

India

HOLD (no change)

Consensus ratings*: Buy 17 Hold 6 Sell 1

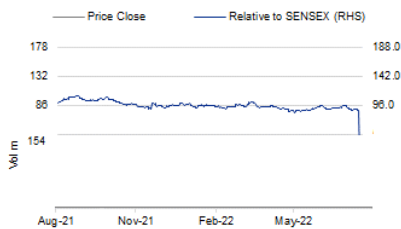
Current price:	Rs3,113
Target price:	Rs3,124
Previous target:	Rs3,124
Up/downside:	0.4%
InCred Research / Consensus:	-12.8%

Reuters:	
Bloomberg:	ALKEM IN
Market cap:	US\$5,125m
	Rs372,182m
Average daily turnover:	US\$4.4m
	Rs321.0m
Current shares o/s:	119.6m
Free float:	42.9%

*Source: Bloomberg

Key changes in this note

- Reduce FY23F and FY24F core earnings by 20% and 16%.
- Maintain Hold rating and target price of Rs3,124.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	(1.8)	(8.4)
Relative (%)	(4.8)	(7.8)	(14.9)

Major shareholders	% held
Promoters	57.1
LIC	3.4
DSP MF	1.9

Analyst(s)



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Alkem Laboratories Ltd

Cloud over profitability

- Alkem missed our 1QFY23 revenue, EBITDA and PAT estimates by 12%, 68% and 75%, respectively. Revenue miss driven by US and India segments.
- EBITDA margin was just 7.9% vs. expectation of 20%-plus. Management has lowered full-year EBITDA margin guidance to 16-17% from 18%+ earlier.
- gPradaxa marketing exclusivity could help in the next two quarters, but we will wait for a sustainable pick-up. Retain Hold rating and target price of Rs3,124.

Major miss in 1QFY23

Alkem Labs. (Alkem) posted 1QFY23 revenue/EBITDA/PAT of Rs25.7bn/2bn/1.3bn, down 12%/68%/75%, respectively, from our estimates. Revenue miss was due to poor performance in the US market (down 11% yoy in USD terms) and India (down 7% yoy). EBITDA margin was just 7.9% vs. estimate of 20%-plus. Management highlighted some one-off costs but even after adjusting for these costs, EBITDA was a big disappointment.

Lowers full-year guidance

Management lowered its full-year EBITDA margin guidance to 16-17% from 18%+ earlier and indicated that the recovery in margins will be gradual. Price erosion in the US, cost escalation across businesses and return of some marketing expenses, which remained suppressed during the Covid-19 pandemic, seem to have made an impact on margins that are likely to stay low for some time.

gPradaxa marketing exclusivity in the US to help in next two quarters

We expect the next two quarters to be exceptionally strong on the margins front, given the seasonality in the business and the benefit of 180-day marketing exclusivity for gPradaxa in the US. Alkem and Hetero Drugs have shared the first-to-file exclusivity for the product and will be the only generic players in the market for two quarters. However, competition will be intense by 4QFY23F.

Will wait for visibility of better growth and sustainably good margins

We would look at any strength in the stock price over the next six months as an opportunity to exit, as we expect the weakness to return in 4QFY23F numbers. Also, we expect domestic revenue to disappoint further on the large Covid-19 base of FY22. We will wait for a clear base to be set for domestic revenue and sustainable margin improvement before we get more constructive on the stock.

Reduce estimates; maintain Hold rating

We reduce our FY23F and FY24F core earnings estimates by 20% and 16%, respectively. Our FY24F EPS was already 8% below consensus estimate. Alkem trades at 30x FY23F core earnings. We maintain Hold rating on it with an unchanged target price of Rs3,124, which is 24x FY24F core earnings plus cash per share. Better-than-expected revenue/profit from gPradaxa marketing exclusivity is key upside risk. Delay in improvement of base business profitability is key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	88,765	106,342	113,463	122,138	133,191
Operating EBITDA (Rsm)	19,539	20,380	18,558	21,252	23,201
Net Profit (Rsm)	15,850	16,456	14,182	16,188	17,451
Core EPS (Rs)	132.6	137.6	118.6	135.4	146.0
Core EPS Growth	40.6%	3.8%	(13.8%)	14.1%	7.8%
FD Core P/E (x)	23.48	22.62	26.24	22.99	21.33
DPS (Rs)	28.0	34.0	35.0	35.0	35.0
Dividend Yield	0.90%	1.09%	1.12%	1.12%	1.12%
EV/EBITDA (x)	18.90	18.22	19.73	16.98	15.31
P/FCFE (x)	15.94	19.65	16.06	15.69	14.67
Net Gearing	(4.2%)	(0.8%)	(6.2%)	(10.5%)	(14.3%)
P/BV (x)	5.05	4.31	3.87	3.45	3.08
ROE	23.4%	20.6%	15.5%	15.9%	15.3%
% Change In Core EPS Estimates			(18.92%)	(15.47%)	(16.29%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY23 results snapshot

(Rs m)	1QFY23	1QFY22	yoy(%)	4QFY22	qoq(%)
Revenue	25,764	27,313	-6%	24,838	4%
EBITDA	2,032	5,928	-66%	3,222	-37%
EBITDA Margin (%)	8%	22%	-14%	13%	-5%
PAT	1,276	4,681	-73%	1,076	19%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	1QFY23A	1QFY23F	Variation (%)
Revenue	25,764	29,292	-12%
EBITDA	2,032	6,387	-68%
EBITDA Margin (%)	8%	22%	-64%
PAT	1,276	5,075	-75%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	1QFY23A	1QFY23F	Variation (%)
Revenue	25,764	26,536	-3%
EBITDA	2,032	4,405	-54%
EBITDA Margin (%)	8%	17%	-52%
PAT	1,276	3,531	-64%

SOURCE: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	1,13,463	1,22,138	1,15,775	1,26,235	-2%	-3%
EBITDA	18,558	21,252	22,237	24,497	-17%	-13%
EBITDA Margin (%)	16%	17%	19%	19%	-3%	-10%
PAT	14,182	16,188	17,386	19,011	-18%	-15%

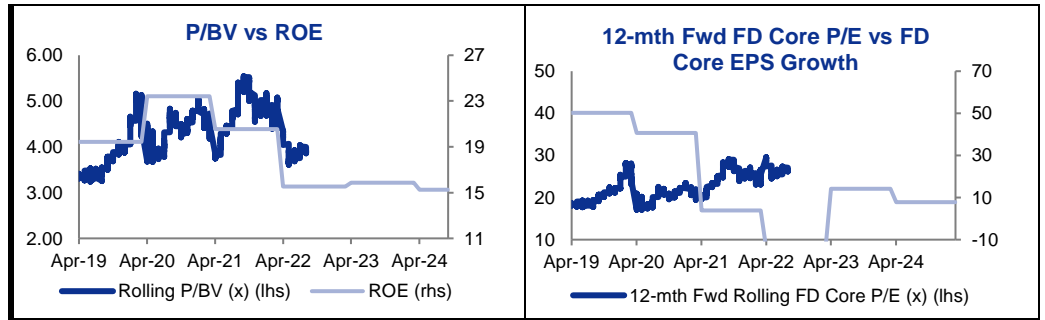
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation estimate

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	116.2	125.1	106.8	124.4	135.1
Core EPS growth	34.7%	7.7%	-14.6%	16.4%	8.6%
Cash per share (Rs)	166.3	228.8	141.5	189.1	240.7
Current core P/E (Rs)	24.7	22.9	26.9	23.1	21.3
Core RoIC	24.3%	24.0%	17.5%	19.1%	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	88,765	106,342	113,463	122,138	133,191
Gross Profit	53,780	64,539	67,644	73,283	79,915
Operating EBITDA	19,539	20,380	18,558	21,252	23,201
Depreciation And Amortisation	(2,746)	(3,040)	(3,238)	(3,600)	(3,900)
Operating EBIT	16,793	17,340	15,321	17,652	19,301
Financial Income/(Expense)	(589)	(524)	(475)	(200)	(160)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,217	1,627	1,594	1,500	1,500
Profit Before Tax (pre-EI)	18,421	18,443	16,440	18,952	20,641
Exceptional Items					
Pre-tax Profit	18,421	18,443	16,440	18,952	20,641
Taxation	(2,243)	(1,640)	(1,995)	(2,464)	(2,890)
Exceptional Income - post-tax					
Profit After Tax	16,178	16,803	14,445	16,488	17,751
Minority Interests	(328)	(347)	(263)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15,850	16,456	14,182	16,188	17,451
Recurring Net Profit	15,850	16,456	14,182	16,188	17,451
Fully Diluted Recurring Net Profit	15,850	16,456	14,182	16,188	17,451

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	19,539	20,380	18,558	21,252	23,201
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,412)	(5,432)	(1,463)	(3,127)	(3,576)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,478)	(3,838)	(2,258)	(2,764)	(3,190)
Net Interest (Paid)/Received	(589)	(524)	(475)	(200)	(160)
Tax Paid	(5,106)	(4,941)	(1,119)	(1,300)	(1,340)
Cashflow From Operations	12,649	11,110	14,838	15,362	16,436
Capex	(1,949)	(3,280)	(6,500)	(7,000)	(7,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	10,700	7,830	8,338	8,362	8,936
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,348)	(4,219)	(4,065)	(4,185)	(4,185)
Preferred Dividends					
Other Financing Cashflow	1,630	3,866	(14,718)	1,514	1,428
Cash Flow From Financing	(1,718)	(354)	(18,783)	(2,670)	(2,757)
Total Cash Generated	8,982	7,477	(10,446)	5,691	6,179
Free Cashflow To Equity	23,349	18,941	23,175	23,723	25,371
Free Cashflow To Firm	23,938	19,464	23,650	23,923	25,531

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	19,905	27,381	16,936	22,627	28,806
Total Debtors	16,072	18,846	21,558	23,206	25,306
Inventories	23,124	30,055	27,231	29,313	31,966
Total Other Current Assets	10,187	8,072	13,616	14,657	15,983
Total Current Assets	69,288	84,354	79,340	89,803	102,061
Fixed Assets	22,339	26,266	29,528	32,928	36,528
Total Investments	1,540	2,317	2,317	2,317	2,317
Intangible Assets	5,591	6,227	6,227	6,227	6,227
Total Other Non-Current Assets	16,435	21,529	21,529	21,529	21,529
Total Non-current Assets	45,904	56,338	59,600	63,000	66,600
Short-term Debt	16,360	25,923	10,000	10,000	10,000
Current Portion of Long-Term Debt					
Total Creditors	10,694	11,734	14,710	15,637	17,049
Other Current Liabilities	8,987	10,396	11,388	12,106	13,199
Total Current Liabilities	36,041	48,053	36,099	37,744	40,247
Total Long-term Debt	343	759	845	1,059	1,147
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,230	3,407	3,407	3,407	3,407
Total Non-current Liabilities	3,572	4,165	4,252	4,466	4,554
Total Provisions					
Total Liabilities	39,613	52,219	40,350	42,210	44,801
Shareholders Equity	73,767	86,379	96,233	107,936	120,902
Minority Interests	1,813	2,094	2,357	2,657	2,957
Total Equity	75,580	88,473	98,590	110,593	123,860

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.4%	19.8%	6.7%	7.6%	9.0%
Operating EBITDA Growth	32.6%	4.3%	(8.9%)	14.5%	9.2%
Operating EBITDA Margin	22.0%	19.2%	16.4%	17.4%	17.4%
Net Cash Per Share (Rs)	26.78	5.85	50.94	96.75	147.69
BVPS (Rs)	616.96	722.44	804.86	902.74	1,011.19
Gross Interest Cover	28.50	33.11	32.25	88.26	120.63
Effective Tax Rate	12.2%	8.9%	12.1%	13.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	66.95	59.93	64.99	66.89	66.47
Inventory Days	215.51	232.17	228.18	211.22	209.91
Accounts Payables Days	105.56	97.91	105.33	113.36	111.97
ROIC (%)	17.0%	14.6%	12.2%	13.2%	13.5%
ROCE (%)	19.5%	16.7%	13.6%	15.3%	15.0%
Return On Average Assets	15.5%	13.4%	10.6%	11.4%	11.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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