

India

HOLD (no change)

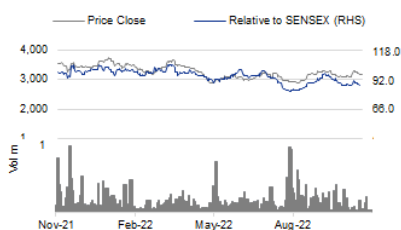
Consensus ratings*: Buy 14 Hold 8 Sell 4

Current price:	Rs3,173
Target price:	Rs3,124
Previous target:	Rs3,124
Up/downside:	-1.5%
InCred Research / Consensus:	-4.4%
Reuters:	ALKE.NS
Bloomberg:	ALKEM IN
Market cap:	US\$4,695m Rs379,434m
Average daily turnover:	US\$4.6m Rs375.6m
Current shares o/s:	119.6m
Free float:	42.9%

*Source: Bloomberg

Key changes in this note

- Reduce FY23F and FY24F core earnings estimates by 16% and 9%.
- Maintain HOLD rating and target price of Rs 3,124.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	7.3	(10.6)
Relative (%)	(5.7)	3.3	(12.2)

Major shareholders	% held
Promoters	57.1
LIC	4.0
DSP MF	2.5

Analyst(s)



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Alkem Laboratories Ltd

Margin improvement remains elusive

- 2QFY23 revenue was in line with our estimate, but EBITDA missed by more than 30% because of lower gross margin and high other expenses.
- Company revised downwards its FY23 EBITDA margin guidance to 15-15.5% from 16%+ earlier, but maintained 18% for FY24F. But these look tough to us.
- We reduce our FY23F and FY24F core earnings estimates by 16% and 9%, respectively. Maintain HOLD rating with an unchanged target price of Rs3,124.

Margins worsen in 2QFY23

Alkem Laboratories' 2QFY23 revenue was in line with our estimate, but EBITDA missed by more than 30% because of lower gross margin and higher other expenses. Gross margin was flat QoQ (down 460bp YoY) despite the shared marketing exclusivity on gPradaxa in the US market. Other expenses were up by 18% YoY vs. sales growth of only 10% and were also up 3% QoQ. PAT missed our estimate by 39%.

Domestic / RoW business helps topline growth

Domestic revenue (up 13% YoY) and RoW revenue (up 15% YoY) did better than our expectations, despite a high base of 2QFY22. However, we worry about whether this growth is coming at compromised margins via rapid field force expansion and sales promotion. However, management attributed the entire margin miss to price erosion in the US business.

Even revised margin guidance looks difficult to meet

Alkem Laboratories' management revised downward its full-year EBITDA margin guidance to 15-15.5% from 16%+ earlier. However, even that looks a tough task, given that the company's 4Q margins are typically much lower than that of other quarters. FY24F EBITDA margin guidance of 18% also looks tough to achieve. We are projecting only a 14.4% margin for FY23F and 16.2% for FY24F.

No visibility in the US market either

Alkem Laboratories could not capitalize on the gPradaxa shared marketing exclusivity opportunity in the US market because of supply chain problems. We are not aware of any significant product in the pipeline that can improve the growth and profitability of the US business.

Reduce our estimates; maintain HOLD rating

We reduce our FY23F core earnings estimate by 16% and FY24F core earnings estimate by 9%. Alkem Laboratories trades at 26.7x our FY24F core earnings estimate and we find this expensive, given the uncertainty on growth & profitability. We maintain our target price of Rs3,124, which is 23.7x our FY25F core earnings estimate plus cash per share. Better-than-expected results from cost containment measures and ramp-up in domestic sales productivity will be upside risks. Further worsening of cost pressure will be downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	88,765	106,342	114,400	124,011	134,533
Operating EBITDA (Rsm)	19,539	20,380	16,481	20,075	22,042
Net Profit (Rsm)	15,850	16,456	12,213	14,903	16,248
Core EPS (Rs)	132.6	137.6	102.1	124.6	135.9
Core EPS Growth	40.6%	3.8%	(25.8%)	22.0%	9.0%
FD Core P/E (x)	23.94	23.06	31.07	25.46	23.35
DPS (Rs)	28.0	34.0	35.0	35.0	35.0
Dividend Yield	0.88%	1.07%	1.10%	1.10%	1.10%
EV/EBITDA (x)	19.27	18.57	22.77	18.52	16.65
P/FCFE (x)	16.25	20.03	19.14	18.29	15.99
Net Gearing	(4.2%)	(0.8%)	(4.5%)	(7.5%)	(11.0%)
P/BV (x)	5.14	4.39	4.03	3.63	3.26
ROE	23.4%	20.6%	13.5%	15.0%	14.7%
% Change In Core EPS Estimates			(13.88%)	(7.94%)	(6.89%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY23 results snapshot

(Rs m)	2QFY23	2QFY22	yoy(%)	1QFY23	qoq(%)
Revenue	30,794	27,999	10%	25,764	20%
EBITDA	4,539	6,244	-27%	2,032	123%
EBITDA Margin (%)	15%	22%	-8%	8%	7%
PAT	3,308	5,443	-39%	1,276	159%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	30,794	29,922	3%
EBITDA	4,539	6,815	-33%
EBITDA Margin (%)	15%	23%	-35%
PAT	3,308	5,452	-39%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	30,794	30,103	2%
EBITDA	4,539	5,257	-14%
EBITDA Margin (%)	15%	17%	-16%
PAT	3,308	4,027	-18%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	1,14,399	1,24,011	1,13,477	1,21,674	1%	2%
EBITDA	16,481	20,075	19,147	20,973	-14%	-4%
EBITDA Margin (%)	14%	16%	17%	17%	-2%	-6%
PAT	12,213	14,903	14,700	15,946	-17%	-7%

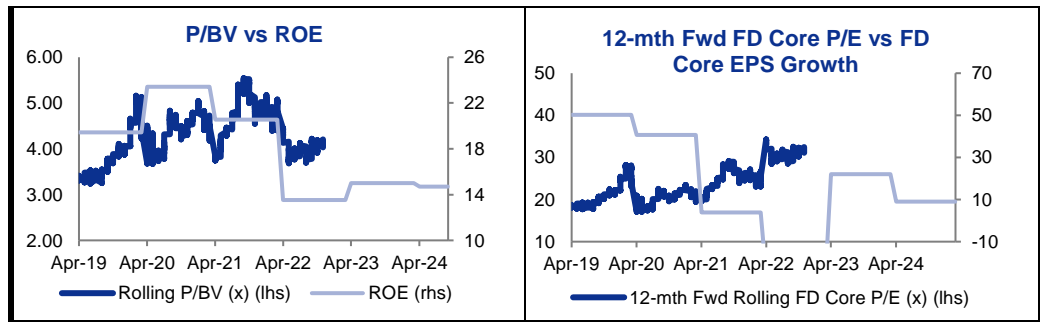
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	116.2	125.2	89.4	113.7	125.1
Core EPS growth	34.7%	7.8%	-28.6%	27.2%	10.0%
Cash per share (Rs)	166.3	228.9	125.5	157.2	199.4
Current core P/E (Rs)	26.2	24.3	34.0	26.7	24.3
Core ROIC	24.3%	24.0%	15.1%	17.9%	18.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	88,765	106,342	114,400	124,011	134,533
Gross Profit	53,780	64,539	66,788	74,406	80,720
Operating EBITDA	19,539	20,380	16,481	20,075	22,042
Depreciation And Amortisation	(2,746)	(3,040)	(3,187)	(3,600)	(3,900)
Operating EBIT	16,793	17,340	13,294	16,475	18,142
Financial Income/(Expense)	(589)	(524)	(654)	(500)	(400)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,217	1,627	1,741	1,500	1,500
Profit Before Tax (pre-EI)	18,421	18,443	14,381	17,475	19,242
Exceptional Items					
Pre-tax Profit	18,421	18,443	14,381	17,475	19,242
Taxation	(2,243)	(1,640)	(1,811)	(2,272)	(2,694)
Exceptional Income - post-tax					
Profit After Tax	16,178	16,803	12,570	15,203	16,548
Minority Interests	(328)	(347)	(357)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15,850	16,456	12,213	14,903	16,248
Recurring Net Profit	15,850	16,456	12,213	14,903	16,248
Fully Diluted Recurring Net Profit	15,850	16,456	12,213	14,903	16,248

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	19,539	20,380	16,481	20,075	22,042
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,412)	(5,450)	(1,149)	(3,631)	(3,435)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,478)	(3,820)	(2,168)	(2,572)	(2,994)
Net Interest (Paid)/Received	(589)	(524)	(654)	(500)	(400)
Tax Paid	(5,106)	(4,923)	(1,087)	(1,000)	(1,100)
Cashflow From Operations	12,649	11,110	13,163	13,872	15,613
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	6,663	6,872	8,113
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	(14,966)	1,106	1,112
Cash Flow From Financing	(1,718)	(354)	(19,031)	(3,079)	(3,072)
Total Cash Generated	8,982	7,477	(12,368)	3,792	5,041
Free Cashflow To Equity	23,349	18,941	19,827	20,743	23,727
Free Cashflow To Firm	23,938	19,464	20,480	21,243	24,127

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	19,905	27,381	15,013	18,806	23,847
Total Debtors	16,072	18,846	21,736	23,562	25,561
Inventories	23,124	30,055	27,456	29,763	32,288
Total Other Current Assets	10,187	8,072	13,728	14,881	16,144
Total Current Assets	69,288	84,354	77,933	87,012	97,840
Fixed Assets	22,339	26,266	29,579	32,979	36,579
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	59,651	63,051	66,651
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	15,177	16,110	17,436
Other Current Liabilities	8,987	10,396	11,750	12,472	13,499
Total Current Liabilities	36,041	48,053	36,928	38,582	40,935
Total Long-term Debt	343	759	628	734	746
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	4,035	4,141	4,153
Total Provisions					
Total Liabilities	39,613	52,219	40,963	42,723	45,088
Shareholders Equity	73,767	86,379	94,170	104,588	116,352
Minority Interests	1,813	2,094	2,451	2,751	3,051
Total Equity	75,580	88,473	96,621	107,340	119,403

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.4%	19.8%	7.6%	8.4%	8.5%
Operating EBITDA Growth	32.6%	4.3%	(19.1%)	21.8%	9.8%
Operating EBITDA Margin	22.0%	19.2%	14.4%	16.2%	16.4%
Net Cash Per Share (Rs)	26.78	5.85	36.67	67.51	109.57
BVPS (Rs)	616.96	722.44	787.61	874.74	973.12
Gross Interest Cover	28.50	33.11	20.34	32.95	45.35
Effective Tax Rate	12.2%	8.9%	12.6%	13.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	66.95	59.93	64.74	66.66	66.64
Inventory Days	215.51	232.17	220.44	210.51	210.44
Accounts Payables Days	105.56	97.91	103.15	115.11	113.77
ROIC (%)	17.0%	14.6%	10.7%	12.3%	12.6%
ROCE (%)	19.5%	16.7%	12.0%	14.6%	14.6%
Return On Average Assets	15.5%	13.4%	9.4%	10.8%	10.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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