BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

04 February 2025

RESEARCH

DIVI'S LABS | TARGET: Rs 6,050 | +3% | HOLD

Back to higher growth trajectory

GREENLAM INDUSTRIES | TARGET: Rs 500 | -11% | SELL

Dismal Q3; D/G to SELL on weak earnings and rich valuations

AUTOMOBILES

Steady beginning to the new year; 2-wheelers the best in pack

SUMMARY

DIVI'S LABS

- Q3 sales/EBITDA/PAT were 0.6%/7.5%/22.3% above our estimates. PAT was higher than estimated due to the adoption of the new tax regime
- EBITDA margin increased to 32% and we expect EBITDA margin of 38% by FY27E due to healthy growth in the Custom Synthesis segment
- Upgrade to HOLD (earlier SELL) due to commissioning of Unit 3 and healthy CS sales, ascribing P/E of 58x (earlier 52x) on Dec'26 rollover

Click here **for the full report.**

GREENLAM INDUSTRIES

- Dismal Q3 on weak performance of laminates segment and slow ramp-up of plywood segment
- Revenue growth guidance revised down to 12-13% (vs 18-20%) for FY25; laminates margin also revised down to 14% (15-16% earlier)
- Downgrade from HOLD to SELL on weak earnings profile and expensive valuations; TP cut by 6% to Rs 500

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AUTOMOBILES

- Domestic passenger vehicle volumes grew 6.1%/24.4% YoY/MoM as compact segment growth beat SUV segment's for MSIL after a year
- The 2W segment grew 8.9%/26.5% YoY/MoM driven by the premium segment, resulting in HMCL and BJAUT losing market share
- The commercial vehicle segment showed signs of revival with only a marginal gain of 4.7% with M&HCV segment volume growth of 2.7% YoY

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HOLD
TP: Rs 6,050 | ⮝ 3%

DIVI'S LABS | Pharmaceuticals | 03 February 2025

Back to higher growth trajectory

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Earnings exceeded our estimates on all fronts: DIVI's earnings beat our estimates on all fronts where sales grew by 25% YoY to Rs 23.2bn, EBITDA by 48.6% YoY to Rs 7.4bn and PAT by 60% YoY to Rs 5.9bn. Healthy sales was due to strong growth in the Custom Synthesis business (52% of sales) which resulted in EBITDA margin increasing to 32% in Q3FY25.

Custom synthesis drove growth: During the quarter, Custom Synthesis to Generics contribution increased to 52%:48%. Generic segment growth was driven by volume but was offset due to pricing pressure. DIVI currently has several opportunities in Custom Synthesis (CS) which are either in Phase 3 or are being commercialised. DIVI is working with most of the innovators in the CS segment, and as customers molecules transfer from one phase to another DIVI will have more opportunities in the CS segment.

Margins increased amidst higher logistics cost: During Q3, raw material costs increased by 26.5% YoY due to the delay in transit on account of the Red Sea crisis. However, it was offset by healthy CS sales and marginal decline in other expenses which resulted in EBITDA margin increasing by 509bps YoY to 32%.

Commissioning of Kakinada plant to increase margins: DIVI has commercialised the Phase 1 operations of Kakinada Unit 3 plant. This plant has freed capacities from Unit 1 and 2 which included KSMs. The commissioning of this plant will strengthen DIVI's backward integration and supply chain, thereby aiding margin increment. Hence, we expect DIVI to reach 35% EBITDA margin by FY27.

High demand for supply of peptides: DIVI has seen much demand from MNC customers in the last six months. DIVI has a decent order pipeline and expects to be a major player in this segment in the long term.

Upgrade to HOLD: We upgrade DIVI to HOLD (from SELL) due to DIVI's growing CS segment and the commissioning of the Kakinada plant. Hence, we ascribe P/E of 58x on Dec'26 roll forward with a new TP of Rs 6,050 (from Rs 5,253).

Key changes

Target	Rating
▲	▲

Ticker/Price	DIVI IN/Rs 5,884
Market cap	US$ 17.9bn
Free float	48%
3M ADV	US$ 32.9mn
52wk high/low	Rs 6,285/Rs 3,350
Promoter/FPI/DII	52%/15%/22%

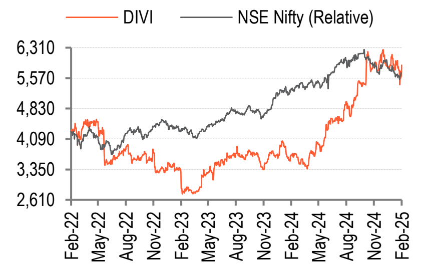
Source: NSE | Price as of 3 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	78,450	89,779	102,829
EBITDA (Rs mn)	22,050	28,740	35,231
Adj. net profit (Rs mn)	15,700	20,971	25,707
Adj. EPS (Rs)	59.1	79.0	96.8
Consensus EPS (Rs)	59.1	75.9	95.0
Adj. ROAE (%)	11.9	15.2	17.2
Adj. P/E (x)	99.5	74.5	60.8
EV/EBITDA (x)	69.1	52.9	43.3
Adj. EPS growth (%)	(7.6)	33.6	22.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

SELL
TP: Rs 500 | ∨ 11%

GREENLAM INDUSTRIES | Building Materials | 03 February 2025

Dismal Q3; D/G to SELL on weak earnings and rich valuations

- **Dismal Q3 on weak performance of laminates segment and slow ramp-up of plywood segment**
- **Revenue growth guidance revised down to 12-13% (vs 18-20%) for FY25; laminates margin also revised down to 14% (15-16% earlier)**
- **Downgrade from HOLD to SELL on weak earnings profile and expensive valuations; TP cut by 6% to Rs 500**

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Dismal Q3: GRLM reported a dismal performance for Q3FY25 as it sharply missed our estimates (Revenue/EBITDA/APAT: -9%/-22%/-51%) due to weak performance of laminates and plywood segment. Overall, GRLM revenue grew by 6.9% YoY, but EBITDA/APAT was down 10.7%/38.7% YoY in Q3FY25 due to margin pressure in laminates and higher capital charge related to newly commissioned projects.

Key highlights: Laminates segment EBITDA de-grew by 13.6% YoY in Q3FY25 due to weak volumes (+2.6% on account of muted demand in the domestic market) and margin pressure (-269bps to 13.2%). Plywood segment reported operating loss for the seventh consecutive quarter due to the slow ramp-up of the plant (operated at 24% in Q3FY25). Veneer segment reported a slight improvement in operating performance in Q3FY25 due to the weak base. Net debt has gone up from Rs 9.9bn in Sep'24 to Rs 10.1bn in Dec'24 and is likely to peak out at Rs 10.5bn in Mar'25.

Outlook: GRLM has revised down its laminate segment revenue growth guidance to 12-13% (+18-20% earlier) for FY25. GRLM expects its laminate segment revenue to grow at 18-20% with operating margin of 14% in FY26. The particleboard project (292,380 CBM) was commissioned in Jan'25 at a cost of Rs 8.75bn (of which Rs 7.35bn was spent till Jan'25 and the remaining amount is expected to be incurred in CY25). GRLM expects the particleboard project to operate at 40-50% rate in FY26.

Downgrade from HOLD to SELL, TP cut by 6% to Rs 500: We downgrade our rating on the stock from HOLD to SELL on (a) weak earnings profile (posted negative PAT growth for the past five consecutive quarters) due to muted demand and higher raw-material cost; (b) return ratio profile to remain weak over the next 12-18 months (ROE is expected to be a high single digit in FY25 and FY26) due to high capex incurred for its particleboard project compared to industry benchmarks and expectation of unfavourable industry dynamics for particleboard sector; and (c) expensive valuations (trades at 61.2x on 1Y forward P/E vs 5Y average of 40.5x). We have cut our TP to Rs 500 (Rs 530 earlier) due to the earnings downgrade (-20%/-26%/-9% for FY25/FY26/FY27) based on the weak Q3 result. Our target P/E remains unchanged at 35x on Dec'26 EPS (Sep'26 earlier).

Key changes

Target	Rating
▼	▼

Ticker/Price	GRLM IN/Rs 563
Market cap	US$ 823.9mn
Free float	49%
3M ADV	US$ 0.2mn
52wk high/low	Rs 662/Rs 431
Promoter/FPI/DII	51%/2%/16%

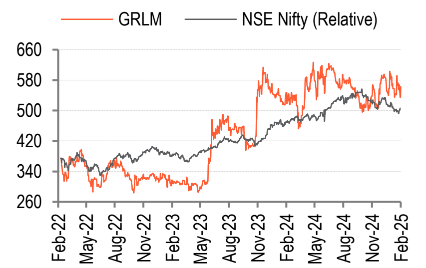
Source: NSE | Price as of 3 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,063	26,309	31,104
EBITDA (Rs mn)	2,974	2,953	3,648
Adj. net profit (Rs mn)	1,383	942	1,194
Adj. EPS (Rs)	10.8	7.4	9.4
Consensus EPS (Rs)	10.8	10.2	15.8
Adj. ROAE (%)	13.6	8.4	9.9
Adj. P/E (x)	51.9	76.2	60.1
EV/EBITDA (x)	23.3	22.4	17.2
Adj. EPS growth (%)	12.5	(31.9)	26.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Passenger vehicle segment: Domestic PV industry volumes grew 6.1%/24.4% YoY/MoM. MSIL's volume grew 6.5% YoY with compact segment growth at 7.5% YoY, higher than the SUV segment's 4.9% YoY after a 12-month gap. MSIL's exports grew 13.3% YoY (-27.5% MoM). MM grew by a healthy 17.6%/22.3% YoY/MoM driven by sales of the Thar Roxx. TTMT's domestic volumes grew 8.7% MoM but fell 10.4% YoY, while Hyundai India's domestic volume grew by 5.3%/29% YoY/MoM and continued in second position.

Two-wheeler segment: The 2W segment grew 8.9%/26.5% YoY/MoM driven by the premium segment. HMCL grew just 2.1%/36.3% YoY/MoM and BJAUT's volumes grew in single digit at 6.5% YoY (-20.6% MoM) as domestic volume fell 11.4% and exports gained 36.7% YoY. TVSL's volume grew in double digits by 17.5%/24.3% YoY/MoM in the <200cc segment. EIM's volume grew by 19.6%/14.7% YoY/MoM. HMCL and BJAUT lost market share to TVS and EIM in Jan'25.

Three-Wheeler segment: Volumes grew 11.2%/5.5% YoY/MoM, with growth facilitated by domestic volume growth of 6.6%/12.3% YoY/MoM. BJAUT's domestic 3W volume grew 1%/8.7% YoY/MoM and MM's domestic volume grew 31.9%/29.6% YoY/MoM. TVSL's domestic volume grew 39.8%/22.04% YoY/MoM, but export volumes fell MoM and YoY. BJAUT lost market share in Jan'25.

Tractors segment: Tractor sales grew 13.4%/20% YoY/MoM with ESCORTS and MM driving growth in the domestic and export markets; ESCORTS grew 7.8%/21.9% YoY/MoM and MM by 15.1%/20.1% YoY/ MoM. VSTT lagged.

Commercial vehicles: CV segment volume gained 4.7% YoY/fell by 2.48% MoM. Domestic volumes grew 2.7%YoY/slipped by 8.8% MoM. The M&HCV segment's volume grew 2.7% YoY (-5.8% MoM), TTMT's fell/grew 5.6%/0.9% MoM/YoY, and AL's grew 4.3% YoY/declined ~6.0% MoM. In the LCV segment TTMT's volumes declined by 3%/7.7% YoY/MoM, and AL's grew by 0.3%/4.6% YoY/MoM.

Key ratings: BUY rating on MSIL, MM and AL, and SELL on ESCORTS and VSTT.

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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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