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FIRST LIGHT

08 November 2024

RESEARCH

TATA STEEL | TARGET: Rs 175 | +16% | BUY

Look beyond transient issues, upgrade to BUY

BOB ECONOMICS RESEARCH | BOB ESSENTIAL COMMODITIES INDEX

Inflation risks linger

MAHINDRA & MAHINDRA | TARGET: Rs 3,344 | +16% | BUY

Auto and Farm segments on healthy trajectory; maintain BUY

ASTRAL | TARGET: Rs 2,000 | +12% | HOLD

Weak quarter; guidance downgrade yet again

ESCORTS KUBOTA | TARGET: Rs 2,426 | -33% | SELL

No major respite from weakness; maintain SELL

BLUE STAR | TARGET: Rs 2,100 | +18% | BUY

Strong EMP growth & RAC performance amid soft quarter

ALEMBIC PHARMA | TARGET: Rs 1,412 | +31% | BUY

The worst is over; H2FY25 to be better than H1FY25

SUMMARY

TATA STEEL

- Q2 call highlighted transient issues like delay in break-even at TSK, weaker margin outlook extending to Q3 and lower profitability at TSN
- However, structural earnings growth from TSK-2 expansion and TSUK transition is intact, we maintain 25% EBITDA CAGR over FY24-27E
- Upgrade to BUY from HOLD with an unchanged TP of Rs 175 with 16% upside

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BOBCAPS Research
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INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX

BoB Essential Commodity Index (BoB ECI) witnessed significant upswing both on a sequential and YoY basis. There is broad-based price pressure with a pronounced increase visible in tomatoes and edible oil. For the former, lower arrivals were primarily due to a lagged impact of unseasonal rains observed in Sep'24 which impacted mandi arrivals statistics. For edible oils, a sharp increase is visible because of imported inflation as prices globally are heated up. Going forward, rising intensity of climate risks, weaker currency against a stronger dollar and geopolitical risks might pose further upside risks to inflation.

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MAHINDRA & MAHINDRA

- Automotive segment grew by ~9% YoY and tractor volume at 3% YoY in the monsoon quarter; festive season sales were encouraging
- Auto EBIT margin gained ~30bps YoY to 9.3% despite price cut offers. FES segment at 18.3%, gained a healthy 220bps
- We maintain our earnings estimates and BUY rating. We value MM at 20x 1Y forward P/E and raise TP to Rs 3,344 (from Rs 3,279)

Click here for the full report.

ASTRAL

- Misses estimates on weak pipe volumes (-2.5% YoY) and continued subdued performance of SEAL IT & paints business
- Guidance again downgraded for FY25 based on weak H1FY25 performance, but positive medium-term outlook remains intact
- Maintain HOLD on expensive valuations; TP cut by 9% to Rs 2,000 per share

Click here for the full report.

ESCORTS KUBOTA

- Q2 tractors volume fell by 1% YoY (combined volume from JV partners post amalgamation) despite healthy industry growth
- Benign commodity prices support steady gross margin ~30%, high-cost structure post amalgamation leads to EBITDA margin weakness
- We cut FY25/FY26/FY27 EPS estimates by 10%/10%/3%, maintain 20x P/E multiple and revise our TP to Rs 2,426 (from Rs 2,514). Retain SELL

Click here for the full report.

BLUE STAR

- Topline jumps 20.4% in Q2, with gross margin rising 170bps due to better product mix and material cost reductions
- EMPS segment surges 32% in Q2; MS steady at 13.75%; UCP flattish. Management reaffirms 25-30% revenue growth in FY25 for UCP
- Reflecting Q2 & our optimism for FY25, we now value BLSTR at a P/E of 47x. We roll forward valuations to Sep'26, raising TP to Rs 2,100. BUY

Click here **for the full report.**

ALEMBIC PHARMA

- Q2FY25 results were below our estimates on all fronts; however, ALPM expects H2 to be better than H1FY25 driven by healthy product mix
- US reported 25% volume growth amidst price erosion pressure. ALPM expects to launch 20 new products in FY25 (50% to be non-oral solids)
- We maintain BUY and continue to value the stock at 30x Sep'26 EPS, a 40% premium to its five-year mean of 21x, with a TP of Rs 1,412

Click here **for the full report.**

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BUY
TP: Rs 175 | 16%

TATA STEEL | Metals & Mining | 08 November 2024

Look beyond transient issues, upgrade to BUY

- **Q2 call highlighted transient issues like delay in break-even at TSK, weaker margin outlook extending to Q3 and lower profitability at TSN**
- **However, structural earnings growth from TSK-2 expansion and TSUK transition is intact, we maintain 25% EBITDA CAGR over FY24-27E**
- **Upgrade to BUY from HOLD with an unchanged TP of Rs 175 with 16% upside**

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Weak Q2 ahead of us: While Q2 EBITDA was broadly in line with consensus, it was 15% ahead of our forecasts on 13% beat in India operations largely driven by lower conversion costs (not entirely recurring) and 9% lower losses in European operation.

Transient issues extend: (a) UK transition losses to taper by Q1FY26 from earlier guidance of break-even in H1FY25, (b) EBITDA margin decline to continue into Q3, (c) net debt increase by Rs 113bn in H1 to Rs 888bn, (d) indication of lower profit potential at TSN (Netherlands) at the lower end of EUR 60-80/t of previous through-the cycle EBITDA margin range on increase in regulatory costs.

Structural growth intact…: (a) TATA broadly maintained its ramp-up guidance for TSK-2 expansion over the next two years, (b) TSUK is still set to achieve break-even in FY26 resolving legacy issues and transition to being a competitive plant in Europe with implementation of EAF, (c) capex to ease in FY26 on an interim basis allowing resumption of deleveraging ahead of pick up in expansion capex for NINL and TSUK, (d) TSK-2 expansion to improve profitability of entire 8mtpa TSK plant by Rs 3k-4k/t and make it the most competitive plant within the TATA portfolio.

… driving earnings growth: We believe earnings bottomed out in FY24. On a weaker base of FY24, we build in a 25% EBITDA CAGR over FY24-FY27E. While EBITDA recovery is likely to slow in FY25E to ~20% (~50% earlier), it would be largely delivered in FY26E with ~50% YoY growth in EBITDA. While we cut our EBITDA estimates for FY25 by 21% and FY26 by 6%, we largely maintain our FY27E EBITDA on full ramp-up of TSK-2 expansion.

Upgrade to BUY: We maintain our TP at Rs 175 as we now base our valuation on FY27 earnings to account for structural earnings expansion and discount it back to Dec'25 (from Jun'25), We continue to apply 1Y fwd target EV/EBITDA of 6.5x for India operations and 5.5x for Europe. With 17% correction since our downgrade to HOLD in Jun'24 and 16% upside to our TP, we upgrade the rating on the stock to BUY from HOLD. Timely delivery on TSK-2 expansion, UK transition and initiation of new growth projects (NINL expansion) are key triggers for the stock.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	TATA IN/Rs 151
Market cap	US$ 22.3bn
Free float	67%
3M ADV	US$ 80.7mn
52wk high/low	Rs 185/Rs 119
Promoter/FPI/DII	33%/20%/23%

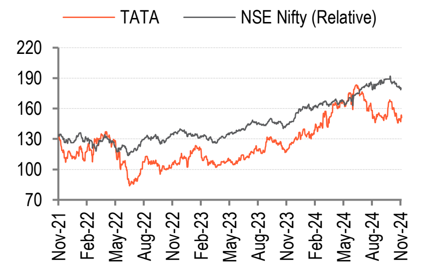
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs bn)	2,273	2,204	2,446
EBITDA (Rs bn)	223	264	398
Adj. net profit (Rs bn)	(44)	64	158
Adj. EPS (Rs)	(3.6)	5.2	12.9
Consensus EPS (Rs)	(3.6)	7.5	13.0
Adj. ROAE (%)	(4.5)	6.9	16.0
Adj. P/E (x)	(41.7)	28.8	11.7
EV/EBITDA (x)	11.1	9.9	6.8
Adj. EPS growth (%)	(150.4)	(245.0)	146.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOB ESSENTIAL
COMMODITIES INDEX

07 November 2024

Inflation risks linger

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) witnessed significant upswing both on a sequential and YoY basis. There is broad-based price pressure with a pronounced increase visible in tomatoes and edible oil. For the former, lower arrivals were primarily due to a lagged impact of unseasonal rains observed in Sep'24 which impacted mandi arrivals statistics. For edible oils, a sharp increase is visible because of imported inflation as prices globally are heated up. Going forward, rising intensity of climate risks, weaker currency against a stronger dollar and geopolitical risks might pose further upside risks to inflation.

Thus, what is required is a holistic policy response of the government in terms of addressing climate related shocks, logistical drawbacks and other supply side disruptions, might be beneficial in bringing down inflation. We expect CPI to settle around 5.7% in Sep'24, with risks tilted to the upside.

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 shot up sharply by 7% in Oct'24, on YoY basis, its highest reading since Jun'24. Most of the increase was attributable to a sharp upswing in Tomato prices which went up by 115.2% in Oct'24 compared to 16.6% increase seen in Sep'24. Even Potato and Onion prices noted strong double digit increase of 50% and 44% respectively in Oct'24. Other than vegetables whose price increase has become a persistent phenomenon due to weather related vagaries; sharp upswing was noted in case of edible oils. Mustard (17.2% increase in Oct'24), Sunflower (11.9%) and soya oil (9.3%) all witnessed considerable jump in prices.

- Sequentially, BoB ECI inched up by 2.5% in Oct'24. This is the sharpest sequential increase since Jul'23. The increase in momentum was broad based with sharpest increase visible for tomato, all items of edible oil and even all categories of pulses (except Gram dal). Cereals also noticed some buildup. So were miscellaneous items such as tea and salt. On a seasonally adjusted basis, however, BoB ECI has risen at a softer pace by 1.2%, thus partially the jump is attributable to seasonal phenomenon.

- BoB ECI in Nov'24 (first 6 days) is also increasing however at a lesser pace by 5.5% on YoY basis and by 0.4% on MoM basis.

BUY
TP: Rs 3,344 | ⮝ 16%

MAHINDRA & MAHINDRA | Automobiles | 08 November 2024

Auto and Farm segments on healthy trajectory; maintain BUY

- **Automotive segment grew by ~9% YoY and tractor volume at 3% YoY in the monsoon quarter; festive season sales were encouraging**
- **Auto EBIT margin gained ~30bps YoY to 9.3% despite price cut offers. FES segment at 18.3%, gained a healthy 220bps**
- **We maintain our earnings estimates and BUY rating. We value MM at 20x 1Y forward P/E and raise TP to Rs 3,344 (from Rs 3,279)**

Milind Raginwar
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Healthy products aid double-digit topline growth: MM's Q2FY25 revenue grew at a healthy 18.1%/6% YoY/QoQ to Rs 287.1bn, driven by healthy realisation uptick of 10.4%/8.7% YoY/QoQ and was supported by healthy product mix that offset soft prices. The automotive segment volume grew by ~9% YoY and tractor volume by 3% YoY with better product mix. Festive season sales gained further momentum.

Uptick in FES margin; automotive margin stays put despite price cuts: The Farm Equipment segment (FES) EBIT margin gained 200bps to 18.3%, backed by overall buoyancy in the segment after a lull. The Automotive segment stayed put at 9.3% compared to 9% in Q2FY24 despite price cuts due to a better product mix that helped offset cost inflation. The cost structure was well under check.

FES gaining pace: MM's Automotive business continued to dominate revenue with a 73% contribution in Q2FY25 (71% Q2FY24). FES saw a healthy uptick of 9.8% YoY and contributed 22% to the revenue stream. The tractor volume may gain traction following normal monsoons, and MM guided for 7% YoY gains.

Product pipeline remains strong: MM had a strong response to the launch of the new Thar Roxx (Q2FY25), besides the 3XO in 4QFY24 with encouraging initial bookings. MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven LCVs (five ICE + two EVs) and seven EVs (BEV) spread over the next six years in two tranches (till FY27, and beyond till FY30).

Overall healthy performance continues; maintain BUY: We maintain our estimates factoring in the healthy outlook from the FES and automotive segment following healthy monsoons and H1 performance. We pencil in a 3Y EBITDA/PAT CAGR of 17%/13%. We expect FES's revival to be stronger, and the automotive segment to maintain strong momentum as a result of MM's focus on driving volumes and market share. We continue to value MM's core business at 24x 1-year P/E, a 10% premium to its long-term average (22x) resulting in a revised SOTP-based TP of Rs 3,344 (from Rs 3,279). This includes Rs 362/share as the value of subsidiaries. We maintain our BUY rating (upside of 16%) and upward bias to our earnings estimates.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 2,891
Market cap	US$ 42.9bn
Free float	81%
3M ADV	US$ 112.5mn
52wk high/low	Rs 3,222/Rs 1,474
Promoter/FPI/DII	19%/37%/29%

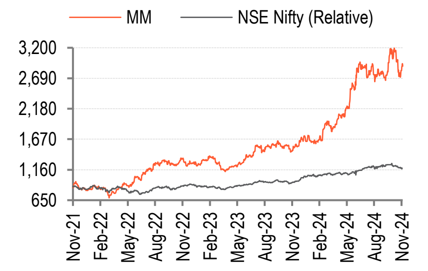
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,24,218	12,77,570
EBITDA (Rs mn)	1,26,662	1,56,309	1,81,302
Adj. net profit (Rs mn)	1,07,178	1,19,982	1,42,360
Adj. EPS (Rs)	89.5	100.1	118.8
Consensus EPS (Rs)	89.5	100.2	115.7
Adj. ROAE (%)	22.4	21.1	21.1
Adj. P/E (x)	32.3	28.9	24.3
EV/EBITDA (x)	28.3	22.7	19.8
Adj. EPS growth (%)	63.7	11.9	18.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 2,000 | ⮝ 12%

ASTRAL | Building Materials | 07 November 2024

Weak quarter; guidance downgrade yet again

- **Misses estimates on weak pipe volumes (-2.5% YoY) and continued subdued performance of SEAL IT & paints business**
- **Guidance again downgraded for FY25 based on weak H1FY25 performance, but positive medium-term outlook remains intact**
- **Maintain HOLD on expensive valuations; TP cut by 9% to Rs 2,000 per share**

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Weak quarter: ASTRA's Q2FY25 result came below our estimates across parameters (Revenue: -11%; EBITDA: -13%; APAT: -21%) due to lower-than-expected pipe volume (-2.5% YoY vs 15.0% estimated) and continued subdued performance of overseas adhesives (i.e. SEAL IT) and paints business. Overall, ASTRA's consolidated revenue was relatively flat (+0.5% YoY), but EBITDA/APAT de-grew by 4.5%/15.4% YoY in Q2FY25.

Key highlights: ASTRA posted inferior pipe volume growth compared to Supreme Industries (SI: -0.7%; ASTRA: -2.5%) for the past 11 consecutive quarters, but pipe EBITDA margin was flat YoY (at 17.6%) in Q2FY25 even after booking MTM inventory loss of Rs 100mn-150mn. Resinova's EBITDA grew by 9.1% YoY in Q2FY25 driven by higher revenue (+8.5%) along with flattish EBITDAM (+9bps YoY to 15.9%). SEAL IT and paints division posted weak performance for the seventh consecutive quarter. Net cash position was down from Rs 5.1bn in Mar'24 to Rs 2.65bn in Sep'24 due to a sharp increase in inventories and higher capex outlay.

Guidance downgrade: ASTRA observed flattish pipe volume in the month of Oct'24, but expects demand to improve in the near future in anticipation of restocking of inventories in the channel due to rising PVC resin prices. The company has revised down its pipe volume growth guidance to 10-15% (15%+ earlier) with EBITDA margin of 16-18% for FY25. Resinova revenue to grow at 15% YoY (15-20% earlier) with EBITDA margin of 15-16%; the company expects the performance of SEAL IT and paint division to improve over the next 3-4 quarters. Capex guidance has been slightly revised to Rs 3.8bn (Rs 3.5bn earlier) for FY25.

Maintain HOLD; TP cut by 9% to Rs 2,000: We expect ASTRA's EPS to grow at a strong 16% CAGR over FY24-FY27E. However, we maintain our HOLD rating on the stock due to expensive valuations (trades at 72.2x on 1Y forward P/E vs 5Y average of 73.9x). We have cut our target price to Rs 2,000 (Rs 2,200 earlier) due to the downward revision of our EPS estimates (-10%/-12%/-14% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 70x on Sep'26 (Jun'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ASTRA IN/Rs 1,790
Market cap	US$ 5.7bn
Free float	46%
3M ADV	US$ 12.8mn
52wk high/low	Rs 2,454/Rs 1,729
Promoter/FPI/DII	54%/22%/12%

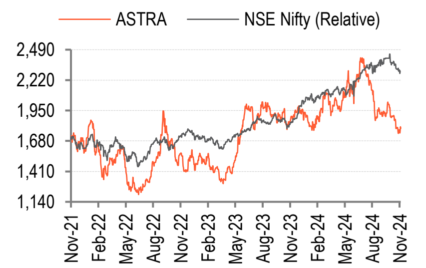
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	56,414	62,163	73,112
EBITDA (Rs mn)	9,247	10,264	12,117
Adj. net profit (Rs mn)	5,509	5,868	7,068
Adj. EPS (Rs)	20.5	21.8	26.3
Consensus EPS (Rs)	20.5	25.4	33.2
Adj. ROAE (%)	17.7	16.7	17.5
Adj. P/E (x)	87.4	82.1	68.1
EV/EBITDA (x)	52.7	47.5	40.2
Adj. EPS growth (%)	16.7	6.5	20.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 2,426 | ▼ 33%

ESCORTS KUBOTA | Automobiles | 08 November 2024

No major respite from weakness; maintain SELL

- **Q2 tractors volume fell by 1% YoY (combined volume from JV partners post amalgamation) despite healthy industry growth**
- **Benign commodity prices support steady gross margin ~30%, high-cost structure post amalgamation leads to EBITDA margin weakness**
- **We cut FY25/FY26/FY27 EPS estimates by 10%/10%/3%, maintain 20x P/E multiple and revise our TP to Rs 2,426 (from Rs 2,514). Retain SELL**

Milind Raginwar
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Volume weakness persists: ESCORTS amalgamated Escorts Kubota India and Kubota Agricultural Machinery India with Escorts Kubota. The performance has been adjusted since FY24 to reflect the performance of the amalgamated entity. The Q2FY25 revenue was flat YoY at Rs 24.8bn (-12 QoQ) as tractor volumes fell by ~1% YoY to ~25.9k units (14% QoQ). Net realisation/vehicle in the segment was flat YoY (+3% QoQ) at Rs 0.95mn.

Only AM delivered growth, CE/RE declined: Revenue from the Agriculture Machinery (AM) segment grew 5% YoY in Q2FY25. The Railways Equipment (RE) segment contracted ~10% YoY, while Construction Equipment (CE) fell 14%. Segmental EBIT margin was 9%/15%/9% for the AM/RE/CE segments, all declining YoY. The three segments contributed 76%, 8% and 16% to revenue, respectively.

Margin contracts on elevated cost structure: Raw material cost (inventory adjusted) stayed flat YoY at Rs 21.1bn that kept gross margin steady ~30%, contributed by the elevated cost of the JV companies. Employee cost and other expenditure inflated by 5% each due to the impact of amalgamation that impacted EBITDA margin by 10bps YoY but fell sharply by (240bps QoQ) to 10.6%. APAT grew sharply to Rs 3.2bn only due to tax adjustments.

Amalgamation approved by NCLT: The amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has been approved by National Company Law Tribunal (NCLT) and was filed with the ROC on 1 September 2024.

Maintain SELL: ESCORTS's tractor volume stayed muted by ~1% YoY, though MM grew by 4% YoY – indicating ESCORTS has lost domestic market share. The amalgamation impact on margins due to higher cost structure will stay. The full benefit of the Kubota integration on export sales is likely to flow in only after 12-24 months. We lower our FY25E/FY26E/FY27E EPS estimate by 10%/10%/3%. Effectively, we retain our SELL rating and revise our TP to Rs 2,426 (from Rs 2,514). Our target P/E stays at 20x – a marginal premium to the stock's LT mean. The hiving-off impact of the RE division is factored into our FY26/FY27 earnings.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ESCORTS IN/Rs 3,644
Market cap	US$ 5.7bn
Free float	63%
3M ADV	US$ 12.3mn
52wk high/low	Rs 4,420/Rs 2,648
Promoter/FPI/DII	37%/22%/8%

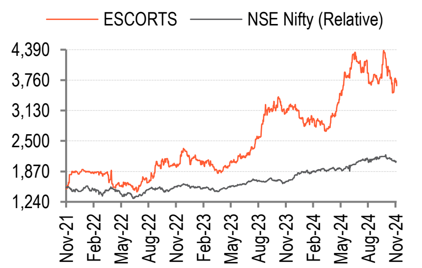
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	88,496	1,07,756	1,14,140
EBITDA (Rs mn)	11,667	12,107	13,632
Adj. net profit (Rs mn)	10,491	10,681	11,965
Adj. EPS (Rs)	94.9	96.7	108.3
Consensus EPS (Rs)	94.9	108.9	125.0
Adj. ROAE (%)	11.4	10.3	10.4
Adj. P/E (x)	38.4	37.7	33.7
EV/EBITDA (x)	41.4	38.7	33.6
Adj. EPS growth (%)	81.6	1.8	12.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 2,100 | ⮝ 18%

BLUE STAR | Consumer Durables | 07 November 2024

Strong EMP growth & RAC performance amid soft quarter

- **Topline jumps 20.4% in Q2, with gross margin rising 170bps due to better product mix and material cost reductions**
- **EMPS segment surges 32% in Q2; MS steady at 13.75%; UCP flattish. Management reaffirms 25-30% revenue growth in FY25 for UCP**
- **Reflecting Q2 & our optimism for FY25, we now value BLSTR at a P/E of 47x. We roll forward valuations to Sep'26, raising TP to Rs 2,100. BUY**

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Quarter gone by: BLSTR's Q2FY25 revenue increased 20% YoY to Rs 22.8bn, marginally above our estimate of Rs 22.3bn. Gross margin expanded 170bps YoY to 26.5% on better revenue mix and cost saving initiatives, in our view. However, the benefits of gross margin expansion were largely offset at EBITDA margin (+7bps YoY) by higher staff and other expenses. The electromechanical project (EMP) segment continued to perform strong, fueling management's optimism for 2HFY25 growth. APAT surged to Rs 962mn, a strong 36% YoY increase. The company's carry-forward order book as of Sep'24 grew ~10% to Rs 66bn.

EMPS drives growth; strong RAC demand in soft quarter: YoY revenue growth by segment showed EMP projects leading with a 32.6% increase, fueled by growth in manufacturing, data centres, and commercial real estate. UCP grew by 5.1%, while PEIS declined by 3.8%. EBIT margins improved by 220bps in EMP projects but dropped by 140bps in UCP and 820bps in PEIS. Within UCP, demand for RAC drove growth during a typically slower period, with BLSTR seeing a 53% rise in RAC volumes and 45% increase in sales for H1FY25. However, growth in Q2FY25 eased to 27% in volume and 25% in value. Commercial refrigeration faced setbacks due to new regulatory requirements and delays in ramping up deep freezer production.

Guidance retained: The revenue and margin guidance for UCP remains at 25-30% sales growth with an 8.5-9% margin, while management expects EMPS to maintain 7.5-8% margin. The capex and product development budget is set between Rs 3bn and Rs 4bn. Also, the PEIS business is anticipated to recover in Q4FY25.

Maintain BUY: We anticipate BLSTR earnings growth to maintain its momentum in H2FY25E, driven by strong performances in the EMP and UCP segments, cost-saving initiatives, and improved operating leverage. Reflecting the robust Q2 performance and an optimistic outlook for FY25, we now value the stock at 47x P/E (previously 44x) and with our valuation now rolled forward to Sep'26, the TP rises to Rs 2,100 (from Rs 1,870), a ~20% premium over the stock's five-year average. We maintain a BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,779
Market cap	US$ 4.1bn
Free float	61%
3M ADV	US$ 10.6mn
52wk high/low	Rs 2,200/Rs 902
Promoter/FPI/DII	39%/11%/25%

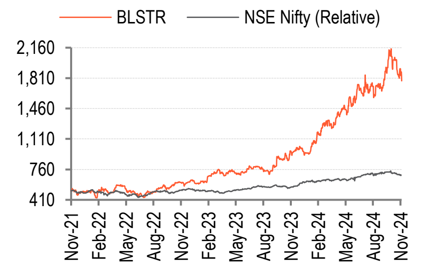
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,854	117,577	138,311
EBITDA (Rs mn)	6,649	9,242	11,345
Adj. net profit (Rs mn)	4,150	6,006	7,548
Adj. EPS (Rs)	21.5	31.2	39.2
Consensus EPS (Rs)	21.5	30.0	37.0
Adj. ROAE (%)	21.1	21.1	22.3
Adj. P/E (x)	82.6	57.0	45.4
EV/EBITDA (x)	51.5	37.1	30.2
Adj. EPS growth (%)	59.6	44.7	25.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,412 | ⮝ 31%

ALEMBIC PHARMA | Pharmaceuticals | 07 November 2024

The worst is over; H2FY25 to be better than H1FY25

- **Q2FY25 results were below our estimates on all fronts; however, ALPM expects H2 to be better than H1FY25 driven by healthy product mix**
- **US reported 25% volume growth amidst price erosion pressure. ALPM expects to launch 20 new products in FY25 (50% to be non-oral solids)**
- **We maintain BUY and continue to value the stock at 30x Sep'26 EPS, a 40% premium to its five-year mean of 21x, with a TP of Rs 1,412**

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Results below expectations due to decline in API sales: ALPM sales grew by 3% YoY (4% below our estimates), EBITDA by 15% (7% below our estimates) and APAT by 3% (7% below our estimates). The reason for the decline in earnings is (1) lower API sales of 15% (18% lower than our estimate) due to price erosion, (2) loss of a few accounts and lower domestic sales of 5% (2% below our estimate) due to lower acute sales industry-wide and (3) higher opex cost.

Domestic sales growth to be driven by normalised base: India region sales was affected by the decline in Anti Infective therapy and higher base of Azithromycin in the acute segment. We expect the India region to grow by ~9% driven by (1) normalised base of Azithromycin in H2 in the acute segment, (2) higher MR productivity, (3) uptick in well-diversified specialty and animal health segment.

US growth to be driven by new product launches: During Q2, US grew by 5% YoY affected by price erosion pressure. During the period, ALPM launched eight new products and expects to launch ten new ones in H2FY25. Of ~20 new product launches, 50% is in oral solids and the remaining 50% is in injectables, peptides and therapies like Oncology and Ophthalmology. Management expects new products to scale up and increase market share and, hence, guided for a healthy H2FY25.

ROW markets expected to recover in H2: The company faced supply issues in Q1FY25, which continued into Q2FY25. However, with the supply issues being resolved, we expect H2 to be better than H1.

EBITDA margin expected to reach 20% by FY27E: ALPM's EBITDA margin is at 15% currently and we expect it to increase closer to 20% driven by (1) higher productivity in India, (2) new product launches in US and (3) recovery in US sales.

Maintain BUY: We value ALPM at 30x Sep'26 EPS, a 40% premium to its five-year mean of 21x, to maintain a TP of Rs 1,412. We believe the premium valuation will sustain due to (1) aggressive new product launches in the US, (2) higher productivity in domestic region, and (3) recovery in the high-margin API business.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	ALPM IN/Rs 1,080
Market cap	US$ 2.5bn
Free float	31%
3M ADV	US$ 4.1mn
52wk high/low	Rs 1,304/Rs 710
Promoter/FPI/DII	70%/5%/13%

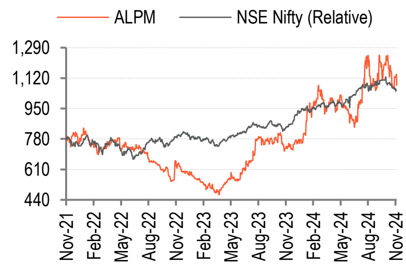
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	62,290	68,890	76,575
EBITDA (Rs mn)	9,337	11,213	13,904
Adj. net profit (Rs mn)	6,172	6,709	8,402
Adj. EPS (Rs)	31.4	34.1	42.7
Consensus EPS (Rs)	31.4	36.7	44.6
Adj. ROAE (%)	13.9	13.8	15.5
Adj. P/E (x)	34.4	31.6	25.3
EV/EBITDA (x)	23.4	19.4	15.4
Adj. EPS growth (%)	80.2	8.9	25.2

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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