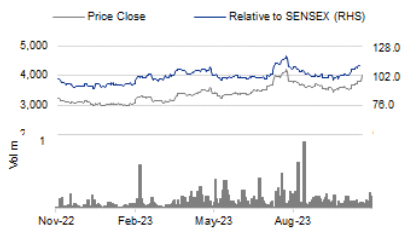


India

HOLD (no change)

Consensus ratings*:	Buy 6 Hold 10 Sell 11
Current price:	Rs4,027
Target price:	Rs4,046
Previous target:	Rs4,153
Up/downside:	0.5%
InCred Research / Consensus:	9.6%
Reuters:	
Bloomberg:	ALKEM IN
Market cap:	US\$6,631m
	Rs481,530m
Average daily turnover:	US\$9.8m
	Rs708.6m
Current shares o/s:	119.6m
Free float:	43.3%
*Source: Bloomberg	



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.3	(2.5)	25.8
Relative (%)	16.2	(1.0)	18.5

Major shareholders	% held
Promoters	56.7
DSP MF	3.4
ICICI Pru MF	2.7

Analyst(s)



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Alkem Laboratories Ltd

Margins surprise positively, may not sustain

- Margins surprised positively in 2Q, but unlikely to sustain. Management gave guidance of a 16.5% margin for FY24F vs. 21.7% in 2Q and 17.4% in 1HFY24.
- India growth was tepid due to a weak monsoon season but it has picked up pace of late. The growth in the US and ROW markets was strong.
- Our FY24F/25F EPS estimates stand revised upwards by 15%/9%, respectively. Retain HOLD rating with a lower target price of Rs4,046.

Margin excitement proves to be short-lived

While Alkem Laboratories' (Alkem) 2QFY24 margin of 21.7% (+860bp QoQ, our estimate of 16%) got us excited, it was short-lived as management stated that it was unlikely to sustain and gave FY24F margin guidance of around 16.5% (a 50bp increase over its previous guidance). Along with softer input costs, the product mix and seasonality in the US market also drove better gross margin for the quarter (at 61.4%, +180bp QoQ), but both these margins are unlikely to sustain and hence, Alkem expects the gross margin to go back to the 59-60% range in FY24F. Further, R&D spending is likely to inch up in 2HFY24F, as Alkem ramps up ANDA filings. Lastly, the tax rate was also lower due to higher shipments from Sikkim and it is likely to be in the range of 12-15% in FY24F (lower than its earlier guidance of 18%).

India growth was weak, as anticipated; US/ROW markets are strong

India business growth was weak, up 5% YoY, as anticipated, due to a weak monsoon season. The growth has picked up from Sep 2023, and Alkem retained its guidance of a high single-digit growth in India in FY24F, despite a mere 6% growth in 1HFY24. Trade generics business, which accounts for around 20-21% of India business, grew by 6-7%. In the US market, Alkem benefitted from seasonality and a better pricing environment, & it expects the run-rate to largely sustain (barring seasonal products), although the current product mix may change. Alkem expects the strong ROW market growth to largely sustain.

Conference-call highlights

a) Current India sales force productivity is at Rs4,60,000 pcpm, with the acute therapy segment's productivity at around 700,000 pcpm and the chronic therapy segment's productivity much lower. b) Sikkim tax benefits get over by Mar 2026 and the tax rate should inch up after that. c) Pen-G prices are still higher at close to US\$28-30/kg (vs. pre-Covid level of US\$8-10). d) Enzene Bio posted sales worth Rs800m (Rs1.37bn in 1H) and is on track to achieve Alkem's earlier guidance of Rs2.6bn in FY24F. The business is making marginal EBITDA losses currently and Alkem expects it to achieve breakeven by FY25F; however, because of the investment phase, the company does not expect significant profit from this business for the next three-to-four years.

Retain HOLD rating with a lower target price of Rs4,046

We retain HOLD rating on Alkem with a target price of Rs4,046 (Rs4,153 earlier). Our FY24F/25F EPS estimates have been revised by 15%/9%, respectively. Slowdown in India is a key downside risk while better-than-expected margins is a key upside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	88,765	106,342	115,993	129,292	142,322
Operating EBITDA (Rsm)	19,539	20,380	16,095	21,548	24,644
Net Profit (Rsm)	15,850	16,456	9,842	16,732	19,360
Core EPS (Rs)	132.6	137.6	89.0	144.1	161.9
Core EPS Growth	40.6%	3.8%	(35.4%)	62.0%	12.3%
FD Core P/E (x)	30.38	29.26	45.27	27.94	24.87
DPS (Rs)	28.0	34.0	54.0	35.0	35.0
Dividend Yield	0.70%	0.84%	1.34%	0.87%	0.87%
EV/EBITDA (x)	24.49	23.58	28.96	21.50	18.41
P/FCFE (x)	20.62	25.42	15.36	23.78	16.62
Net Gearing	(4.2%)	(0.8%)	(17.3%)	(18.2%)	(24.1%)
P/BV (x)	6.53	5.57	5.32	4.78	4.16
ROE	23.4%	20.6%	12.0%	18.0%	17.9%
% Change In Core EPS Estimates				14.69%	9.13%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY24 results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	30,794	30,409	29,026	29,677	34,402	12%	16%
Consumption of raw materials	13,070	12,489	12,555	11,986	13,271	2%	11%
<i>as % of sales</i>	<i>42.4%</i>	<i>41.1%</i>	<i>43.3%</i>	<i>40.4%</i>	<i>38.6%</i>		
Employee costs	5,709	5,254	5,030	5,677	5,554	-3%	-2%
<i>as % of sales</i>	<i>18.5%</i>	<i>17.3%</i>	<i>17.3%</i>	<i>19.1%</i>	<i>16.1%</i>		
R&D costs	1,300	1,300	1,472	1,202	1,158	-11%	-4%
<i>as % of sales</i>	<i>4.2%</i>	<i>4.3%</i>	<i>5.1%</i>	<i>4.1%</i>	<i>3.4%</i>		
Other expenditure	6177	5376	6437	6921	6952	13%	0%
<i>as % of sales</i>	<i>20.1%</i>	<i>17.7%</i>	<i>22.2%</i>	<i>23.3%</i>	<i>20.2%</i>		
EBITDA	4,539	5,991	3,533	3,892	7,467	65%	92%
<i>Margins (%)</i>	<i>14.7%</i>	<i>19.7%</i>	<i>12.2%</i>	<i>13.1%</i>	<i>21.7%</i>		
Depreciation	774	784	783	724	739		
Other income	507	453	687	658	632		
Interest	249	271	289	298	303		
PBT	4,023	5,389	3,147	3,529	7,057	75%	100%
Total tax	546	789	1,440	650	332		
<i>Tax rate (%)</i>	<i>13.6%</i>	<i>14.6%</i>	<i>45.8%</i>	<i>18.4%</i>	<i>4.7%</i>		
PAT before MI	3,477	4,600	1,707	2,878	6,726	93%	134%
Minority interest (MI)	-169	-52	33	-11	56		
Adj. PAT before extraordinary items	3,308	4,547	1,740	2,867	6,782	105%	137%
Extraordinary expenses	0	0	-1,030	0	-577		
Reported PAT	3,308	4,547	710	2,867	6,205	88%	116%
No. of shares	119.6	119.6	119.6	119.6	119.6		
EPS	27.7	38.0	14.5	24.0	56.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)							
Gross	58%	59%	57%	60%	61%	7%	3%
EBITDA	15%	20%	12%	13%	22%	47%	66%
Adj. PAT	11%	15%	6%	10%	20%	83%	104%
Effective tax rate	14%	15%	46%	18%	5%	-65%	-75%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	Y-o-Y (%)	Q-o-Q (%)
North America INR	6,040	7,612	5,916	6,955	7,675	27%	10%
<i>% total revenue</i>	<i>19.6%</i>	<i>25.0%</i>	<i>20.4%</i>	<i>23.4%</i>	<i>22.3%</i>		
ROW	2,251	2,316	2,654	3,191	2,866	27%	-10%
<i>% total revenue</i>	<i>7.3%</i>	<i>7.6%</i>	<i>9.1%</i>	<i>10.8%</i>	<i>8.3%</i>		
India	22,161	19,922	20,113	19,007	23,278	5%	22%
<i>% total revenue</i>	<i>72.0%</i>	<i>65.5%</i>	<i>69.3%</i>	<i>64.0%</i>	<i>67.7%</i>		
Others	342	559	343	524	583	71%	11%
<i>% total revenue</i>	<i>1.1%</i>	<i>1.8%</i>	<i>1.2%</i>	<i>1.8%</i>	<i>1.7%</i>		
Total revenue	30,794	30,409	29,026	29,677	34,402	12%	16%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs Incred and Bloomberg estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	34,402	33,545	3%	33,588	2%
EBITDA	7,467	5,274	42%	5,370	39%
EBITDA Margin (%)	22%	16%	59%	16%	57%
PAT	6,205	3,698	68%	3,894	59%

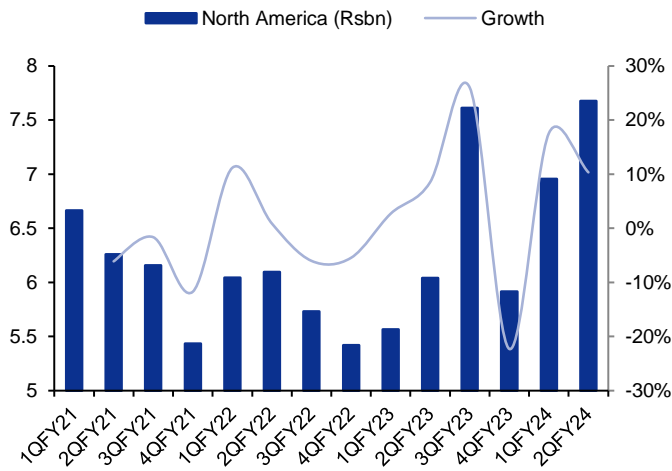
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,29,094	1,41,693	1,29,292	1,42,322	0%	0%
EBITDA	20,325	23,498	21,548	24,644	6%	5%
EBITDA Margin (%)	16%	17%	17%	17%	92	73
PAT	15,037	17,733	16,732	19,360	11%	9%

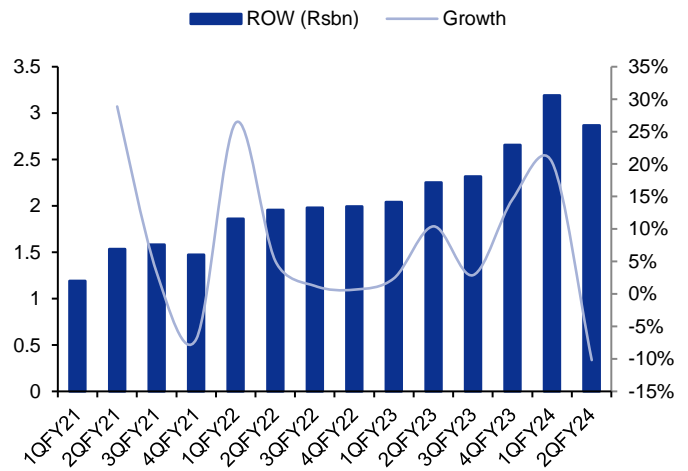
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: US business performance over the past few quarters – good performance in 2QFY24 due to seasonality and a better pricing environment



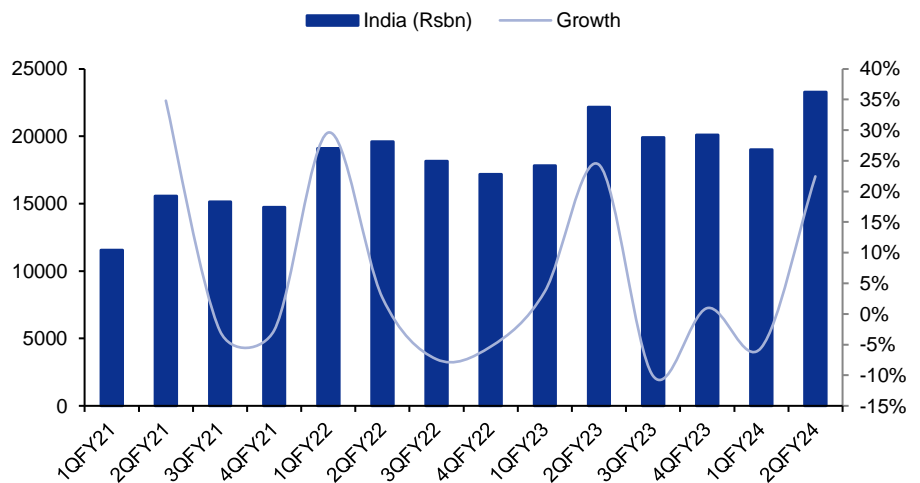
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: RoW market's performance over the past few quarters – steady scale-up



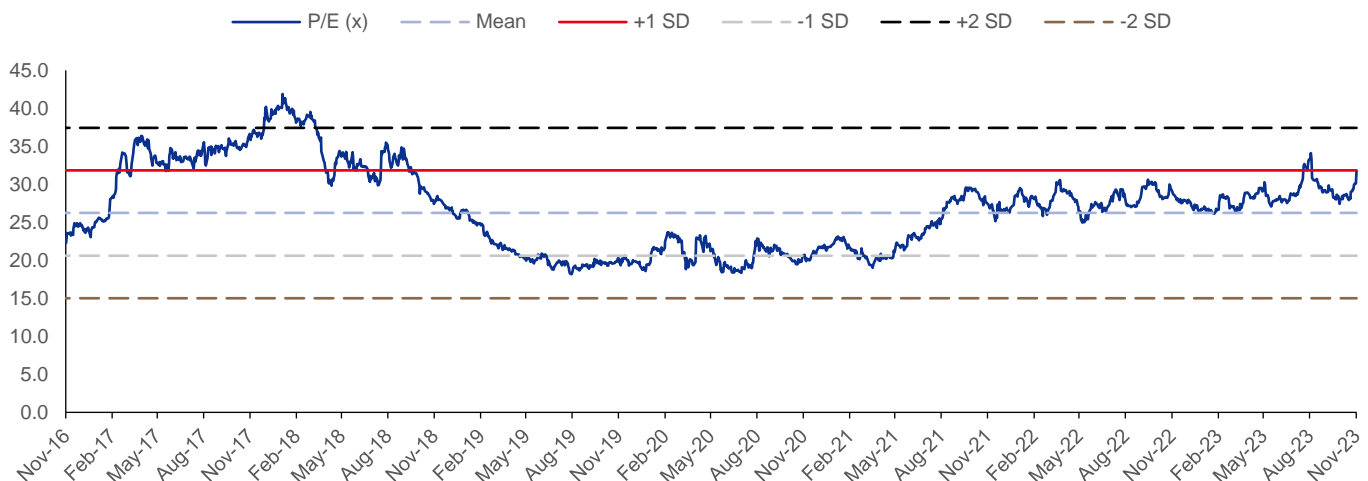
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Domestic business performance was weak, as anticipated, due to a weak monsoon season



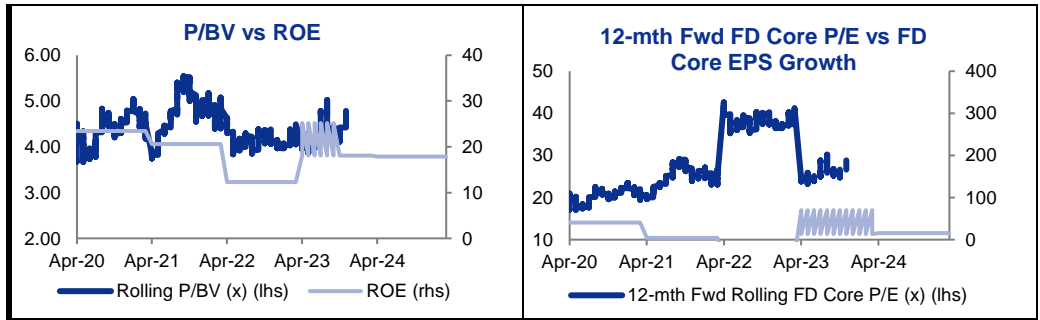
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	88,765	106,342	115,993	129,292	142,322
Gross Profit	53,780	64,539	66,924	77,624	86,105
Operating EBITDA	19,539	20,380	16,095	21,548	24,644
Depreciation And Amortisation	(2,746)	(3,040)	(3,104)	(2,963)	(3,250)
Operating EBIT	16,793	17,340	12,990	18,585	21,394
Financial Income/(Expense)	(589)	(524)	(1,074)	(1,201)	(1,250)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,217	1,627	2,161	2,490	2,750
Profit Before Tax (pre-EI)	18,421	18,443	14,078	19,875	22,894
Exceptional Items			(1,030)	(577)	
Pre-tax Profit	18,421	18,443	13,048	19,298	22,894
Taxation	(2,243)	(1,640)	(2,980)	(2,561)	(3,434)
Exceptional Income - post-tax					
Profit After Tax	16,178	16,803	10,068	16,737	19,460
Minority Interests	(328)	(347)	(226)	(5)	(100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15,850	16,456	9,842	16,732	19,360
Recurring Net Profit	15,850	16,456	10,636	17,233	19,360
Fully Diluted Recurring Net Profit	15,850	16,456	10,636	17,233	19,360

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	19,539	20,380	16,095	21,548	24,644
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,412)	(5,450)	24	(7,809)	(4,622)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,478)	(3,820)	706	(1,989)	(3,534)
Net Interest (Paid)/Received	(589)	(524)	(1,074)	(1,201)	(1,250)
Tax Paid	(5,106)	(4,923)	649	(3,278)	(5,034)
Cashflow From Operations	12,649	11,110	16,825	11,750	16,488
Capex	(1,949)	(3,280)	(2,297)	(3,250)	(4,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	10,700	7,830	14,528	8,500	12,488
Debt Raised/(repaid)					
Proceeds From Issue Of Shares			1,615		
Shares Repurchased					
Dividends Paid	(3,348)	(4,219)	(5,295)	(6,457)	(4,185)
Preferred Dividends					
Other Financing Cashflow	1,630	3,866	(8,820)	713	1,500
Cash Flow From Financing	(1,718)	(354)	(12,501)	(5,744)	(2,685)
Total Cash Generated	8,982	7,477	2,027	2,756	9,803
Free Cashflow To Equity	23,349	18,941	31,353	20,250	28,976
Free Cashflow To Firm	23,938	19,464	32,427	21,451	30,226

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	19,905	27,381	29,409	32,165	41,968
Total Debtors	16,072	18,846	21,322	24,565	27,041
Inventories	23,124	30,055	26,075	29,737	32,734
Total Other Current Assets	10,187	8,072	10,491	11,636	12,809
Total Current Assets	69,288	84,354	87,297	98,104	114,553
Fixed Assets	22,339	26,266	25,135	25,422	26,172
Total Investments	1,540	2,317	3,046	3,046	3,046
Intangible Assets	5,591	6,227	4,926	4,926	4,926
Total Other Non-Current Assets	16,435	21,529	17,163	17,163	17,163
Total Non-current Assets	45,904	56,338	50,270	50,557	51,307
Short-term Debt	16,360	25,923	13,072	13,072	13,072
Current Portion of Long-Term Debt					
Total Creditors	10,694	11,734	11,650	12,319	13,348
Other Current Liabilities	8,987	10,396	12,350	11,922	12,917
Total Current Liabilities	36,041	48,053	37,072	37,313	39,337
Total Long-term Debt	343	759			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,230	3,407	6,145	6,145	6,145
Total Non-current Liabilities	3,572	4,165	6,145	6,145	6,145
Total Provisions					
Total Liabilities	39,613	52,219	43,217	43,458	45,482
Shareholders Equity	73,767	86,379	90,453	100,724	115,799
Minority Interests	1,813	2,094	3,897	3,902	4,002
Total Equity	75,580	88,473	94,350	104,626	119,801

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	6.4%	19.8%	9.1%	11.5%	10.1%
Operating EBITDA Growth	32.6%	4.3%	(21.0%)	33.9%	14.4%
Operating EBITDA Margin	22.0%	19.2%	13.9%	16.7%	17.3%
Net Cash Per Share (Rs)	26.78	5.85	136.64	159.69	241.68
BVPS (Rs)	616.96	722.44	756.52	842.42	968.51
Gross Interest Cover	28.50	33.11	12.10	15.48	17.12
Effective Tax Rate	12.2%	8.9%	22.8%	13.3%	15.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	66.95	59.93	63.20	64.77	66.18
Inventory Days	215.51	232.17	208.77	197.14	202.80
Accounts Payables Days	105.56	97.91	86.97	84.67	83.32
ROIC (%)	17.0%	14.6%	12.0%	15.6%	16.9%
ROCE (%)	19.5%	16.7%	11.7%	16.5%	17.1%
Return On Average Assets	15.5%	13.4%	8.6%	12.7%	13.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associates
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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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