

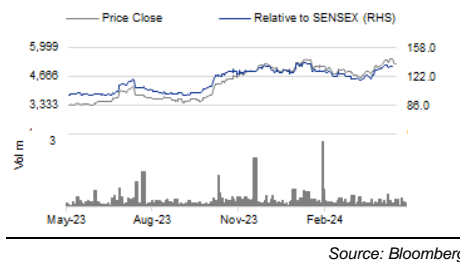
India

HOLD (no change)

Consensus ratings*: Buy 11 Hold 8 Sell 7	
Current price:	Rs5,262
Target price:	Rs5,331
Previous target:	Rs5,553
Up/downside:	1.3%
InCred Research / Consensus:	5.6%
Reuters:	ALKE.NS
Bloomberg:	ALKEM IN
Market cap:	US\$7,550m
	Rs629,205m
Average daily turnover:	US\$15.3m
	Rs1278.7m
Current shares o/s:	119.6m
Free float:	43.3%
*Source: Bloomberg	

Key changes in this note

- Reduce our FY25F/26F EPS estimates by 5% / 8%.
- Lower our target price to Rs5,331 from Rs5,553.



Price performance	1M	3M	12M
Absolute (%)	8.9	2.6	56.7
Relative (%)	8.9	(0.1)	32.4

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

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Alkem Laboratories Ltd

Weak 4QFY24; flat margins likely in FY25F

- Weak 4QFY24 performance, with an EBITDA miss of 9% due to weak India (-2% YoY) and US (US\$75m vs est. of US\$78m) businesses.
- Management expects the margins to remain flat in FY25F due to higher investments (R&D, CDMO plant-related costs).
- We adjust FY25F/26F EPS by -5%/-8%, respectively Retain HOLD rating on the stock with a lower target price of Rs5,331.

Overall weak 4QFY24 performance

Alkem Laboratories' 4QFY24 EBITDA was 9% below estimate led by a top-down miss in revenue (10% below estimate). The miss was largely on account of weak India business (-2% YoY against expectation of +10% YoY) led by the decline in the anti-infective segment. The US market was also marginally weak (US\$75m vs. US\$78m est.). Positively, gross margin was up by 150bp QoQ. Overall, while the margins at 13.6% were in line, Alkem Laboratories expects FY25F margins (both gross and EBITDA) to be largely flattish YoY as it expects higher R&D spending as well as cost build-up due to the upcoming CDMO facility in the US in 4QFY25F.

Meaningful margin recovery still elusive

Under its new management, Alkem Laboratories was expected to improve its cost efficiency, historically responsible for its sub-par margins. However, significant progress is still lacking. The margin expansion in FY24 (+380bp YoY) mainly resulted from gross margin improvement (+330bp YoY) and reduced R&D spending (-50bp YoY). These improvements were largely due to external factors like lower raw material prices and favourable US pricing, with some contribution from a better mix. A meaningful cut in operating expenses, which grew 9% in FY24, matching revenue growth, remains elusive.

Other highlights

a) Capex in FY25F to be at Rs6-7bn (Rs0.8-1bn towards maintenance and Rs4bn towards Enzene Bio facility in the US). b) R&D spending in FY25F will be at 4.5-5% of sales due to clinical trial of biosimilars. c) Expect six-to-seven launches in the US in FY25F; these launches are from the Daman facility (and not from Baddi which has received observations recently from the USFDA). e) During FY25F-26F, the tax rate will be 13-15%, and after that it will be 25% with the completion of Sikkim tax regime. f) Alkem Laboratories incurred service-level penalty of Rs1.2bn in FY24 due to the failure to supply.

Retain HOLD rating on the stock with a lower target price of Rs5,331

We reduce our FY25F/26F EPS by 5%/8%, respectively, as we tone down our margin expectations a bit as well as build in a higher tax rate, in line with management's guidance of 13-15%. We retain HOLD rating on the stock with a lower target price of Rs5,331 (Rs5,553 earlier). Slowdown in India business is a key downside risk while the better-than-expected margins are a key upside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	106,342	115,993	126,676	140,211	154,325
Operating EBITDA (Rsm)	20,380	16,095	22,455	25,356	28,961
Net Profit (Rsm)	16,456	9,842	17,958	21,179	24,526
Core EPS (Rs)	137.6	89.0	159.3	177.1	205.1
Core EPS Growth	3.8%	(35.4%)	79.1%	11.2%	15.8%
FD Core P/E (x)	38.24	59.16	33.04	29.71	25.65
DPS (Rs)	34.0	54.0	35.0	35.0	40.0
Dividend Yield	0.65%	1.03%	0.67%	0.67%	0.76%
EV/EBITDA (x)	30.83	38.13	27.82	23.49	20.39
P/FCFE (x)	33.22	20.07	16.96	9.60	35.73
Net Gearing	(0.8%)	(17.3%)	(4.9%)	(27.6%)	(27.2%)
P/BV (x)	7.28	6.96	6.10	5.24	4.48
ROE	20.6%	12.0%	19.7%	19.0%	18.8%
% Change In Core EPS Estimates				(4.90%)	(7.68%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY24	1QFY23	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	24,838	25,764	30,794	30,409	29,026	29,677	34,402	33,239	29,358	1%	-12%
Consumption of raw materials	10,314	10,954	13,070	12,489	12,555	11,986	13,271	13,045	11,074	-12%	-15%
as % of sales	41.5%	42.5%	42.4%	41.1%	43.3%	40.4%	38.6%	39.2%	37.7%		
Employee costs	4,655	5,322	5,709	5,254	5,030	5,677	5,554	5,722	5,058	1%	-12%
as % of sales	18.7%	20.7%	18.5%	17.3%	17.3%	19.1%	16.1%	17.2%	17.2%		
R&D costs	1,700	1,300	1,300	1,300	1,472	1,202	1,158	1,110	1,757	19%	58%
as % of sales	6.8%	5.0%	4.2%	4.3%	5.1%	4.1%	3.4%	3.3%	6.0%		
Other expenditure	4,948	6,156	6,177	5,376	6,437	6,921	6,952	6,286	7,449	16%	19%
as % of sales	19.9%	23.9%	20.1%	17.7%	22.2%	23.3%	20.2%	18.9%	25.4%		
EBITDA	3,222	2,032	4,539	5,991	3,533	3,892	7,467	7,076	4,020	14%	-43%
Margins (%)	13.0%	7.9%	14.7%	19.7%	12.2%	13.1%	21.7%	21.3%	13.7%		
Depreciation	831	763	774	784	783	724	739	696	834		
Other income	205	514	507	453	687	658	632	936	882		
Interest	170	265	249	271	289	298	303	255	269		
PBT	2,426	1,519	4,023	5,389	3,147	3,529	7,057	7,062	3,799	21%	-46%
Total tax	1,345	204	546	789	1,440	650	332	506	629		
Tax Rate (%)	55.4%	13.5%	13.6%	14.6%	45.8%	18.4%	4.7%	7.2%	16.5%		
PAT before MI	1,082	1,315	3,477	4,600	1,707	2,878	6,726	6,556	3,170	86%	-52%
Minority interest (MI)	-6	-38	-169	-52	33	-11	56	-93	-109		
Adj.PAT before extraordinary items	1,076	1,276	3,308	4,547	1,740	2,867	6,782	6,463	3,061	76%	-53%
Extraordinary expenses	0	0	0	0	-1,030	0	-577	-513	-125		
Reported PAT	1,076	1,276	3,308	4,547	710	2,867	6,205	5,950	2,936	313%	-51%
No. of shares	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6		
EPS	9.0	10.7	27.7	38.0	14.5	24.0	56.7	54.0	25.6		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	4QFY24	1QFY23	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	58%	57%	58%	59%	57%	60%	61%	61%	62%	553	153
EBITDA	13%	8%	15%	20%	12%	13%	22%	21%	14%	152	-760
Adj.PAT	4%	5%	11%	15%	6%	10%	20%	19%	10%	443	-902
Effective tax rate	55%	13%	14%	15%	46%	18%	5%	7%	17%	-2,921	938

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY24	1QFY23	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
North America	5,419	5,565	6,040	7,612	5,916	6,955	7,675	6,838	6,241	5%	-9%
% total revenue	21.8%	21.6%	19.6%	25.0%	20.4%	23.4%	22.3%	20.6%	21.3%		
ROW	1,991	2,039	2,251	2,316	2,654	3,191	2,866	3,402	2,855	8%	-16%
% total revenue	8.0%	7.9%	7.3%	7.6%	9.1%	10.8%	8.3%	10.2%	9.7%		
India	17,187	17,815	22,161	19,922	20,113	19,007	23,278	22,328	19,724	-2%	-12%
% total revenue	69.2%	69.1%	72.0%	65.5%	69.3%	64.0%	67.7%	67.2%	67.2%		
Others	241	345	342	559	343	524	583	671	538	57%	-20%
% total revenue	1.0%	1.3%	1.1%	1.8%	1.2%	1.8%	1.7%	2.0%	1.8%		
Total revenue	24,838	25,764	30,794	30,409	29,026	29,677	34,402	33,239	29,358	1%	-12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	29,358	32,735	(10.3)	31,948	(8.1)
EBITDA (Rsm)	4,020	4,459	(9.8)	4,420	(9.1)
Margin (%)	13.7	13.6		13.8	
PAT (Rsm)	2,936	3,300	(11.0)	3,502	(16.2)

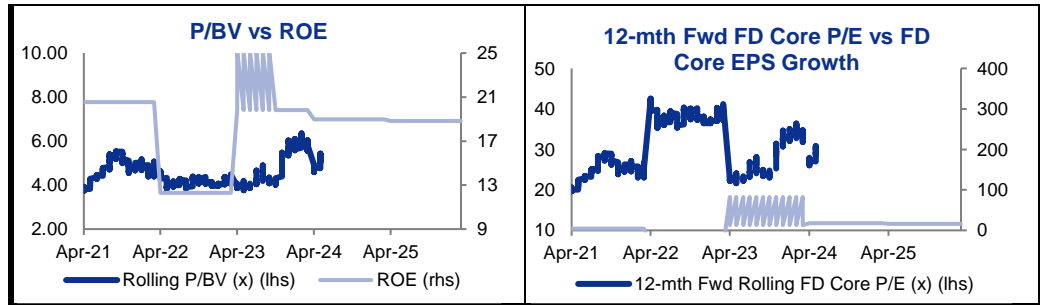
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,43,162	1,40,211	(2.1)	1,57,598	1,54,325	(2.1)
EBITDA (Rsm)	26,235	25,356	(3.4)	30,733	28,961	(5.8)
Margin (%)	18.3	18.1		19.5	18.8	
PAT (Rsm)	22,270	21,179	(4.9)	26,567	24,526	(7.7)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	106,342	115,993	126,676	140,211	154,325
Gross Profit	64,539	66,924	77,300	85,529	94,138
Operating EBITDA	20,380	16,095	22,455	25,356	28,961
Depreciation And Amortisation	(3,040)	(3,104)	(2,993)	(3,200)	(3,400)
Operating EBIT	17,340	12,990	19,462	22,156	25,561
Financial Income/(Expense)	(524)	(1,074)	(1,124)	(1,100)	(1,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,627	2,161	3,108	3,600	4,000
Profit Before Tax (pre-EI)	18,443	14,078	21,446	24,656	28,461
Exceptional Items		(1,030)	(1,215)		
Pre-tax Profit	18,443	13,048	20,231	24,656	28,461
Taxation	(1,640)	(2,980)	(2,117)	(3,452)	(3,985)
Exceptional Income - post-tax					
Profit After Tax	16,803	10,068	18,115	21,204	24,476
Minority Interests	(347)	(226)	(157)	(25)	50
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	16,456	9,842	17,958	21,179	24,526
Recurring Net Profit	16,456	10,636	19,045	21,179	24,526
Fully Diluted Recurring Net Profit	16,456	10,636	19,045	21,179	24,526

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	20,380	16,095	22,455	25,356	28,961
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,450)	24	(517)	12,884	(13,722)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,820)	706	(2,457)	(3,477)	(3,935)
Net Interest (Paid)/Received	(524)	(1,074)	(1,124)	(1,100)	(1,100)
Tax Paid	(4,923)	649	(3,227)	(5,977)	(6,835)
Cashflow From Operations	11,110	16,825	19,481	34,764	11,304
Capex	(3,280)	(2,297)	(1,868)	(4,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	7,830	14,528	17,613	30,764	6,304
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		1,615			
Shares Repurchased					
Dividends Paid	(4,219)	(5,295)	(5,405)	(4,185)	(4,185)
Preferred Dividends					
Other Financing Cashflow	3,866	(8,820)	(24,242)	2,100	2,719
Cash Flow From Financing	(354)	(12,501)	(29,647)	(2,085)	(1,466)
Total Cash Generated	7,477	2,027	(12,035)	28,679	4,838
Free Cashflow To Equity	18,941	31,353	37,093	65,527	17,609
Free Cashflow To Firm	19,464	32,427	38,217	66,627	18,709

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	27,381	29,409	17,374	46,053	50,891
Total Debtors	18,846	21,322	22,528	26,640	29,322
Inventories	30,055	26,075	26,612	32,249	37,038
Total Other Current Assets	8,072	10,491	37,602	12,619	18,519
Total Current Assets	84,354	87,297	104,116	117,561	135,770
Fixed Assets	26,266	25,135	25,570	26,370	27,970
Total Investments	2,317	3,046	3,348	3,348	3,348
Intangible Assets	6,227	4,926	4,743	4,743	4,743
Total Other Non-Current Assets	21,529	17,163	17,972	17,972	17,972
Total Non-current Assets	56,338	50,270	51,633	52,433	54,033
Short-term Debt	25,923	13,072	11,740	11,740	11,740
Current Portion of Long-Term Debt					
Total Creditors	11,734	11,650	17,481	13,140	14,376
Other Current Liabilities	10,396	12,350	10,725	12,716	11,130
Total Current Liabilities	48,053	37,072	39,946	37,596	37,245
Total Long-term Debt	759		400		(181)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,407	6,145	8,260	8,260	8,260
Total Non-current Liabilities	4,165	6,145	8,660	8,260	8,078
Total Provisions					
Total Liabilities	52,219	43,217	48,605	45,856	45,323
Shareholders Equity	86,379	90,453	103,121	120,090	140,481
Minority Interests	2,094	3,897	4,023	4,048	3,998
Total Equity	88,473	94,350	107,144	124,138	144,480

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	19.8%	9.1%	9.2%	10.7%	10.1%
Operating EBITDA Growth	4.3%	(21.0%)	39.5%	12.9%	14.2%
Operating EBITDA Margin	19.2%	13.9%	17.7%	18.1%	18.8%
Net Cash Per Share (Rs)	5.85	136.64	43.78	286.98	328.96
BVPS (Rs)	722.44	756.52	862.46	1,004.39	1,174.94
Gross Interest Cover	33.11	12.10	17.31	20.14	23.24
Effective Tax Rate	8.9%	22.8%	10.5%	14.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.93	63.20	63.17	64.00	66.18
Inventory Days	232.17	208.77	194.74	196.44	210.09
Accounts Payables Days	97.91	86.97	107.67	102.20	83.43
ROIC (%)	14.6%	12.0%	13.6%	17.5%	17.4%
ROCE (%)	16.7%	11.7%	17.2%	17.4%	17.5%
Return On Average Assets	13.4%	8.6%	13.8%	13.5%	14.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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