FY26 is well defined.

Maintain HOLD: We reduce our EBITDA estimates for FY25/FY26 earnings by 11%/10% to factor in slower volume growth in FY25 and increased competitive pressure in FY26. However, we raise our FY27 EBITDA estimates by 2% to factor in the full impact of inorganic growth (ORCMNT + Penna). We estimate revenue/EBITDA/ PAT CAGR of 17%/19%/18% over FY24-FY27. We value ACEM's consolidated business by assigning EV/EBITDA of 13x 1-year forward earnings and lower our TP to Rs 640 from Rs 667. Our TP implies a replacement cost of Rs 10bn/mnt – ~33% premium to the industry. We retain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ACEM IN/Rs 569
Market cap	US$ 13.4bn
Free float	37%
3M ADV	US$ 22.7mn
52wk high/low	Rs 707/Rs 404
Promoter/FPI/DII	63%/11%/17%

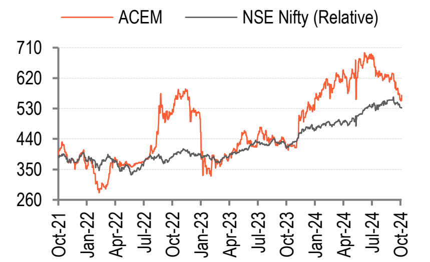
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,25,442	4,06,890	4,60,220
EBITDA (Rs mn)	63,995	70,121	85,672
Adj. net profit (Rs mn)	33,652	34,684	41,685
Adj. EPS (Rs)	16.1	15.8	19.0
Consensus EPS (Rs)	16.1	15.7	22.5
Adj. ROAE (%)	10.1	8.8	9.5
Adj. P/E (x)	35.4	36.1	30.0
EV/EBITDA (x)	16.1	14.3	14.5
Adj. EPS growth (%)	37.6	(1.9)	20.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 2,398 | ⮝ 5%

ACC | Cement | 28 October 2024

1H below expectations, headroom for improvement

- **Q2FY25 revenue grew 4% YoY as 15% uptick in volume (supported by inorganic growth) was offset by realisation drop of 6%**
- **External purchases and inflated raw material dragged EBITDA margin by 305bps YoY to 9.3% and EBITDA/t to below Rs 500**
- **Retain HOLD as we continue to value ACC at 10x 1-year forward EV/EBITDA, and forecast FY27 EBITDA margin at ~16.0%**

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Soft realisations keep revenue listless: ACC reported ~4% revenue growth YoY (-11% QoQ) in Q2FY25 at ~Rs 46bn, backed by volume growth of ~15% YoY (-9% QoQ) to 9.3mn tonnes (including MSA sales) supported by increase in premium products and aided by inorganic growth (indirectly). Realisations fell 9%/2% YoY/QoQ to Rs 4,680/t. Revenue from ACC's ready-mix concrete (RMC) segment dropped ~6%/12% YoY/QoQ to ~Rs 3.0bn, with EBIT gain of Rs 44mn.

Inflated raw material cost drags EBITDA margin: Operating cost increased ~8%/2% YoY/QoQ to Rs 4,493/t owing to inflated raw material consumption. Energy costs (adjusted for inventory) rose by 22%/12% YoY/QoQ to Rs 1,942/t and was offset by logistics costs decline of 13.0% YoY (fall of 5% QoQ) to Rs 1,020/t aided by supply agreements with ACEM. Other expenditure fell 15.0% YoY (flat QoQ) to Rs 4.72bn. Effectively, EBITDA/t fell to Rs 462/t from Rs 677 YoY (Rs 654 in Q1FY25), and operating margin dropped to 9.3%, down ~300bps YoY.

Capacity expansion on track: Clinker expansion at Maratha (Maharashtra) will be operational by Q3FY26. Additionally, grinding unit expansion of 1.6mt at Sindri (Jharkhand) and 2.4mt at Salai Banwa (Uttar Pradesh) are expected to be commissioned by Q4FY25/Q1FY26. The expansion is on track, with no change in timelines.

Maintain HOLD due to limited upside: Factoring in ACC's H1FY25 below-par performance despite master supply agreement (MSA)-led synergies and focus on cost savings, we lower our FY25E/FY26E/FY27E EBITDA forecasts by ~17%/9%/8%. With limited capacity available in FY26 and intense competitive pressure, we have lowered our FY26 EBITDA estimate too. Our EBITDA/PAT three-year (FY24-FY27E) CAGR is 7%/6% due to limited capacity headroom, although we factor in higher cost savings. We continue to value ACC at 10x EV/EBITDA 1-year forward earnings and reduce our TP to Rs 2,398 (from Rs 2,569). This implies a replacement cost of Rs 8.9bn/mt – a ~25% premium to the industry average. However, the stock offers limited upside, hence, we retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ACC IN/Rs 2,289
Market cap	US$ 5.1bn
Free float	43%
3M ADV	US$ 10.9mn
52wk high/low	Rs 2,844/Rs 1,803
Promoter/FPI/DII	57%/12%/19%

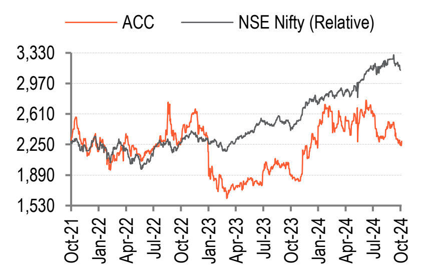
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,95,710	2,05,332	2,17,087
EBITDA (Rs mn)	30,576	29,772	34,740
Adj. net profit (Rs mn)	21,242	18,950	22,952
Adj. EPS (Rs)	113.0	100.8	122.1
Consensus EPS (Rs)	113.0	103.0	129.6
Adj. ROAE (%)	14.0	12.0	13.0
Adj. P/E (x)	20.3	22.7	18.7
EV/EBITDA (x)	13.3	13.1	9.8
Adj. EPS growth (%)	143.0	(10.8)	21.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 480 | ⮝ 11%

SYRMA SGS | Consumer Durables | 28 October 2024

Modest revenue growth; margins to revive

- **Modest topline growth of 17%; EBITDA margin expanded 160bps due to better product mix**
- **FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion**
- **We maintain our FY25E/FY26E/FY27E EPS and value the stock at 30x Sep'26 P/E. We roll forward our valuation and raise TP to Rs 480. HOLD**

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Revenue below estimates, margins beat: SYRMA's topline showed modest growth of 17% YoY to Rs 8.3bn, while EBITDA margin expanded sharply by 160bps to 8.5%. This increase was primarily due to the increased contribution from Auto, Healthcare and Industrials and a notable decrease in revenue from the Consumer segment, which typically has lower margins than the Original Design Manufacturer (ODM) segment. APAT rose 40% YoY to Rs 396mn.

Consumer segment capped; Auto and Healthcare to drive future growth: SYRMA's Auto vertical grew 22% YoY. Industrials experienced healthy growth of 23%, and Healthcare revenue grew 30%, whereas Consumer and IT and Railways grew a modest 8%. SYRMA's order book is at Rs 4.8bn, with the Consumer segment holding a 35-38% share, followed by Industrials with 25-28%, Auto 24-26%, Healthcare 6-8%, and the remaining with IT and Railways. Management has indicated that the Consumer segment's contribution will decrease in the coming quarters, with Healthcare and Auto expected to be the leading contributors.

Guidance maintained; shifts focus to boost margins: Management reaffirmed its growth target of 35-40% for FY25 and FY26, while projecting an EBITDA margin of 7% for FY25. The company expects margins to be under pressure, primarily due to its heavy reliance on the Consumer segment, which typically operates with narrower profit margins. To address this, management has outlined a strategic shift to reduce the Consumer segment's share of the topline and focus on more margin-accretive segments such as Auto and Healthcare. It expects this strategic realignment to enhance overall margins and drive improved profitability beyond FY25.

Maintain HOLD: SYRMA faces margin challenges due to shifts in its product mix, with the Consumer segment being the largest contributor to topline. However, given management's confidence in reducing the Consumer segment's contribution while increasing that of the Healthcare and Auto segments, we maintain our FY25/FY26/FY27 EPS estimates. We continue to value the stock at an unchanged P/E of 30x. Rolling forward to Sep'26, we raise our TP to Rs 480 (from Rs 450).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SYRMA IN/Rs 432
Market cap	US$ 908.6mn
Free float	53%
3M ADV	US$ 4.2mn
52wk high/low	Rs 705/Rs 376
Promoter/FPI/DII	47%/5%/9%

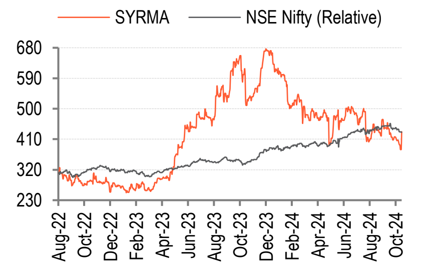
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	31,538	42,501	57,406
EBITDA (Rs mn)	1,986	2,991	4,154
Adj. net profit (Rs mn)	1,087	1,773	2,452
Adj. EPS (Rs)	6.1	10.0	13.9
Consensus EPS (Rs)	6.1	11.0	15.0
Adj. ROAE (%)	6.9	10.5	13.1
Adj. P/E (x)	70.3	43.1	31.2
EV/EBITDA (x)	38.5	25.5	18.4
Adj. EPS growth (%)	(8.9)	63.1	38.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 550 | ⮝ 10%

APOLLO PIPES | Building Materials | 28 October 2024

Dismal performance for fourth consecutive quarter

- **Weak Q2FY25 due to continued loss of market share and sharp margin contraction**
- **Target volume to grow at 35% YoY in FY25, which appears overly optimistic based on its poor show in H1FY25**
- **Maintain HOLD with revised TP of Rs 550 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition**

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Weak quarter: APOLP missed our Q2FY25 revenue/EBITDA/APAT estimates by 20%/31%/64% due to lower-than-expected sales volume (+1.8% YoY vs 36.5% estimated) and sharp margin contraction (-193bps YoY to 7.7% vs 8.9% estimate). Overall, APOLP revenue was relatively flat (at +0.4% YoY) due to the benefit of consolidated Kisan Moulding (KML) operations, but EBITDA/APAT de-grew by 19.6%/67.7% YoY in Q2FY25.

Key highlights: APOLP has lost market share for the fourth consecutive quarter as its standalone pipe volume fell by 17.0% YoY in Q2FY25. While the company operated its plant at a sub-optimal rate of 37% in Q2FY25, it still plans to aggressively grow its pipe capacity from 216ktpa at present to 286ktpa by Jun'25. APOLP's net debt has gone up from Rs 70mn in Mar'24 to Rs 710mn in Sep'24.

Over-optimistic guidance: APOLP targets to grow its volume at 35% YoY in FY25, which implies an asking run rate of 57% YoY for H2FY25. KML is expected to account for 25% of APOLP's total volume for FY25 and FY26. The company expects its consolidated EBITDA margin to improve gradually to 10-12% by FY26 end or early FY27 due to the ramp up of new capacity. The company targets to improve its ROCE from 11.0% in FY24 to 25-30% over the next three to four years, but we believe it would be an uphill task for APOLP to achieve its twin objectives of growing volume at a better pace than the industry and improving its return ratio profile.

Maintain HOLD; TP cut by 15% to Rs 550: We expect APOLP's sales volume to grow at a strong 21.5% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.4%-10.4% for FY25E-FY27E) in view of rising competition in the sector and the margin-dilutive acquisition of KML. At CMP, the stock trades at 34.2x on 1Y forward P/E vs the 5Y average of 45.0x. We have cut our TP to Rs 550 (Rs 650 earlier) due to the downward revision in our EPS estimates (-21.0%/-12.3%/-11.6% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep'26 (Jun'26 earlier).

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	APOLP IN/Rs 501
Market cap	US$ 237.1mn
Free float	54%
3M ADV	US$ 0.8mn
52wk high/low	Rs 799/Rs 472
Promoter/FPI/DII	46%/4%/17%

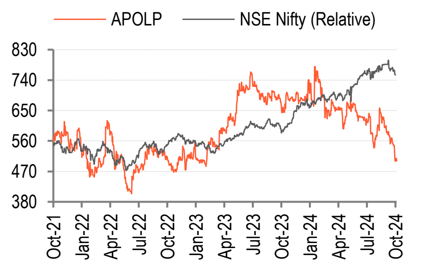
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	12,792	16,407
EBITDA (Rs mn)	958	1,144	1,624
Adj. net profit (Rs mn)	426	438	698
Adj. EPS (Rs)	10.8	11.0	17.5
Consensus EPS (Rs)	10.8	15.3	21.9
Adj. ROAE (%)	8.3	6.4	8.4
Adj. P/E (x)	46.2	45.5	28.6
EV/EBITDA (x)	20.8	17.4	12.4
Adj. EPS growth (%)	78.1	1.5	59.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 653 | ⮝ 3%

MARICO | Consumer Staples | 28 October 2024

Bangladesh update: Start of something good?

- **Marico Bangladesh (MB), ~22% of Marico's Consolidated (MC) EBITDA, reported 2QFY25 sales +8%, est EBITDA +10%. Dividend payout 97%**
- **On a YoY basis, MB's constant FX contribution to MC's Sep'24 quarter growth is 1ppts on sales and 2ppts on est EBITDA**
- **Using FY24 MC B/S cash, the 2QFY25 payout will bring MB's cash contribution to MC to 25% vs its 22% EBITDA contribution**

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MB performance remains robust in Sep'24 quarter: MB, which accounts for 20+% of MC EBITDA, reported Sep'24 quarter results over the weekend. Sales increased +8% while estimated EBITDA was +10%.

What is MB's growth contribution to MC, which reports results on 28 Oct, and how does it compare with consensus and MC's medium-term aspirations? In terms of YoY growth for the Sep'24 quarter, MB's constant FX contribution to MC is 1ppts on sales and 2ppts on EBITDA. Bloomberg consensus is expecting +8% on sales and +7% on EBITDA. As at 1QFY25, the trailing 12-month MB contribution to International was 41% on sales. We remind investors that in the medium term, MC is targeting to reduce MB's contribution to consolidated from 51% in FY22 to 40% by FY27.

Debt paydown and a high dividend payout ratio is a good start: MB's dividend payout ratio of 97% is a good start towards increasing repatriation. This needs to be improved over the next two quarters to create comfort on repatriation mechanism. MB also paid down all its debt – a reasonable move given the macro issues around repatriation. This debt paydown reduced MB's cash exposure to MC by 2ppts.

What kind of payout ratio is required? MB's annual contribution to consolidated is 22% on EBITDA. Adjusting MC's Mar'24 cash/equivalents for the dividend payouts from MB for FY24, 1QFY25 and planned 2QFY25 dividends along with the debt paydown, MB's cash share of MC stands at 25%. To even this out by FY25 end, assuming 1HFY25 EPS growth run rate for FY25, we estimate MB needs to maintain a payout ratio of ~130%. This seems high given the current 97% but a move in this direction will be viewed as a positive.

Our view: The 97% payout and expected repatriation is a positive development on the Bangladesh exposure. This payout trend needs to improve to reduce the consolidated business's above-normal cash exposure. We have a HOLD rating on the stock with a 12-month TP of Rs 653, implying a return of 3%.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 634
Market cap	US$ 9.7bn
Free float	40%
3M ADV	US$ 19.2mn
52wk high/low	Rs 720/Rs 486
Promoter/FPI/DII	59%/25%/16%

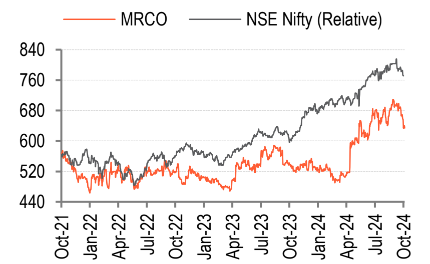
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,206	117,657
EBITDA (Rs mn)	20,260	22,331	24,304
Adj. net profit (Rs mn)	14,810	16,003	17,458
Adj. EPS (Rs)	11.5	12.4	13.5
Consensus EPS (Rs)	11.5	11.9	13.5
Adj. ROAE (%)	36.5	36.5	36.0
Adj. P/E (x)	55.2	51.1	46.8
EV/EBITDA (x)	40.4	36.6	33.7
Adj. EPS growth (%)	13.7	8.1	9.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 2,736 | ⩔ 6%

AJANTA PHARMA | Pharmaceuticals | 29 October 2024

Lower growth forecast in multiple geographies

- **Mixed quarter with revenue/EBITDA beat of 4%/3%; however, PAT reported 1% and EBITDA margin was 30bps lower than our estimate**

  Branded Africa business lower; US growth guided for low single digit. India to grow at 9-10% for FY25, EBITDAM to sustain at ~28% in FY25

- **We maintain SELL and TP of Rs 2,736 due to AJP's concentrated portfolio approach leading to lower EBITDA margin than the industry**

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EBITDA margin at 5-quarter low: AJP reported a mixed Q2 where revenue/EBITDA grew by 15%/7% (4%/3% above our estimates vs. 5%/-6% Bloomberg consensus estimates) and PAT grew by 14% (1% below our and Bloomberg estimates). Sales was driven by 20% growth in the branded generic market (76% of sales). However, due to a 40% QoQ surge in SG&A expense (contribution surging to 25% vs 19% in 1QFY25), EBITDA margin declined by 300bps QoQ and 200bps YoY to 26%.

Domestic business to marginally outperform IPM: The India business grew by 9% (32% of sales) driven by 3% contribution from new product launches, 1.2% volume gain and 5.3% price hikes. During 2Q, AJP hired 200 MRs, totaling 3,200 MRs, which is expected to drive higher sales. We expect the India business to grow by 10% in FY25 to Rs 14.4bn driven by (1) new product launches, (2) MR productivity, (3) volume growth surpassing IPM growth.

US to remain softer in H2FY25E: The US business sales declined 2% YoY to Rs 2.3bn due to the lack of new product launches. During H1FY25, AJP filed four ANDAs and launched two products in Q2. we expect AJP to launch four to six products in FY25. Due to fewer filings, we forecast growth of 6% to Rs 10bn in FY25 from the US market.

Africa business growth to normalise in H2FY25: During the quarter, the branded generic segment in Africa grew by 36% YoY and 40% in H1FY25. Growth was driven by lower sales in Q4FY24, which spilled into Q1FY25, and resulted in higher sales in H1FY25. However, we expect growth to normalise to 12-15% in FY25.

Margins to remain around 28%: AJP has lowered its Africa business guidance, while the India business will sustain growth at 9-10%. Given elevated SG&A cost likely sustaining, we expect EBITDA margin to remain at around 28% in H2FY25.

Maintain SELL and TP of Rs 2,736: Due to lower EBITDAM, and no YoY increase in margin on an FY basis, we ascribe a P/E of 31x to arrive at a TP of Rs 2,736.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AJP IN/Rs 2,923
Market cap	US$ 4.4bn
Free float	31%
3M ADV	US$ 7.8mn
52wk high/low	Rs 3,485/Rs 1,704
Promoter/FPI/DII	66%/10%/15%

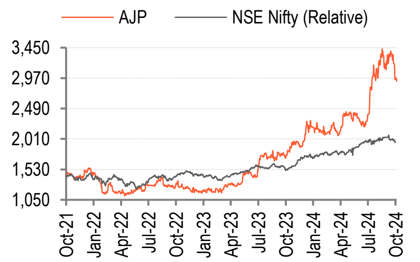
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	42,087	46,565	51,636
EBITDA (Rs mn)	11,719	13,243	14,944
Adj. net profit (Rs mn)	8,161	9,128	10,380
Adj. EPS (Rs)	64.6	72.2	82.2
Consensus EPS (Rs)	64.6	74.7	86.5
Adj. ROAE (%)	23.6	23.4	22.1
Adj. P/E (x)	45.2	40.5	35.6
EV/EBITDA (x)	31.3	27.7	24.5
Adj. EPS growth (%)	38.8	11.8	13.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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NOT RATED

FIRSTSOURCE SOLUTIONS | IT Services | 29 October 2024

Significant upgrade to revenue guidance

- **Big upgrade to revenue growth guidance with possibly more on the anvil in 2HFY25**
- **Likely to hit the US$1bn revenue run rate mark probably one year early. Becomes a more diversified player with acquisition of Ascensos**
- **Likely to be among the earnings growth leaders in the Tier-2 set in the medium term. Will be initiating coverage soon**

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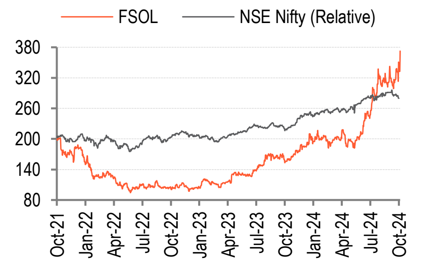
Ticker/Price	FSOL IN/Rs 373
Market cap	US$ 3.0bn
Free float	45%
3M ADV	US$ 34.7mn
52wk high/low	Rs 378/Rs 154
Promoter/FPI/DII	54%/12%/19%

Source: NSE | Price as of 28 Oct 2024

Stock performance



Source: NSE

Strong organic revenue performance: Revenue grew 6.9% QoQ with organic growth adjusted for one month of Ascensos at 4.2%. We estimated a number of 2% in CC QoQ organic growth. YoY growth revenue in CC was 22.7%, and excluding Ascensos, CC growth reached 19.6%, marking the highest growth in 12 quarters.

Significant increase in revenue guidance: The original guidance for FY25 was 10% to 13% growth in CC terms, which was updated to 11.5% to 13.5% after 1Q. The guidance now stands at 14.5% to 15.5% organic growth, excluding a 5% contribution from Ascensos. The FSOL sales engine is performing effectively, supported by a revamped go-to-market strategy and rigorous execution. This confidence has led to an increase in the growth guidance.

Growth guidance seems conservative: Despite the strong deal wins, the new growth guidance does not assume any pick up in QoQ revenue growth in organic terms. The management indicates that the guidance is based on its current visibility.

Margin guidance trimmed a bit at the upper end: Expected normalized EBIT margin for FY25 (excluding one-time charges) to be between 11% and 11.5% This was 11-12% earlier. We believe the upper end was trimmed due to enhanced investments.

Recent investments focused on three main areas: Expanding the sales and marketing/ account management teams, enhancing leadership and solutions capabilities, and modernizing services with AI and automation. While these initiatives may delay the expected improvements in margins, FSOL expects a consistent annual margin improvement of 50 to 75 bps in the medium term from FY26, regardless of the current investment strategy.

Deal wins good and new logo addition strong: 3 large deals (ACV >US$5mn) were secured in telecommunications, mortgage, healthcare, and financial services sectors. 13 new logos were added, marking the highest in two years. FSOL believes that its success is due to leveraging of deep industry and functional expertise, partnerships in the technology ecosystem, and ability to proactively bring automation and AI.

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Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
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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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