FIRST LIGHT

07 May 2025

RESEARCH

[INITIATION] UNITED BREWERIES | TARGET: Rs 2,074 | -3% | HOLD

Positive outlook, but premium targets are stretched: Hold

BOB ECONOMICS RESEARCH | PRICE PICTURE

Inflationary concerns retreating

ALEMBIC PHARMA | TARGET: Rs 1,032 | +16% | BUY

FY26 to be better than FY25

KAJARIA CERAMICS | TARGET: Rs 925 | +16% | BUY

Weak performance on all counts

SUMMARY

[INITIATION] UNITED BREWERIES

- UB will hold share in non-premium, grow in premium. Double digit sales growth and 340bps EBITDA margin expansion between FY25-FY27
- While premium will drive top line, over the long-term 50+% of the higher NSR/case gains will be offset by higher ingredients and royalty costs
- UB to maintain leadership in Beer while improving margins. Initiate with a target price of INR2,074 and Hold rating

Click here for the full report.

INDIA ECONOMICS: PRICE PICTURE

BoB Essential Commodities Index (BoB ECI) continued its deceleration in Apr'25 as well, edging down by 0.2%, on YoY basis, slowest pace since Jan'19. The major downward correction was visible in the case of vegetables and pulses. This is supported by better arrival and production statistics, respectively. Heatwave conditions in major TOP (Tomato, Onion and Potato) producing States have also pacified which is a positive development since last month when most of these States recorded above normal temperatures. We expect CPI to be ~3.0% in Apr'25. This print will give further breather to RBI in its Jun'25 policy for further easing.

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ALEMBIC PHARMA

- Revenue/EBITDA/ PAT grew 6.7%/8% and 19% above our estimates. EBITDA margin reported 20bps above estimates of 15.4% in 4QFY25
- Healthy growth across segments and cost rationalisation to result in EBITDA margin clawing back to 18% by FY27
- We raise EPS by 8.9% and 7.3% by FY26E and FY27E to Rs 37.1 and Rs 48.6 per shar. Maintain BUY, ascribe PE of 21x on FY27E

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KAJARIA CERAMICS

- Weak Q4 on soft demand environment and margin pressure in tile segment; ceased plywood operations due to continued losses
- Scrapped large GVT tiles project on muted demand, despite operating at an almost full level in FY25
- Maintain BUY on healthy earnings growth prospects and reasonable valuation; TP cut by 18% to Rs 925 per share

Click here for the full report.

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HOLD
TP: Rs 2,074 | ∀ 3%

UNITED BREWERIES | Consumer Staples | 06 May 2025

Positive outlook, but premium targets are stretched: Hold

- **UB will hold share in non-premium, grow in premium. Double digit sales growth and 340bps EBITDA margin expansion between FY25-FY27**
- **While premium will drive top line, over the long-term 50+% of the higher NSR/case gains will be offset by higher ingredients and royalty costs**
- **UB to maintain leadership in Beer while improving margins. Initiate with a target price of INR2,074 and Hold rating**

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How low is beer affordability in India?: Number of working minutes required to buy a 650ml beer bottle is 105 in India vs 48 in Asia and 9 in developed markets. Assuming status quo on taxes/regulations, using our Beer Affordability Index, and a 4%-5% annual increase in average income, we forecast beer industry volumes to rise at a 5.5%-6.0% CAGR over the medium to long term. Over the next three years, industry growth will be towards the upper end of this range as premium accelerates and new capacity comes onstream.

For UB, double digit sales growth over FY25-FY27 is reasonable: We estimate 7% volume CAGR – non-premium is the main contributor with premium share of volumes also increasing from estimated 9% in FY25 to 11% in FY27. Rise in visicooler penetration will aid average 1ppt to group volume growth. We expect pricing to be driven by inflation, positive mix from rising share of premium, and continued focus on states with higher price realisation.

Premium sales targets are aggressive for medium term: UB is targeting premium to contribute 20%-25% of sales. Assuming the company holds share in non-premium, we estimate the premium portfolio needs to grow 4x vs category to contribute 20% of sales by FY30. On our estimates, FY35 is a more reasonable timeframe where UB volumes grow 2.8x category.

Margins driven by mix and operating leverage: Every 5% YoY increase in premium volumes adds 0.9% to group EBITDA and 3bps to EBITDA margins, assuming all else equal. Higher than average industry volume and sales growth will also enable operating leverage driven margin gains. Meanwhile, the pricing reset in Telangana accounts for about 15% incremental EBITDA on FY24 base. Overall, we forecast 340bps margin improvement to 12.4% between FY25-FY27.

Valuation: We expect UB to drive above industry sales and volume growth with margins also expanding. We value the company in line with its 5Y historical average P/E of 64x on 12m to March 2027 EPS. Our target price is Rs 2,074 with an implied negative return of -3%. Hold.

Ticker/Price	UBBL IN/Rs 2,131
Market cap	US$ 6.7bn
Free float	29%
3M ADV	US$ 6.2mn
52wk high/low	Rs 2,300/Rs 1,810
Promoter/FPI/DII	71%/6%/18%

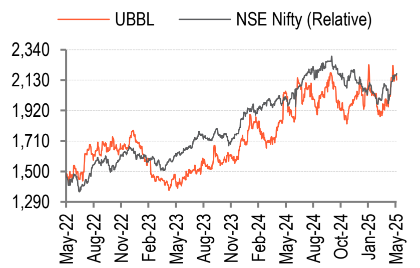
Source: NSE | Price as of 5 May 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,227	88,376	99,158
EBITDA (Rs mn)	6,962	7,965	11,390
Adj. net profit (Rs mn)	4,100	4,521	7,316
Adj. EPS (Rs)	15.5	17.1	27.7
Consensus EPS (Rs)	15.5	19.7	28.1
Adj. ROAE (%)	10.1	10.6	15.9
Adj. P/E (x)	137.4	124.6	77.0
EV/EBITDA (x)	80.1	70.5	49.2
Adj. EPS growth (%)	21.6	10.3	61.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

PRICE PICTURE

06 May 2025

Inflationary concerns retreating

Dipanwita Mazumdar
Economist

BoB Essential Commodities Index (BoB ECI) continued its deceleration in Apr'25 as well, edging down by 0.2%, on YoY basis, slowest pace since Jan'19. The major downward correction was visible in the case of vegetables and pulses. This is supported by better arrival and production statistics, respectively. Heatwave conditions in major TOP (Tomato, Onion and Potato) producing States have also pacified which is a positive development since last month when most of these States recorded above normal temperatures. We expect CPI to be ~3.0% in Apr'25. This print will give further breather to RBI in its Jun'25 policy for further easing.

The expectation of above normal monsoon, downside risks to commodity price cycle amidst anticipation of muted global growth and slackening demand conditions, as highlighted in transcripts of major FMCG companies, hint at CPI might undershoot RBI's target in Q1FY26 as well.

To get an idea about the calculation of the index, refer to *our previous edition of BoB ECI*.

Price picture using BoB Essential Commodity Index:

- BoB ECI continued to show moderation even in Apr'25. On YoY basis, it inched down to 0.2% in Apr'25 compared to 1.4% in Mar'25. This is the lowest number recorded since Jan'19. 10 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). The retail price of Tomato has hit its lowest since Aug'24, falling by (-) 34.4% in Apr'25, on YoY basis. Both Potato and Onion prices went into sharp deflation, noting a decline of (-) 11% and (-) 5.7%, respectively, in Apr'25, on YoY basis. Among pulses as well, the downward correction in prices is a consecutive three-month in a row phenomenon. This is supported by better production and astute supply management policies of the government. Tur/Arhar fell sharply by -14.6% in Apr'25, on a YoY basis. Other categories of pulses fell in the range of (-) 4.5 to (-) 5.8%. Among cereals, the retail price of rice fell at a sharp pace compared to last month by -4.1% in Apr'25. For miscellaneous items such as salt pack and tea loose, deflation is reigning in Apr'25 as well, albeit at a softer pace than last month. For Edible oils, Groundnut oil prices are still contained at 0.4%, however, other categories of edible oils are elevated in the range of 18.9-29.6% in Apr'25.

- **Sequential picture:** BoB ECI declined by -0.5% in Mar'25, on MoM basis. On a seasonally adjusted MoM, it has fallen at a less sharp pace by -0.3%, thus some degree of seasonality is involved in the moderation of CPI.

RESULT REVIEW

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BUY
TP: Rs 1,032 | ⮝ 16%

ALEMBIC PHARMA | Pharmaceuticals | 07 May 2025

FY26 to be better than FY25

- **Revenue/EBITDA/ PAT grew 6.7%/8% and 19% above our estimates. EBITDA margin reported 20bps above estimates of 15.4% in 4QFY25**
- **Healthy growth across segments and cost rationalisation to result in EBITDA margin clawing back to 18% by FY27**
- **We raise EPS by 8.9% and 7.3% by FY26E and FY27E to Rs 37.1 and Rs 48.6 per shar. Maintain BUY, ascribe PE of 21x on FY27E**

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Results above expectations: ALPM sales grew by 16.7%, EBITDA grew by 4.6% while PAT declined by 12%. Although sales were higher, change in the product mix led to 498bps decline in gross margin to 70% and subsequently, EBITDA margin reported at 15.4% in 4QFY25. In FY25, sales grew by 7%, EBITDA grew by 8% and PAT declined by 8% due to 40% rise in finance costs on account of rise in short-term debt and higher tax rate of 18% in FY25 due to higher provisions vs 2.5% in FY24.

Domestic sales to grow in double digits - ALPM's domestic sales grew by 8%, driven by growth in key specialty therapies (52% of domestic sales) like Gynecology, Anti-diabetic, Ophthalmology, Dermatology, acute driven therapies (30% of domestic sales) like Anti-infective and Cough & Cold and 20% growth in Animal Health (18% of domestic sales). Anti-infective therapy base has normalised, Animal Health is expected to sustain its growth momentum and due to unseasonal climate changes, we expect the domestic region to grow by 10% CAGR from FY25-27E.

New product launches to drive US sales – ALPM's US sales grew by 20% in 4QFY25 and 13% in FY25. The growth was largely led by volume growth and new product launches (4 products launched in 4Q). In FY25, ALPM filed 8 ANDAs out of which 5 were filed in 4QFY25. The company intends to launch 15 new products in FY26, out of which 20-30% is expected to be meaningful products. ALPM is increasing its R&D spend in FY26E to Rs 6bn (Rs 5.2bn in FY25), amongst that, 40% would be towards peptides, complex injectables and Ophthalmic while the rest towards APIs and OSDs. Amongst new filings, 45% would be injectables and the rest would be OSD, Derma and Ophthalmic. Due to new launches, we expect US sales to grow by 13% CAGR from FY25-27E.

ROW markets growth to be driven by deeper penetration – ALPM's ROW market grew by 43% in 4QFY25 and 18% in FY25, largely driven by sales expanded in Chile. It also has key partnership active in Europe, Canada, Australia, Brazil, and South Africa. Growth momentum is expected to sustain with new product launches and geographical diversification, hence, we expect these sales to grow at a CAGR of 15% from FY25-27E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ALPM IN/Rs 887
Market cap	US$ 2.1bn
Free float	31%
3M ADV	US$ 2.3mn
52wk high/low	Rs 1,304/Rs 725
Promoter/FPI/DII	70%/5%/13%

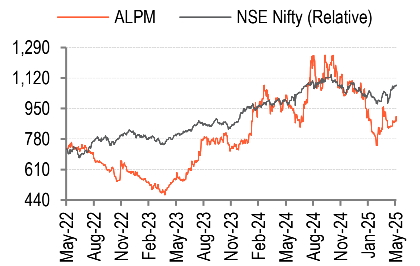
Source: NSE | Price as of 6 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	66,721	75,202	83,511
EBITDA (Rs mn)	10,082	12,186	15,184
Adj. net profit (Rs mn)	5,697	7,299	9,554
Adj. EPS (Rs)	29.0	37.1	48.6
Consensus EPS (Rs)	36.7	44.6	44.6
Adj. ROAE (%)	11.8	13.8	16.2
Adj. P/E (x)	30.6	23.9	18.2
EV/EBITDA (x)	17.8	14.9	12.1
Adj. EPS growth (%)	(7.4)	27.9	30.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 925 | ⮝ 16%

KAJARIA CERAMICS | Building Materials | 07 May 2025

Weak performance on all counts

- **Weak Q4 on soft demand environment and margin pressure in tile segment; ceased plywood operations due to continued losses**
- **Scrapped large GVT tiles project on muted demand, despite operating at an almost full level in FY25**
- **Maintain BUY on healthy earnings growth prospects and reasonable valuation; TP cut by 18% to Rs 925 per share**

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Weak Q4: KJC missed our estimate (Revenue: -5.0%; EBITDA: -20.5%; APAT: -26.0%) due to tepid tiles volume (+1.8% YoY vs +6.7% estimated on soft demand environment) as well as sharp margin pressure (-300bps YoY to 11.3% vs 13.5% estimated on intense competition from Morbi players and one-time write-off related to discontinuation of UK retail operations). Overall, KJC revenue grew by 1.1% YoY, but EBITDA/APAT de-grew by 20.0%/30.3% in Q4FY25.

Highlights: KJC tiles sales volume grew by 1.8% YoY in Q4FY25 driven by higher traded outsourced volume (+6.4% YoY). The manufactured tiles volume was down 1.7% YoY due to high operating rate (+103%). Tiles realisation was relatively stable (+0.4% QoQ) in Q4FY25. Bathware revenue grew by 8.1% YoY with weak EBIT margin of 2.8% in Q4FY25, due to losses incurred in the recently commissioned sanitaryware unit in Morbi. Despite lower operating rate of Nepal tiles JV plant (from 70% in Q3FY25 to 50% in Q4FY25), share of profit from JV has risen to Rs 70mn in Q4FY25 (vs loss of Rs 10mn in Q3FY25) due to some write-backs. KJC has discontinued plywood operations and posted a loss of Rs 308mn in Q4FY25, owing to the provision of doubtful debt for settlement with vendors.

Outlook: Despite operating at almost full capacity in FY25, KJC has scrapped its large GVT tiles project in Morbi due to muted demand environment. However, the company expects to outpace the industry growth (by sourcing higher outsourced volume from Morbi) as well as improve its margin profile in FY26, due to the benefit of implementation of various measures (sales force automation, dealer management system and cost optimisation projects). Capex estimated to be Rs 2.5bn for FY26.

Maintain BUY; TP cut by 18% to Rs 925: We maintain BUY, as a) we expect its EPS to grow at a healthy 19.7% CAGR over FY25-FY27E on a weak base; and b) reasonable valuation (trades at 30.7x on 1YF P/E vs 5Y average of 45.5x). We have cut our TP to Rs 925 per share (Rs 1,130 earlier) due to earnings downgrade (-8.7%/-7.2% for FY26E/ FY27E), based on weak Q4 result as well as a downward revision of our target P/E multiple (from 35x to 30x) on Mar'27 estimates (Dec'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	KJC IN/Rs 800
Market cap	US$ 1.5bn
Free float	53%
3M ADV	US$ 3.8mn
52wk high/low	Rs 1,579/Rs 759
Promoter/FPI/DII	47%/16%/28%

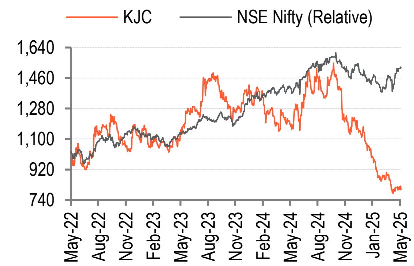
Source: NSE | Price as of 6 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	46,351	50,341	55,453
EBITDA (Rs mn)	6,262	6,999	8,358
Adj. net profit (Rs mn)	3,426	3,991	4,911
Adj. EPS (Rs)	21.5	25.1	30.8
Consensus EPS (Rs)	18.5	29.7	36.3
Adj. ROAE (%)	12.5	13.7	15.7
Adj. P/E (x)	37.2	31.9	25.9
EV/EBITDA (x)	20.7	18.7	15.8
Adj. EPS growth (%)	(21.0)	16.5	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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