FIRST LIGHT

05 February 2025

RESEARCH

KAJARIA CERAMICS | TARGET: Rs 1,130 | +18% | BUY

Weak Q3; upgrade to BUY on reasonable valuations

ERIS LIFESCIENCES | TARGET: Rs 1,418 | +15% | BUY

First player to launch GLP products in India

ZYDUS WELLNESS | TARGET: Rs 1,987 | +11% | HOLD

Margin focus over reinvestments

SUMMARY

KAJARIA CERAMICS

- Weak Q3 on sharp margin contraction due to weak demand in the retail market and high overhead costs of new bathware unit
- Tiles volume growth guidance revised down to +8-9% (vs +9-10%) for FY25; tiles margin to improve in near term once retail demand picks up
- Upgrade from HOLD to BUY on revised TP of Rs 1,130 on healthy return ratio and reasonable valuations

Click here **for the full report.**

ERIS LIFESCIENCES

- Base domestic growth at 12% vs IMP growth of 8% due to new product launches and price increase
- To be first player to launch Semaglutide in Indian market (Rs 20bn-30bn market size) and Liraglutide launch to fetch Rs 10mn in sales monthly
- We maintain our BUY rating and value the stock at a P/E of 34x on Dec'26 rollover to yield a TP of Rs 1,418 (earlier Rs 1,648)

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BOBCAPS Research
research@bobcaps.in

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ZYDUS WELLNESS

- Q3FY25 sales came in 2% above consensus while EBITDA was 2% lower due to 15bps lower-than-expected margins
- We expect FY27 margins to be lower than company guidance due to likely negative operating leverage on repeated reinvestment cuts
- An overt focus on margins over reinvestments by the category leader can potentially slow industry and Zydus' own sales growth. HOLD

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BUY
TP: Rs 1,130 | ∧ 18%

KAJARIA CERAMICS | Building Materials | 04 February 2025

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Utkarsh Nopany
research@bobcaps.in

Weak Q3: KJC's Q3FY25 result came below our estimate (Revenue: -6%; EBITDA: -17%; APAT: -27%) due to sharp margin contraction in the tiles segment and weak performance of the non-tiles segment. Overall, KJC's revenue grew by 1.0% YoY, but EBITDA/APAT de-grew by 16.8%/25.4% in Q3FY25.

Key highlights: KJC's tiles segment sales volume grew by 6.7% YoY (5Y CAGR: +7.2%) in Q3FY25 on account of higher outsourced sales volume (+16.6% YoY), but segment EBIT de-grew by 16.4% YoY in Q3FY25 due to margin contraction (-258bps YoY to 10.9%) on account of weak demand in the retail market. Non-tile segment revenue de-grew by 1.1% YoY in Q2FY25 as weak plywood sales (-25.6%) more than offset the impact of increased sales of bathware (+5.7%)/adhesives (+39.4%). The non-tile segment reported EBIT loss of Rs 65mn in Q2FY25 (vs profit of Rs 19mn in Q3FY24) largely attributable to losses incurred in the recently commissioned sanitaryware unit in Morbi.

Guidance: KJC has lowered its tiles volume growth guidance to +8-9% (+9-10% earlier) for FY25. Management expects margins to improve by 2-3% in FY26 (vs 12.8% in Q3FY25) on expectation of improvement in retail demand conditions and operating leverage benefits. The company does not plan to expand its own tiles manufacturing capacity in the near future. The Nepal plant's operating rate is expected to improve from 70% in Q3FY25 to 80%-85% by Mar-Apr'25.

Upgrade from HOLD to BUY; TP cut by 22% to Rs 1,130: We expect KJC's EPS to grow at a moderate pace of 7.8% CAGR over FY24-FY27E. However, we have upgraded our rating on the stock from HOLD to BUY due to (a) healthy return ratio with strong balance sheet; and (b) reasonable valuation (trades at 35.6x on 1Y forward P/E vs 5Y average of 44.4x) post steep correction in its stock price by 34% since Sep'24. We have cut our TP to Rs 1,130 (Rs 1,450 earlier) due to earnings downgrade (-14.7%/-16.5%/-15.4% for FY25E/FY26E/ FY27E) based on the weak Q3 result as well as downward revision of our target P/E multiple (from 40x to 35x) on Dec'26 estimates.

Key changes

Target	Rating
▼	▲

Ticker/Price	KJC IN/Rs 960
Market cap	US$ 1.8bn
Free float	53%
3M ADV	US$ 2.2mn
52wk high/low	Rs 1,579/Rs 956
Promoter/FPI/DII	47%/16%/28%

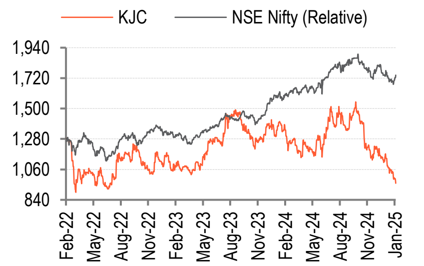
Source: NSE | Price as of 4 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	45,784	47,816	52,881
EBITDA (Rs mn)	6,997	6,549	7,642
Adj. net profit (Rs mn)	4,221	3,528	4,372
Adj. EPS (Rs)	26.5	22.1	27.4
Consensus EPS (Rs)	26.5	27.6	34.8
Adj. ROAE (%)	16.6	12.7	14.7
Adj. P/E (x)	36.2	43.3	35.0
EV/EBITDA (x)	22.1	23.7	20.4
Adj. EPS growth (%)	20.0	(16.4)	23.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,418 | ⮝ 15%

ERIS LIFESCIENCES | Pharmaceuticals | 05 February 2025

First player to launch GLP products in India

- **Base domestic growth at 12% vs IMP growth of 8% due to new product launches and price increase**
- **To be first player to launch Semaglutide in Indian market (Rs 20bn-30bn market size) and Liraglutide launch to fetch Rs 10mn in sales monthly**
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Foram Parekh
research@bobcaps.in

Earnings below our estimates: ERIS's revenue declined by 3% YoY to Rs 7.2bn in Q3FY25, supported by the base domestic branded formulations business clocking sales of 11% ex of Biocon and 12% including Biocon. Change in business mix post acquiring Biocon portfolio and increase in raw material cost resulted in a 600bps drop in gross margin to 75.7%. EBITDA margin declined 168bps YoY to 34.4%, despite 43% YoY growth in EBITDA. During the quarter, the tax rate was 25% vs 12% in 3QFY24, resulting in a 19% YoY decline in PAT.

To be first participant of Semaglutide: ERIS has entered a strategic partnership for the launch of Semaglutide in the Indian market and expects the market to be Rs 20bn-30bn. Also, ERIS launched Liraglutide in India in Sep'24, which is clocking sales of Rs 10mn monthly. With the success of Liraglutide, we believe the company can scale up to tap the opportunity of GLP1 products in the Indian market.

Healthy product pipeline to sustain higher margins: EBITDA margin for the quarter was down by 168bps YoY due to lower gross margin. However, Insulin gross margin is expected to rise from 60% to 72% with the commissioning of the Bhopal plant and subsequent increase in overall gross margin. We expect ERIS to maintain EBITDA margin of 34-35% in FY25 driven by (1) higher productivity, (2) fixed-cost synergies through acquisition, and (3) several new launches in H2 mostly First to File (FtF).

Fully-integrated biologics: ERIS's profitability is expected to increase due to its fully vertically-integrated biologics presence, where it will conduct activities like product development and commercial manufacturing through Levim, fill finish through Chemman Labs and market products through Biocon's acquired portfolio.

Valuation outlook: We maintain our BUY rating and value the stock at a P/E of 34x on Dec'26 rollover to yield a TP of Rs 1,418 (earlier Rs 1,648). We expect such a premium valuation to sustain due to: (1) launch of GLP products in wave 1, (2) higher traction in value-added products, and (3) synergies from acquired businesses.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ERIS IN/Rs 1,232
Market cap	US$ 1.9bn
Free float	29%
3M ADV	US$ 2.0mn
52wk high/low	Rs 1,594/Rs 809
Promoter/FPI/DII	55%/13%/16%

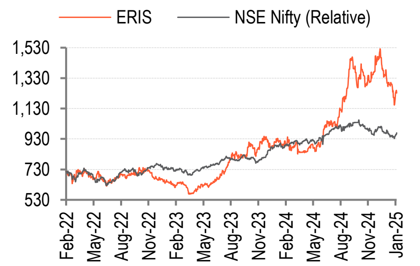
Source: NSE | Price as of 4 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	20,092	29,741	34,372
EBITDA (Rs mn)	6,748	10,214	11,924
Adj. net profit (Rs mn)	3,920	3,577	5,174
Adj. EPS (Rs)	28.9	26.3	38.1
Consensus EPS (Rs)	28.9	32.9	42.3
Adj. ROAE (%)	15.7	12.3	16.5
Adj. P/E (x)	42.7	46.8	32.3
EV/EBITDA (x)	25.4	17.5	15.3
Adj. EPS growth (%)	2.6	(8.7)	44.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,987 | ▲ 11%

ZYDUS WELLNESS | Consumer Staples | 05 February 2025

Margin focus over reinvestments

- **Q3FY25 sales came in 2% above consensus while EBITDA was 2% lower due to 15bps lower-than-expected margins**
- **We expect FY27 margins to be lower than company guidance due to likely negative operating leverage on repeated reinvestment cuts**
- **An overt focus on margins over reinvestments by the category leader can potentially slow industry and Zydus' own sales growth. HOLD**

Lokesh Gusain
research@bobcaps.in

Sales beat but EBITDA miss: Compared to Bloomberg consensus, Zydus Wellness' 3QFY25 sales came in 2% above consensus (4% above our estimate), while EBITDA was 2% lower due to 15bps lower-than-expected margins (225bps below our estimate). On a YoY basis, sales were +15% while EBITDA increased 17% driven by 5bps improvement in margins. Cost pressure continued on edible oils and Dextrose while Sucralose was favourable. A combination of pricing procurement savings and efficiencies helped offset inflation and improve margins.

Q3FY25 sales trends YoY: Food & Nutrition sales increased 9%. Personal Care sales were +50%. MAT to December market share of Complan was down 20bps while Glucon D was down 130bps. Personal Care did better with shares up 100bps to 400bps in the everyuth portfolio.

Keeping a flexible approach to margins: Zydus is focused on improving EBITDA margins to 17%-18%. We see two key issues. First, Zydus adjusts A&P and other reinvestments to manage profits. Such an approach by the category leader can potentially lead to a slowdown in the pace of category growth and its own sales growth. This translates into negative operating leverage to ultimately hurt margins. Naturell is a margin-dilutive acquisition.

Our view: Zydus Wellness is overtly focused on margin gains and is adjusting business reinvestments to meet targets. Sales impact won't be immediate but will reflect in a few quarters along with negative operating leverage. We value Zydus at 30x, in line with its 5Y historical average P/E on 12M to Dec'26 EPS. Our TP changes to Rs 1,987 from Rs 1,941. Share price return of 12% – HOLD.

(Rs mn)	Actual			Reported vs (%)	
	3Q24	3Q25	YoY (%)	BoBCaps	Cons.
Sales	4,032	4,619	14.6	4.1	2.3
EBITDA	127	148	16.5	(38.8)	(2.3)
EBITDA margin (%)	3.1	3.2	5bps	(225bps)	(15bps)

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ZYWL IN/Rs 1,783
Market cap	US$ 1.3bn
Free float	21%
3M ADV	US$ 0.9mn
52wk high/low	Rs 2,484/Rs 1,440
Promoter/FPI/DII	69%/3%/28%

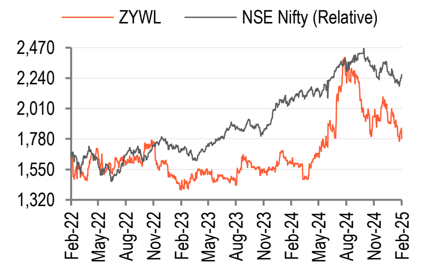
Source: NSE | Price as of 4 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,583	29,222
EBITDA (Rs mn)	3,082	3,809	4,416
Adj. net profit (Rs mn)	2,811	3,454	4,118
Adj. EPS (Rs)	44.2	54.3	64.7
Consensus EPS (Rs)	44.2	60.7	71.3
Adj. ROAE (%)	5.4	6.3	7.0
Adj. P/E (x)	40.3	32.8	27.5
EV/EBITDA (x)	37.6	30.4	25.8
Adj. EPS growth (%)	(12.3)	22.9	19.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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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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