FIRST LIGHT

12 May 2025

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

World awaits a US-China trade deal

DR REDDY'S LABS | TARGET: Rs 1,248 | +8% | HOLD

Competition intensifies in GLP products

CERA SANITARYWARE | TARGET: Rs 7,500 | +29% | BUY

Resilient margin in a weak retail demand environment

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

Global trade backdrop has turned more favourable this month as US finalised a trade deal with the UK. Signs are also emerging of possible de-escalation in US-China trade spat. This bodes well for the global economic outlook. Even so, central banks worldwide are grappling with the growth inflation dyanmics amidst a significant tariff driven uncertainty. While the Fed and BoJ kept rates on hold, the ECB, BoE and PBoC lowered rates, suggesting that the path of global monetary policy is becoming increasingly divergent. In India, high-frequency indicators paint a mixed picture.

Click here **for the full report.**

DR REDDY'S LABS

- Revenue/EBITDA/PAT surpassed our estimates by 0.2%/-10.5%/19.2%, gross margin 340 bps lower than estimates on severance cost
- North America sales in cc terms were 4% above our estimates to USD 417mn, due to higher gRevlimid sales
- We remain wary of margins due to rising competition in GLP products. Maintain HOLD, ascribe 18x P/E on FY27E to arrive at TP of Rs 1,248

Click here **for the full report.**

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CERA SANITARYWARE

- Steady performance in Q4FY25 on resilient operating margin in a challenging macro environment
- Margin guided to be in the 15-16% range for FY26; greenfield sanitaryware project put on hold on weak retail demand
- Maintain BUY with unchanged TP of Rs 7,500 per share on reasonable valuations, despite moderate earnings growth prospects

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MONTHLY CHARTBOOK

09 May 2025

World awaits a US-China trade deal

Global trade backdrop has turned more favourable this month as US finalised a trade deal with the UK. Signs are also emerging of possible de-escalation in US-China trade spat. This bodes well for the global economic outlook. Even so, central banks worldwide are grappling with the growth inflation dyanmics amidst a significant tariff driven uncertainty. While the Fed and BoJ kept rates on hold, the ECB, BoE and PBoC lowered rates, suggesting that the path of global monetary policy is becoming increasingly divergent. In India, high-frequency indicators paint a mixed picture.

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Economist

RBI cut policy rates further in Apr'25 and changed its stance to accommodative. Domestic liquidity conditions have eased significantly supported by RBI operations and will ensure a smooth transmission of rate cuts, thus supporting growth. However, heightened geo-political tensions have led to a considerable degree of volatility in the domestic markets and will need to be monitored closely.

Consumption demand: High frequency indicators have been sending mixed signals on India's consumption demand, with non-oil-non-gold imports, electronic imports, steel consumption registering an improvement. Additonally, uptick in manufacturing PMI along with pick up in consumer confidence (RBI survey) have been key positives. However, slower growth in power demand, PV sales and digital transactions has been noted. On rural front, 2-wheeler sales have been higher, supported by stronger rabi harvest and forecast of above normal monsson by IMD bodes well for this sector.

Services Sector: Supported by strong exports orders and pickup in business activity, services PMI in Apr'25 edged up further to 58.7 from 58.5. Continuing its upward momentum, GST collections also surged to an all time high to Rs 2.4 lakh cr (12.6% increase on a YoY basis) indicating strong economic activity. Other indicators such as diesel consumption, toll collections and e-way bill generations have also recorded an uptick in Apr'25. However, moderation has been noted in credit growth (10.3% from 11% in Mar'25) and even for foreign tourist arrivals.

Southward journey of yield persists: India's 10Y yield continued to witness sharp deceleration and fell by 18bps cumulatively in Apr and May. The last session witnessed some aberration on account of escalated tensions between India and Pakistan. Going forward, we expect the similar trend of softening to continue. Factors which support the same are 1) global policy uncertainty 2) favourable domestic liquidity 3) risk off sentiment leading to demand for sovereign asset class amidst geopolitical conflict and 4) favourable inflation print in Apr'25.

HOLD
TP: Rs 1,248 | 8%

DR REDDY'S LABS | Pharmaceuticals | 12 May 2025

Competition intensifies in GLP products

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- **North America sales in cc terms were 4% above our estimates to USD 417mn, due to higher gRevlimid sales**
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Mix 4Q - DRRD reported a mixed set of numbers where sales grew by 20.1%, EBITDA by 14.9% and PAT by 10%. However, EBITDA margin was 110 bps lower YoY. Sales were driven across geographies and segments where Europe grew by 144.8% including Nicotine Replacement Therapy (NRT) sales, India by 15.8%, US by 9.1% and the PSAI segment grew by 16.4% but was offset by 90.7% decline in proprietary products. Ex. Of NRT, sales grew by 12% to Rs 79bn. Healthy sales offset by higher RM cost, which contributed 44% of sales (41% in 4QFY24) due to inclusion of severance cost on facility divestment in the US impacting gross margin by 300 bps and subsequently, EBITDA margin was 110 bps lower YoY. During the quarter, there was a foreign exchange gain of Rs 1.5bn and lower tax rate of 22% resulted in 10% PAT growth. Adjusting against foreign exchange gains, PAT has declined 2% YoY.

Domestic region continues to grow in double digits – Domestic grew by 16% to Rs 13 bn, largely driven by in-licensed Sanofi's vaccine portfolio and new product launches. DRRD expanded collaboration with Sanofi to introduce Beyfortus, which is nirsevimab, a novel drug for preventing RSV. Sanofi's portfolio, DRRD launched 23 brands in FY25. We expect this growth momentum to continue, driven by inorganic activities by either licensing or acquiring new products and focusing on innovation; so we expect domestic sales to grow by 13% CAGR from FY25-27E.

Europe region growing organically and inorganically - Overall Europe region grew by 145%, where organic growth was 32% and inorganic was 30%. Organically, growth was driven by the UK that grew by 39%. Germany grew by 24% while the rest of the Europe grew by 10%. Growth in these regions was driven by new product launches (10 launches in 4Q FY25 and 39 launches in FY25). Inorganically, growth was driven by NRT sales where DRRD has completed integration in the UK and is moving towards completing integration in the rest of Europe. Plans to launch biosimilars in Europe, both Rituximab and Bevacizumab leveraging the US pipeline; so we expect the Europe region to grow at a CAGR of 31% FY25-27E. pipeline for the US; hence, we expect Europe region to grow at a CAGR of 31% FY25-27E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DRRD IN/Rs 1,156
Market cap	US$ 11.3bn
Free float	73%
3M ADV	US$ 32.1mn
52wk high/low	Rs 1,421/Rs 1,020
Promoter/FPI/DII	27%/27%/23%

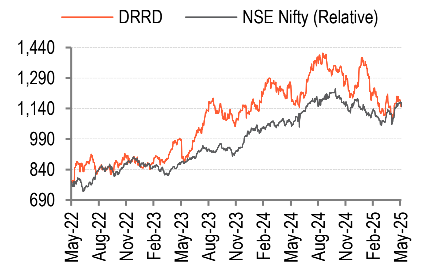
Source: NSE | Price as of 9 May 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	279,164	325,534	346,661
EBITDA (Rs mn)	78,377	86,235	91,865
Adj. net profit (Rs mn)	55,684	58,720	57,276
Adj. EPS (Rs)	66.9	70.6	68.8
Consensus EPS (Rs)	66.9	72.0	70.0
Adj. ROAE (%)	22.5	19.5	15.9
Adj. P/E (x)	17.3	16.4	16.8
EV/EBITDA (x)	11.9	10.5	10.1
Adj. EPS growth (%)	21.7	5.5	(2.5)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 7,500 | ⮝ 29%

CERA SANITARYWARE | Building Materials | 12 May 2025

Resilient margin in a weak retail demand environment

- **Steady performance in Q4FY25 on resilient operating margin in a challenging macro environment**
- **Margin guided to be in the 15-16% range for FY26; greenfield sanitaryware project put on hold on weak retail demand**
- **Maintain BUY with unchanged TP of Rs 7,500 per share on reasonable valuations, despite moderate earnings growth prospects**

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Steady Q4: CRS top line came in line with our estimate (+0.5%) but beats our EBITDA/APAT estimate by 22.1%/28.6% due to sharp improvement in margin (+132bps YoY to 18.6% vs 15.3% estimated) and lower tax rate (at 21.2%). Overall, CRS revenue/EBITDA/APAT grew by 5.8%/13.9%/15.9% YoY in Q4FY25.

Highlights: Sanitaryware revenue de-grew by 1.6% YoY, but faucet revenue grew by 9.6% YoY in Q4FY25. Gross margin was relatively flat at 50.8%, but EBITDA margin improved by 132bps YoY to 18.6% in Q4FY25 on lower brand spend (-51bps) and operating efficiencies. Share of B2B sales has gone up from 35% in Q4FY24 to 40% in Q4FY25, due to weak retail demand.

Guidance: Retail demand conditions remained subdued across markets in Q4FY25. As a result, the company has temporarily deferred its greenfield sanitaryware project. Cera maintains its revenue guidance of Rs 29bn for FY27 – which we believe is not likely to be achieved. The company expects its EBITDA margin to be in the 15-16% range in FY26. Share of B2B sales is expected to go up from 38% in FY25 to 40-45% in FY26, since the projects undertaken in FY21 & FY22 are nearing completion stage.

Maintain BUY with unchanged TP of Rs 7,500: CRS revenue/EBITDA/APAT is projected to grow at a moderate pace of 5.8%/9.9%/5.6% CAGR over FY25-FY27E. However, we maintain BUY as (a) it has reported resilient operating margin in a challenging macro environment, along with a healthy ROE of 18% in FY25 b) pricing discipline in the bathware industry is likely to remain strong in near future due to high share of organised players and low global linkage (in terms of exports or imports) c) inexpensive valuations (the stock trades at a P/E of 28.4x on 1YF basis vs 5Y average of 33.9x). We have slightly cut our EPS estimates (-1.5%/-3.8% for FY26E/FY27E), due to weak demand conditions, but have kept our TP unchanged at Rs 7,500 per share due to roll forward of our valuation from Dec'26 to Mar'27 estimate. We have valued the stock at a P/E of 35x on Mar'27 EPS estimate.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CRS IN/Rs 5,832
Market cap	US$ 881.2mn
Free float	46%
3M ADV	US$ 2.0mn
52wk high/low	Rs 10,790/Rs 5,060
Promoter/FPI/DII	54%/21%/7%

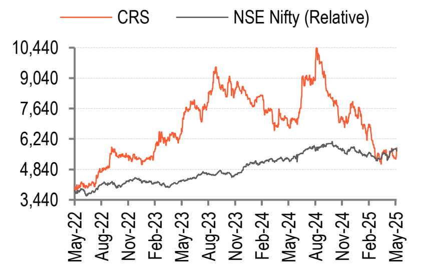
Source: NSE | Price as of 9 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	19,262	20,320	22,281
EBITDA (Rs mn)	2,998	3,194	3,624
Adj. net profit (Rs mn)	2,477	2,469	2,764
Adj. EPS (Rs)	192.0	191.4	214.3
Consensus EPS (Rs)	191.1	198.3	233.1
Adj. ROAE (%)	18.2	17.0	17.1
Adj. P/E (x)	30.4	30.5	27.2
EV/EBITDA (x)	27.5	25.9	22.8
Adj. EPS growth (%)	3.8	(0.3)	12.0

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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