FIRST LIGHT

09 May 2024

RESEARCH

KEC INTERNATIONAL | TARGET: Rs 860 | +16% | BUY

Good quarter, T&D to pull topline and margins; upgrade to BUY

AMBUJA CEMENTS | TARGET: Rs 580 | -2% | HOLD

Cost savings key driver; upside priced in, retain HOLD

LUPIN | TARGET: Rs 1,600 | -1% | HOLD

Stable margins; higher tax weighs on PAT

VOLTAS | TARGET: Rs 1,260 | -4% | HOLD

Margins falter; domestic business promising

MPHASIS | TARGET: Rs 2,266 | -1% | HOLD

Modest growth; BFSI yet to pick up

BRITANNIA INDUSTRIES | TARGET: Rs 5,980 | +16% | BUY

Expect strong volume growth ahead

DR REDDY'S LABS | TARGET: Rs 5,900 | -3% | HOLD

Driven by North America; India continues to underperform

Daily macro indicators

Indicator	6-May	7-May	Chg (%)
US 10Y yield (%)	4.49	4.46	(3bps)
India 10Y yield (%)	7.11	7.13	2bps
USD/INR	83.50	83.52	0.0
Brent Crude (US$/bbl)	83.3	83.2	(0.2)
Dow	38,852	38,884	0.1
Hang Seng	18,476	18,479	0.0
Sensex	73,878	73,512	(0.5)
India FII (US$ mn)	**3-May**	**6-May**	**Chg ($ mn)**
FII-D	98.3	43.6	(54.7)
FII-E	(256.4)	(137.9)	118.5

Source: Bank of Baroda Economics Research

SUMMARY

KEC INTERNATIONAL

- Strong quarter with highest quarterly revenues of Rs 61.6bn, +11.6% YoY; management guides for 15% revenue growth in FY25
- EBITDA margin for Q4 at 6.3%, management expects 7.5% margin in FY25 with exit margin of 9%; order inflows guided at Rs 250bn for FY25
- We maintain our EPS estimates and value the stock at 18x FY26E EPS (16x earlier) and arrive at a revised TP of Rs 860; upgrade to BUY

Click here for the full report.

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AMBUJA CEMENTS

- Standalone Q4 revenue grew 12% YoY backed by strong volume gains of 17%, partially offsetting weak realisations
- EBITDA/t fell 12% YoY to Rs 840/t as cost efficiencies couldn't fully cushion the dent in realisation
- Maintain HOLD with new TP of Rs 580 (vs. Rs 552), revising FY25/FY26 earnings by ~3% each. We value ACEM at 13x FY26E EV/EBITDA

Click here **for the full report.**

LUPIN

- LPC delivered a healthy operational performance in Q4 with largely in-line revenue/PAT; higher tax impacted net profit
- Company has been maintaining healthy margins throughout FY24 due to limited competition launches; guided for further improvement
- We largely retain our FY25/FY26 estimates and raise our TP to Rs 1,600 (from Rs 1,560). Maintain HOLD given LPC's rich valuation

Click here **for the full report.**

VOLTAS

- Healthy topline growth of 42.1% in Q4 as summer sets in, but EBITDA margin contracted 280bps in Q4 and 220bps in FY24
- UCP segment saw volume growth of 35% in Q4; market share declined to 18.7%; losses in EMP business continue to drag
- Raise FY25E/FY26E EPS by 7% each as losses in EMP business expected to reduce and arrive at a revised TP of Rs 1,260

Click here **for the full report.**

MPHASIS

- Regional banks and mortgages business will continue to draw down the overall BFSI segment
- Expertise in Microsoft Dynamics and Salesforce through acquisition likely to impact positively in improving deal pipeline
- We assume coverage on Mphasis with a HOLD rating and TP of Rs 2,266 based on 22x P/E on FY26E EPS (in line with current P/E)

Click here **for the full report.**

BRITANNIA INDUSTRIES

- Subdued growth in Q4 and FY24; however, volume recovery seen in second half of FY25
- Margins remain stable on favourable raw materials base; adjacent businesses continue to perform in line with expectations
- Innovation, increased penetration, and rural recovery to drive growth; maintain BUY with an unchanged TP or Rs 5,980

Click here **for the full report.**

DR REDDY'S LABS

- DRRD reported largely in-line revenue/EBITDA, but higher tax aided in PAT beat
- Growth driven almost entirely by North America business; slowdown in India remains a concern; partnerships & JVs should help
- We maintain our estimates for FY25/26, TP and rating. Our TP on DRRD remains Rs 5,900 based on an unchanged 11x FY26E EV/EBITDA. HOLD

Click here **for the full report.**

BUY
TP: Rs 860 | 16%

KEC INTERNATIONAL | Capital Goods | 08 May 2024

Good quarter, T&D to pull topline and margins; upgrade to BUY

- **Strong quarter with highest quarterly revenues of Rs 61.6bn, +11.6% YoY; management guides for 15% revenue growth in FY25**
- **EBITDA margin for Q4 at 6.3%, management expects 7.5% margin in FY25 with exit margin of 9%; order inflows guided at Rs 250bn for FY25**
- **We maintain our EPS estimates and value the stock at 18x FY26E EPS (16x earlier) and arrive at a revised TP of Rs 860; upgrade to BUY**

Swati Jhunjhunwala | Arshia Khosla
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Healthy quarter: KEC achieved its highest-ever revenues in Q4FY24 with a topline of Rs 61.6bn, 11.6% growth YoY, and FY24 revenue grew 15.2% YoY to Rs 199.1bn. EBITDA margin expanded 120bps to 6.3% in Q4FY24 and 130bps to 6.1% in FY24. Adjusted PAT stood at Rs 1.5bn for Q4 and Rs 3.5bn for FY24. The strong performance was supported by robust execution, strong traction in the Transmission & Distribution (T&D) business, and healthy international performance.

Strong order pipeline: Order book stood at Rs 370bn at the end of FY24 with order inflows of Rs 181bn during FY24. The largest contributors to inflows were Indian T&D business, international T&D business, followed by civil business. Management expects to clock inflows of Rs 250bn in FY25. Management sees an opportunity size of Rs 700bn in the domestic T&D market and Rs 400bn in the international T&D market.

T&D prospects bright, India in focus: The T&D business has seen a pickup in ordering activities along with more projects and is looking at a potential domestic pipeline of Rs 700bn. The company expects the international business to continue its strong performance with healthy performance in SAE Towers as well. On the domestic front, KEC is very optimistic on the tendering pipeline in the Indian T&D sector with projects across thermal and renewable power projects coming into play. KEC expects to capitalise on the country's move towards clean and green energy by securing orders in the transmission space.

Order outlook bright, margins to follow suit; upgrade to BUY: KEC has a strong presence in the T&D sector, and with the government pushing both thermal and renewable energy projects, management believes KEC will benefit. Additionally, margins improved during the quarter and year, and management expects further improvement over the next two years. We largely maintain our FY25E/FY26E EPS, and increase our target P/E to 18x from 16x, in line with the stock's 5Y average P/E. Consequently, we arrive at a higher target price of Rs 860 (from Rs 700), and upgrade to BUY from HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	KECI IN/Rs 740
Market cap	US$ 2.3bn
Free float	47%
3M ADV	US$ 8.1mn
52wk high/low	Rs 839/Rs 444
Promoter/FPI/DII	52%/13%/26%

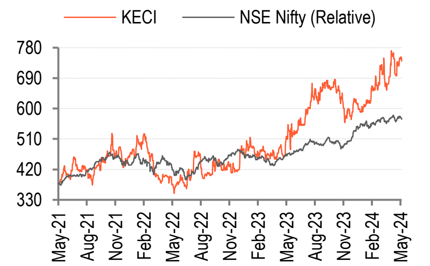
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,99,142	2,29,056	2,67,686
EBITDA (Rs mn)	12,146	18,082	24,123
Adj. net profit (Rs mn)	3,468	8,704	12,329
Adj. EPS (Rs)	13.5	33.9	48.0
Consensus EPS (Rs)	13.5	35.0	43.3
Adj. ROAE (%)	8.8	19.5	22.8
Adj. P/E (x)	54.9	21.9	15.4
EV/EBITDA (x)	13.2	8.5	7.4
Adj. EPS growth (%)	97.0	151.0	41.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 580 | ⩔ 2%

AMBUJA CEMENTS | Cement | 08 May 2024

Cost savings key driver; upside priced in, retain HOLD

- **Standalone Q4 revenue grew 12% YoY backed by strong volume gains of 17%, partially offsetting weak realisations**
- **EBITDA/t fell 12% YoY to Rs 840/t as cost efficiencies couldn't fully cushion the dent in realisation**
- **Maintain HOLD with new TP of Rs 580 (vs. Rs 552), revising FY25/FY26 earnings by ~3% each. We value ACEM at 13x FY26E EV/EBITDA**

Milind Raginwar
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Volume key revenue driver: ACEM reported standalone Q4FY24 revenue growth of 12%/8% YoY/QoQ to Rs 47.8bn backed by double-digit volume growth of 17%/16 YoY/QoQ to 9.5mn tonnes (including master supply agreement or MSA sales of 1.46mnt to ACC). Realisations weakened by 4%/7% YoY/QoQ. Consolidated revenue grew 9%/12% YoY/QoQ to Rs 88.9bn net of MSA sales, as volumes increased 17% YoY/QoQ to 16.6mt. Blended cement formed 86% of total volumes and premium product contribution made up 24% of trade sales (+180bps YoY).

Cost efficiencies aided operating performance: Operating cost fell 2%/4% YoY/QoQ to Rs 4,192/t due to overall cost rationalisation. Energy cost fell 26% YoY (-11% QoQ) to Rs 934/t on a 17% YoY fall in kiln fuel cost to Rs 1.84/kcal, whereas logistics cost softened 4%/1% YoY/QoQ to Rs 1,102/t. Clinker purchase cost was elevated at Rs 8.9bn, rising 2.3x YoY/QoQ. However, this fell short to offset the price weakness and EBITDA/t fell (12%/19% YoY/QoQ) to Rs 840/t and SA EBITDA grew 2% (-6% QoQ) to ~Rs 8.0bn.

Mega capacity expansion underway: ACEM expects to add 21.0mnt of cement capacity by FY26. Clinker expansion projects of 4mnt each at Bhatapara (CTG) /Maratha (Maharashtra) are due to be commissioned by Q4FY25/Q2FY26 respectively. This apart, ACEM will set up brownfield cement plants of 2.4mnt in West Bengal (2x2 plants), Jharkhand (one) in FY25 and one each in Punjab, Rajasthan and Uttar Pradesh by FY26 (to create 140mnt of capacity by FY28).

Maintain HOLD: We rationalise FY25 earnings by +3% despite slower volume growth due to cost-saving initiatives. We also revise FY26 forecasts by 3% to factor in better pricing and cost savings leading to a revenue/EBITDA/ PAT CAGR of 7%/25%/18% over FY23-FY26. We continue our SOTP-based valuations and raise our TP to Rs 580 (from Rs 552), wherein we value the standalone business at Rs 476 based on an unchanged EV/EBITDA of 13x FY26E earnings and add Rs 104 for the ACC stake. Our TP implies a replacement cost of Rs 13bn/mnt – ~2x premium to the industry – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 595
Market cap	US$ 14.4bn
Free float	37%
3M ADV	US$ 24.4mn
52wk high/low	Rs 649/Rs 396
Promoter/FPI/DII	63%/11%/17%

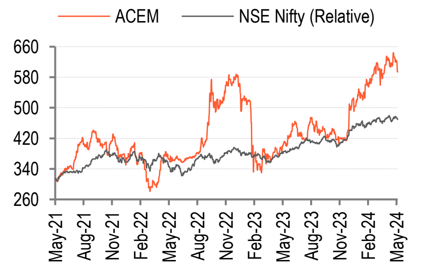
Source: NSE | Price as of 8 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,31,596	4,26,188	4,69,288
EBITDA (Rs mn)	70,242	80,036	99,643
Adj. net profit (Rs mn)	33,652	39,643	47,427
Adj. EPS (Rs)	16.1	18.0	21.6
Consensus EPS (Rs)	16.1	17.8	22.1
Adj. ROAE (%)	10.1	9.0	10.3
Adj. P/E (x)	37.0	33.0	27.6
EV/EBITDA (x)	15.3	13.0	13.1
Adj. EPS growth (%)	37.6	12.1	19.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

HOLD

TP: Rs 1,600 | ∀ 1%

LUPIN | Pharmaceuticals | 08 May 2024

Stable margins; higher tax weighs on PAT

- **LPC delivered a healthy operational performance in Q4 with largely in-line revenue/PAT; higher tax impacted net profit**
- **Company has been maintaining healthy margins throughout FY24 due to limited competition launches; guided for further improvement**
- **We largely retain our FY25/FY26 estimates and raise our TP to Rs 1,600 (from Rs 1,560). Maintain HOLD given LPC's rich valuation**

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Strong US growth and stable India business: LPC delivered a largely in-line performance in Q4 with +73%/+52% YoY growth in EBITDA/PAT to Rs 10.0bn/ 3.6bn on the low base last year (due to depressed margins), while revenue grew 12% YoY to Rs 49.6bn. Growth in revenue was spearheaded by North America (+23% YoY) and India (+8% YoY). This was followed by healthy growth of 17%/16% in EMEA and growth markets. ROW business grew 8%, while API fell 20% YoY.

Recent launches in US continue to drive growth; India remains healthy: North America sales of US$ 209mn was supported by single digit price erosion which remained flat QoQ. Management highlighted the benign price erosion scenario would persist in the coming quarters. Management has guided for US sales run-rate of +US$ 200mn over the coming quarters as well. LPC aims to achieve US$ 1bn in US sales by FY26 on the back of a slew of new launches over coming years. Lupin's India growth of 8% was healthy given the industrywide slowdown. The company performed well and outperformed the Indian Pharmaceuticals Market (IPM) in Cardiology, Respiratory and Oncology. India Prescription business grew 9%.

Margins to sustain; aim to reach 23% in two years: Gross/EBITDA margin were stable sequentially with 150bps/40bps improvement QoQ. Due to the depressed margins of last year, gross/EBITDA margin expansion YoY was +780bps/+700bps, supported by limited competition products including gSpiriva. Higher tax rate at 26% (vs 15.9% in Q3FY24 and 6.2% in Q4FY23) resulted in PAT miss of 31% compared to Bloomberg consensus. Management expects to reach 23% EBITDA margin in 2Y.

Maintain HOLD; TP raised to Rs 1,600: With growth coming back with limited competition products, a slew of new launches, tailwinds emerging from shortages and reduced price erosion bode well for Lupin. The company reported healthy growth in the domestic market despite industrywide challenges. We remain optimistic about revenue growth, sustainability of margins and strategic product launches across markets. We largely retain our estimates and maintain our FY26E EV/EBITDA of 15x and slightly revise our TP to Rs 1,600 (Rs 1,560). Maintain HOLD given limited upside with rich valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LPC IN/Rs 1,611
Market cap	US$ 8.9bn
Free float	53%
3M ADV	US$ 24.5mn
52wk high/low	Rs 1,704/Rs 704
Promoter/FPI/DII	46%/14%/29%

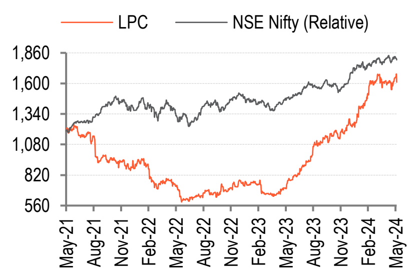
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	200,106	219,253	241,440
EBITDA (Rs mn)	38,105	45,734	51,758
Adj. net profit (Rs mn)	19,145	24,608	29,374
Adj. EPS (Rs)	42.3	54.4	64.9
Consensus EPS (Rs)	42.3	52.3	63.7
Adj. ROAE (%)	14.2	16.2	17.4
Adj. P/E (x)	38.1	29.6	24.8
EV/EBITDA (x)	19.8	16.3	14.1
Adj. EPS growth (%)	345.1	28.5	19.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

HOLD
TP: Rs 1,260 | ∀ 4%

VOLTAS | Consumer Durables | 08 May 2024

Margins falter; domestic business promising

- **Healthy topline growth of 42.1% in Q4 as summer sets in, but EBITDA margin contracted 280bps in Q4 and 220bps in FY24**
- **UCP segment saw volume growth of 35% in Q4; market share declined to 18.7%; losses in EMP business continue to drag**
- **Raise FY25E/FY26E EPS by 7% each as losses in EMP business expected to reduce and arrive at a revised TP of Rs 1,260**

Swati Jhunjhunwala | Arshia Khosla
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Healthy topline; margins drag: VOLT posted a decent quarter, with topline growth of 42.1% during Q4 and 31.4% in FY24. Gross and EBITDA margin both contracted on a quarterly and annual basis largely due to continued provisions in the EMP business, cost increases due to input price escalations and inability to pass on such costs to consumers. Adjusted PAT was Rs 1.1bn for Q4 and Rs 2.5bn for FY24.

UCP performance above peers; market share declines: The Unitary Cooling Products (UCP) segment recorded topline growth of 44.2% during Q4, above peers like Blue Star (+34.8%) and Lloyd (+5.9%). EBIT margin for UCP stood at 9.2%, a contraction of 80bps YoY, though still above its peers Blue Star (8.3%) and Lloyd (2.7%). Market share in the room air-conditioners (RACs) segment was 18.7% at the end of FY24, down from 19% at Dec'23, with a total volume of 2mn units being sold.

EMP segment clouds profits, though domestic business outlook bright: The Electro-Mechanical Products (EMP) segment saw 47.2% topline growth in Q4 and 53.2% in FY24, but reported an EBIT loss of Rs 3.3bn for FY24. This is largely due to provisions taken in the company business in Qatar, which has now largely been provided for. Management has guided for 4-5% EBIT margin in this business, and expects the domestic business to grow well within this segment. Order book stood at Rs 80.5bn, of which domestic business accounted for Rs 50.2bn, and the international business for Rs 30.3bn.

Domestic EMP, UCP and Beko to fuel growth: With most of the provisioning for the Qatar business done, we expect incremental profits in the EMP business to reflect going forward. Further, margin expansion in the UCP segment, continued growth in Voltas Beko and capacity expansions in the next two years provide profit visibility. We raise our FY25E/FY26E EPS by 7% each and value the stock at 44x FY26E P/E (40x earlier), in line with the stock's 2Y average, as volume growth in UCP and Beko yield profits. We arrive at a higher TP of Rs 1,260 (from Rs 1,060). Maintain HOLD.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	VOLT IN/Rs 1,319
Market cap	US$ 5.3bn
Free float	70%
3M ADV	US$ 30.0mn
52wk high/low	Rs 1,502/Rs 745
Promoter/FPI/DII	30%/21%/33%

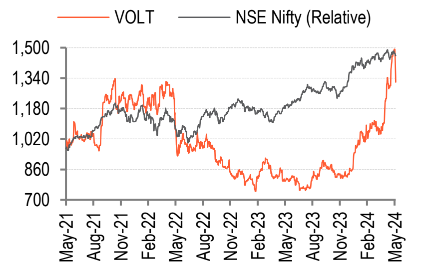
Source: NSE | Price as of 8 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,24,812	1,44,906	1,65,272
EBITDA (Rs mn)	4,746	11,264	13,513
Adj. net profit (Rs mn)	2,520	8,001	9,507
Adj. EPS (Rs)	7.6	24.2	28.7
Consensus EPS (Rs)	7.6	23.1	30.0
Adj. ROAE (%)	4.5	13.1	14.0
Adj. P/E (x)	173.2	54.5	45.9
EV/EBITDA (x)	91.9	38.7	32.3
Adj. EPS growth (%)	(33.5)	217.5	18.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 2,266 | ▼ 1%

MPHASIS | Technology & Internet | 08 May 2024

Modest growth; BFSI yet to pick up

- **Regional banks and mortgages business will continue to draw down the overall BFSI segment**
- **Expertise in Microsoft Dynamics and Salesforce through acquisition likely to impact positively in improving deal pipeline**
- **We assume coverage on Mphasis with a HOLD rating and TP of Rs 2,266 based on 22x P/E on FY26E EPS (in line with current P/E)**

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Growth headwinds expected in FY25: The company's revenue performance remained volatile over the last few quarters. Banking forms ~47% of the total portfolio, majorly relying on higher discretionary spending, which is impacting near-term growth visibility. Mortgage business (Digital Risk) and DXC channel impacted revenue by 10% over the last two years. We believe higher exposure in regional banks, coupled with uncertainty over US interest rates, will create continued headwinds in critical/major accounts (Top-10 accounts). Tight budgets, insourcing and layoffs likely to disrupt growth for Mphasis, in our view. In this situation, the company needs better discretionary spending and share gains in vendor consolidation.

Reshuffle/hire in senior management team: The company has hired Ashish Devalekar to head the Europe operations and Anurag Bhatia has been transferred to the BPS business.

Building enterprise business through M&A: Mphasis is building capabilities in Microsoft Dynamics/Salesforce through acquisitions of eBecs and Silverline. The company is trying to improve the large client mining through new services offerings. Mphasis has partnered with Kore.AI especially for the infusion of generative AI and the implementation of the product to improve the company's revenue stream.

Moderated deal TCV but stability in margin remains intact: FY24 revenue stood at USD 1.6bn, down 16% in BFS but non-BFS was up 5% YoY. EBIT margin in Q4 was 14.9% (including Silverline integration cost of 110bps QoQ). Margin guidance stood at 14.6-16% in FY25. New total contract value stood at USD 177mn in Direct business and 77% of the deal wins are coming from Next-Gen services.

Valuation outlook: Despite weakness in the mortgage business and tight budgets in key verticals/top accounts, we expect reduction in near-term leakage and recovery in Digital Risk. Mphasis trades at 25.2x FY25E and 22.2x FY26E EPS. We assume coverage with HOLD rating with a TP of Rs 2,266 based on 22x P/E of FY26E EPS in line with current P/E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MPHL IN/Rs 2,287
Market cap	US$ 5.2bn
Free float	40%
3M ADV	US$ 15.6mn
52wk high/low	Rs 2,838/Rs 1,808
Promoter/FPI/DII	52%/29%/14%

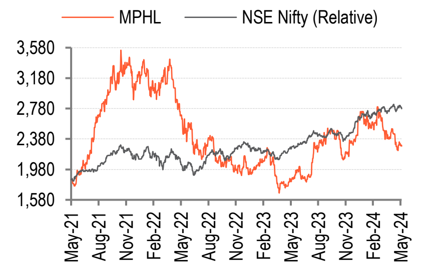
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,32,785	1,41,349	1,48,186
EBITDA (Rs mn)	24,220	26,291	28,896
Adj. net profit (Rs mn)	15,548	17,125	19,469
Adj. EPS (Rs)	82.4	90.6	103.0
Consensus EPS (Rs)	82.4	91.2	105.5
Adj. ROAE (%)	18.6	18.7	19.8
Adj. P/E (x)	27.7	25.2	22.2
EV/EBITDA (x)	17.5	16.2	14.8
Adj. EPS growth (%)	(5.3)	9.9	13.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 5,980 | ⮝ 16%

BRITANNIA INDUSTRIES | Consumer Staples | 08 May 2024

Expect strong volume growth ahead

- **Subdued growth in Q4 and FY24; however, volume recovery seen in second half of FY25**
- **Margins remain stable on favourable raw materials base; adjacent businesses continue to perform in line with expectations**
- **Innovation, increased penetration, and rural recovery to drive growth; maintain BUY with an unchanged TP or Rs 5,980**

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Subdued quarter; volumes pickup remains key: BRIT's Q4FY24 revenue growth was flat at 1.1% YoY; volumes growth remains healthy at 2x of revenue growth on YoY basis (excluding other operating income). The company continued to take price corrections in the wake of sustained regional competition. BRIT expects continued growth momentum in the coming quarters and guides for a double-digit uptick in volumes in FY25. The company's domestic market share inched up in Q4.

Adjacent business and innovation key for growth: BRIT's adjacent business now contributes 25% of revenue and the company expects it to grow at 1.5x compared to its biscuit portfolio. New launches continue to do well for the company and revenue contribution from these products now stand at more than Rs 2.75bn on annualised basis. BRIT is targeting 3.5%+ revenue contribution from new products going ahead.

Margins flat: Gross margin remained flat on YoY whereas EBITDA margin contracted by 50bps YoY and 40bps QoQ to 19.4% on account of higher advertisement & promotional spends. Adj. PAT margin contracted by 70bps to 13.2% in Q4FY24.

Distribution network widens: Direct distribution rose to 2.79mn outlets compared to 2.68mn in FY23 and 2.49mn in FY22. The rural distribution footprint increased to 30k distributors at the end of FY24 as against 28k in FY23 and 26k in FY22. Despite a challenging demand environment, the company continues to grow 2.4x faster in focus states compared to its markets in the rest of India.

Maintain BUY: BRIT delivered muted Q4 and FY24 performances as local competition intensified amid easing input costs. BRIT has taken adequate pricing action to remain competitive which resulted in subdued performance. However, volume growth pickup remains key going ahead. We believe the company's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth. The stock is trading at 51.3x/45.9x FY25E/FY26E EPS. We maintain BUY and continue to value the stock at a P/E of 53x – ~20% premium to the long-term average multiple – maintaining a TP of Rs 5,980.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BRIT IN/Rs 5,174
Market cap	US$ 15.2bn
Free float	49%
3M ADV	US$ 21.8mn
52wk high/low	Rs 5,386/Rs 4,348
Promoter/FPI/DII	51%/19%/30%

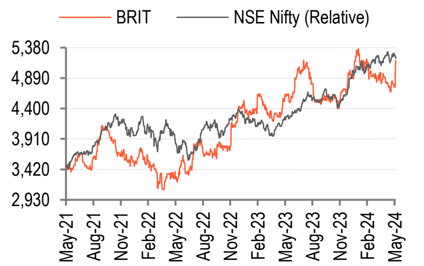
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	163,006	167,693	188,273
EBITDA (Rs mn)	28,309	31,698	36,319
Adj. net profit (Rs mn)	19,461	21,427	24,295
Adj. EPS (Rs)	80.8	88.9	100.9
Consensus EPS (Rs)	80.8	89.5	102.0
Adj. ROAE (%)	65.1	54.0	51.6
Adj. P/E (x)	64.0	58.2	51.3
EV/EBITDA (x)	44.0	39.3	34.3
Adj. EPS growth (%)	27.6	10.1	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 5,900 | ⩒ 3%

DR REDDY'S LABS | Pharmaceuticals | 09 May 2024

Driven by North America; India continues to underperform

- **DRRD reported largely in-line revenue/EBITDA, but higher tax aided in PAT beat**
- **Growth driven almost entirely by North America business; slowdown in India remains a concern; partnerships & JVs should help**
- **We maintain our estimates for FY25/26, TP and rating. Our TP on DRRD remains Rs 5,900 based on an unchanged 11x FY26E EV/EBITDA. HOLD**

Saad Shaikh
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In-line headline numbers; ex-North America a concern: DRRD delivered in-line revenue/EBITDA compared to Bloomberg consensus estimates entirely driven by the performance of the North America business, while India disappointed with a decline of 12% YoY. Overall revenue was up by 12% YoY to Rs 70.8bn. EBITDA/PAT grew +13%/+36% YoY to Rs 17.8bn/13.0bn.

Lacklustre ex-North America performance; India disappoints: Most of the incremental revenue in Q4FY24 compared to last year was on account of the North America business (~90%), while other regions reported modest growth and accounted for the remaining 10% of incremental revenue. India was a concern with a decline of 12% YoY (-5% QoQ). Underperformance in the India business was on account of lower base business volumes while the company launched 3 new brands in Q4FY24. Adjusting for brand sales in the base quarter, adjusted India growth stood at ~11% YoY. The company expects to grow its domestic sales in double digits for the next year to be supported by new launches and JVs. The company is guiding for +25 material launches in the US in the next 3-4 years including peptides and, hence, increased its R&D guidance.

Margins maintained despite surge in R&D expenditure: Gross margin improved YoY by 140bps to 58.5% and remained stable sequentially. EBITDA margin at 25.2% remained the same as last year but contracted 280bps QoQ. This was due to the surge in SG&A expenses which increased by 14% due to higher sales and marketing expenditure while R&D expenses stood at Rs 6.9bn (9.7% vs. 7.7%/8.5% in Q3FY24/Q4FY23) due to an increase in complex filings. PAT was 15% ahead of Bloomberg consensus due to a lower tax rate of 18.6% (vs. 24.4% in Q3FY24 and 26.7% in Q4FY23) due to a one-time tax benefit.

Retain HOLD: We maintain our estimates, TP and rating on DRRD. Our Rs 5,900 TP is based on an unchanged EV/EBITDA of 11x. We remain wary of fluctuating core margins, profit support from one-offs such as Production Linked Incentive (PLI) benefits, slowdown in India business and regulatory overhang, prompting us to retain our HOLD rating. Recently forged partnerships & JVs will help India business.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DRRD IN/Rs 6,056
Market cap	US$ 12.3bn
Free float	73%
3M ADV	US$ 27.9mn
52wk high/low	Rs 6,506/Rs 4,384
Promoter/FPI/DII	27%/27%/23%

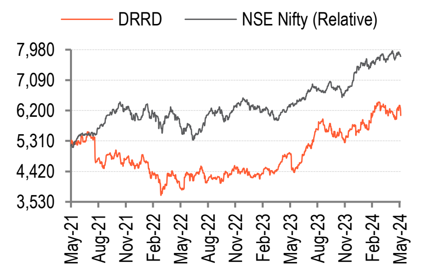
Source: NSE | Price as of 8 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	279,164	294,842	313,800
EBITDA (Rs mn)	78,377	79,607	83,157
Adj. net profit (Rs mn)	55,684	50,371	52,839
Adj. EPS (Rs)	333.8	302.0	316.8
Consensus EPS (Rs)	333.8	332.9	337.0
Adj. ROAE (%)	22.5	17.1	15.5
Adj. P/E (x)	18.1	20.1	19.1
EV/EBITDA (x)	12.5	12.0	11.1
Adj. EPS growth (%)	21.5	(9.5)	4.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

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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