

India

HOLD (no change)

Consensus ratings*: Buy 9 Hold 9 Sell 7

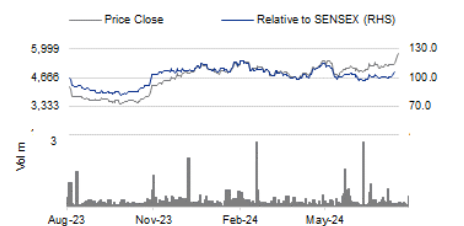
Current price: Rs5,797
 Target price: ▲ Rs5,935
 Previous target: Rs5,331
 Up/downside: 2.4%
 InCred Research / Consensus: 15.5%

Reuters:
 Bloomberg: ALKEM IN
 Market cap: US\$9,545m
 Rs693,100m
 Average daily turnover: US\$19.6m
 Rs1420.1m
 Current shares o/s: 119.6m
 Free float: 43.3%

*Source: Bloomberg

Key changes in this note

- Raise FY25F/26F EPS estimates by 5%/ 3%.
- Revise the target price to Rs5,935 from Rs5,331 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.9	14.4	37.1
Relative (%)	10.0	4.3	12.4

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

Research Analyst(s)



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Alkem Laboratories Ltd

Strong 1Q; flat margins in FY25F

- Strong 1Q with EBITDA beat of 18% and margin of 20% (estimate: 16%). Strong gross margin, lower R&D spending and lower opex all played a part.
- Management gave margin guidance of 18% (unchanged) for 2HFY25F due to higher investments (R&D, CDMO plant-related costs & new businesses).
- We raise FY25F/26F EPS estimates by 5%/3%, respectively. Retain our HOLD rating on the stock with a higher target price of Rs5,935.

Strong overall 1QFY25 performance

Alkem Laboratories' 1QFY25 EBITDA was 18% above estimates, despite a 4% miss on the revenue front. The revenue miss was largely on account of weak India business (+6% YoY against the estimate of +10% YoY). The US business was also marginally weak (US\$77m vs. an estimated US\$79m) while the RoW market (+2% YoY) was hit by supply problems. On a positive note, gross margin was up 220bp QoQ (the second consecutive quarter of QoQ margin improvement) led by a better product mix and lower input costs. The EBITDA margin stood at 20.4%, driven by lower R&D spending (-190bp QoQ) and lower opex (-500bp QoQ). Alkem Laboratories expects FY25F gross margin in the range of 62%- 62.5% and EBITDA at 18% (unchanged), as it expects higher R&D spending, cost build-up due to the upcoming CDMO facility in the US, and investment in new businesses.

Meaningful margin recovery still elusive

Under its new management, Alkem Laboratories is expected to improve its cost efficiency, historically responsible for its sub-par margins. 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. Alkem Laboratories has demonstrated some improvement in other expenses during the quarter, but these are likely to inch up again on the above-mentioned investments. We will be more excited about the company once the trajectory shifts to 20%+ level, which has so far remained elusive.

Other highlights

- a) Mirabegron - launch interrupted due to the ongoing litigation, which prevents the company from launching till its outcome, as per the settlement.
- b) Yet to see any meaningful reduction in PenG prices, although prices of other raw materials have reduced.
- c) India growth break-up: 1.5% from volume, and 2.5% each from new launches and pricing.
- d) gSuprep launched in 1QFY25, gPradaxa should ramp up in 2HFY25F.
- e) Tax rate guidance at 11-13% for FY25F.

Retain HOLD rating on the stock with a higher target price of Rs5,935

We raise our FY25F/26F EPS by 5%/3%, respectively. We retain HOLD rating on the stock with a higher target price of Rs5,935 (Rs5,331 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	137,110	150,066
Operating EBITDA (Rsm)	20,380	16,095	22,455	25,638	29,525
Net Profit (Rsm)	16,456	9,842	17,958	22,273	25,355
Core EPS (Rs)	137.6	89.0	159.3	186.3	212.1
Core EPS Growth	3.8%	(35.4%)	79.1%	16.9%	13.8%
FD Core P/E (x)	42.12	65.16	36.39	31.12	27.34
DPS (Rs)	34.0	54.0	35.0	35.0	40.0
Dividend Yield	0.59%	0.93%	0.60%	0.60%	0.69%
EV/EBITDA (x)	33.96	42.10	30.66	25.67	22.07
P/FCFE (x)	36.59	22.11	18.69	10.28	35.67
Net Gearing	(0.8%)	(17.3%)	(4.9%)	(28.5%)	(28.7%)
P/BV (x)	8.02	7.66	6.72	5.72	4.87
ROE	20.6%	12.0%	19.7%	19.9%	19.2%
% Change In Core EPS Estimates				5.16%	3.38%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	25,764	30,794	30,409	29,026	29,677	34,402	33,239	29,358	30,318	2%	3%
Consumption of raw materials	10,954	13,070	12,489	12,555	11,986	13,271	13,045	11,074	10,760	-10%	-3%
as % of sales	42.5%	42.4%	41.1%	43.3%	40.4%	38.6%	39.2%	37.7%	35.5%		
Employee costs	5,322	5,709	5,254	5,030	5,677	5,554	5,722	5,058	6,023	6%	19%
as % of sales	20.7%	18.5%	17.3%	17.3%	19.1%	16.1%	17.2%	17.2%	19.9%		
R&D costs	1,300	1,300	1,300	1,472	1,202	1,158	1,110	1,757	1,257	5%	-28%
as % of sales	5.0%	4.2%	4.3%	5.1%	4.1%	3.4%	3.3%	6.0%	4.1%		
Other expenditure	6156	6177	5376	6437	6921	6952	6286	7449	6193	-11%	-17%
as % of sales	23.9%	20.1%	17.7%	22.2%	23.3%	20.2%	18.9%	25.4%	20.4%		
EBITDA	2,032	4,539	5,991	3,533	3,892	7,467	7,076	4,020	6,086	56%	51%
Margins (%)	7.9%	14.7%	19.7%	12.2%	13.1%	21.7%	21.3%	13.7%	20.1%		
Depreciation	763	774	784	783	724	739	696	834	805		
Other income	514	507	453	687	658	632	936	882	1,203		
Interest	265	249	271	289	298	303	255	269	291		
PBT	1,519	4,023	5,389	3,147	3,529	7,057	7,062	3,799	6,194	76%	63%
Total tax	204	546	789	1,440	650	332	506	629	691		
Tax rate (%)	13.5%	13.6%	14.6%	45.8%	18.4%	4.7%	7.2%	16.5%	11.2%		
PAT before MI	1,315	3,477	4,600	1,707	2,878	6,726	6,556	3,170	5,502	91%	74%
Minority interest (MI)	-38	-169	-52	33	-11	56	-93	-109	-51		
Adj. PAT before extraordinary items	1,276	3,308	4,547	1,740	2,867	6,782	6,463	3,061	5,452	90%	78%
Extraordinary expenses	0	0	0	-1,030	0	-577	-513	-125	0		
Reported PAT	1,276	3,308	4,547	710	2,867	6,205	5,950	2,936	5,452	90%	86%
No. of shares	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6	119.6		
EPS	10.7	27.7	38.0	14.5	24.0	56.7	54.0	25.6	45.6		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	57%	58%	59%	57%	60%	61%	61%	62%	65%	490	223
EBITDA	8%	15%	20%	12%	13%	22%	21%	14%	20%	696	638
Adj. PAT	5%	11%	15%	6%	10%	20%	19%	10%	18%	832	756
Effective tax rate	13%	14%	15%	46%	18%	5%	7%	17%	11%	-727	-539

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
North America	5,565	6,040	7,612	5,916	6,955	7,675	6,838	6,241	6,416	-8%	3%
% total revenue	21.6%	19.6%	25.0%	20.4%	23.4%	22.3%	20.6%	21.3%	21.2%		
ROW	2,039	2,251	2,316	2,654	3,191	2,866	3,402	2,855	3,261	2%	14%
% total revenue	7.9%	7.3%	7.6%	9.1%	10.8%	8.3%	10.2%	9.7%	10.8%		
India	17,815	22,161	19,922	20,113	19,007	23,278	22,328	19,724	20,223	6%	3%
% total revenue	69.1%	72.0%	65.5%	69.3%	64.0%	67.7%	67.2%	67.2%	66.7%		
Others	345	342	559	343	524	583	671	538	418	-20%	-22%
% total revenue	1.3%	1.1%	1.8%	1.2%	1.8%	1.7%	2.0%	1.8%	1.4%		
Total revenue	25,764	30,794	30,409	29,026	29,677	34,402	33,239	29,358	30,318	2%	3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

Actuals versus Estimates	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	30,318	31,703	(4.4)	32,137	(5.7)
EBITDA (Rsm)	6,086	5,139	18.4	5,313	14.6
Margin (%)	20.1	16.2		16.5	
PAT (Rsm)	5,452	4,224	29.1	4,320	26.2

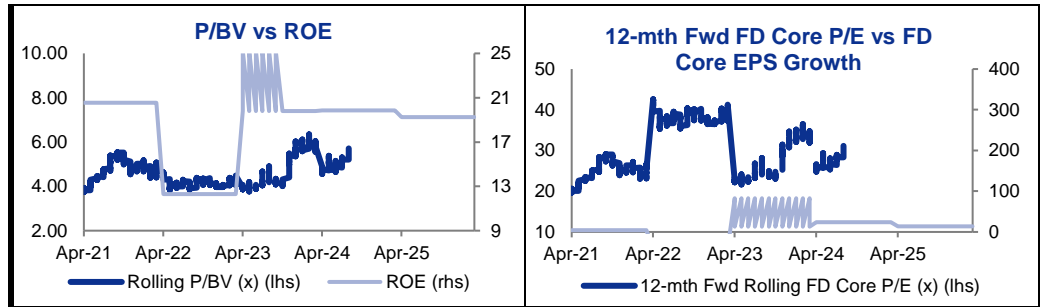
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,40,211	1,37,110	(2.2)	1,54,325	1,50,066	(2.8)
EBITDA (Rsm)	25,356	25,638	1.1	28,961	29,525	1.9
Margin (%)	18.1	18.7		18.8	19.7	
PAT (Rsm)	21,179	22,273	5.2	24,526	25,355	3.4

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	137,110	150,066
Gross Profit	64,539	66,924	77,300	85,693	94,541
Operating EBITDA	20,380	16,095	22,455	25,638	29,525
Depreciation And Amortisation	(3,040)	(3,104)	(2,993)	(3,200)	(3,500)
Operating EBIT	17,340	12,990	19,462	22,438	26,025
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	4,000	4,500
Profit Before Tax (pre-EI)	18,443	14,078	21,446	25,338	29,425
Exceptional Items		(1,030)	(1,215)		
Pre-tax Profit	18,443	13,048	20,231	25,338	29,425
Taxation	(1,640)	(2,980)	(2,117)	(3,041)	(4,119)
Exceptional Income - post-tax					
Profit After Tax	16,803	10,068	18,115	22,298	25,305
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	22,273	25,355
Recurring Net Profit	16,456	10,636	19,045	22,273	25,355
Fully Diluted Recurring Net Profit	16,456	10,636	19,045	22,273	25,355

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	20,380	16,095	22,455	25,638	29,525
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,450)	24	(517)	13,133	(13,239)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,820)	706	(2,457)	(3,066)	(4,069)
Net Interest (Paid)/Received	(524)	(1,074)	(1,124)	(1,100)	(1,100)
Tax Paid	(4,923)	649	(3,227)	(5,966)	(7,469)
Cashflow From Operations	11,110	16,825	19,481	35,706	12,216
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	31,706	7,216
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)	2,500	3,372
Cash Flow From Financing	(354)	(12,501)	(29,647)	(1,685)	(812)
Total Cash Generated	7,477	2,027	(12,035)	30,021	6,404
Free Cashflow To Equity	18,941	31,353	37,093	67,413	19,432
Free Cashflow To Firm	19,464	32,427	38,217	68,513	20,532

SOURCES: 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	47,396	53,800
Total Debtors	18,846	21,322	22,528	26,051	28,512
Inventories	30,055	26,075	26,612	31,535	36,016
Total Other Current Assets	8,072	10,491	37,602	12,340	18,008
Total Current Assets	84,354	87,297	104,116	117,321	136,336
Fixed Assets	26,266	25,135	25,570	26,370	27,870
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	53,933
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	12,463	13,468
Other Current Liabilities	10,396	12,350	10,725	12,061	10,427
Total Current Liabilities	48,053	37,072	39,946	36,263	35,634
Total Long-term Debt	759		400		(28)
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	8,232
Total Provisions					
Total Liabilities	52,219	43,217	48,605	44,523	43,866
Shareholders Equity	86,379	90,453	103,121	121,184	142,404
Minority Interests	2,094	3,897	4,023	4,048	3,998
Total Equity	88,473	94,350	107,144	125,232	146,402

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	19.8%	9.1%	9.2%	8.2%	9.4%
Operating EBITDA Growth	4.3%	(21.0%)	39.5%	14.2%	15.2%
Operating EBITDA Margin	19.2%	13.9%	17.7%	18.7%	19.7%
Net Cash Per Share (Rs)	5.85	136.64	43.78	298.21	352.00
BVPS (Rs)	722.44	756.52	862.46	1,013.54	1,191.02
Gross Interest Cover	33.11	12.10	17.31	20.40	23.66
Effective Tax Rate	8.9%	22.8%	10.5%	12.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.93	63.20	63.17	64.66	66.36
Inventory Days	232.17	208.77	194.74	206.39	222.03
Accounts Payables Days	97.91	86.97	107.67	106.29	85.23
ROIC (%)	14.6%	12.0%	13.6%	17.8%	17.8%
ROCE (%)	16.7%	11.7%	17.2%	17.5%	17.6%
Return On Average Assets	13.4%	8.6%	13.8%	14.2%	14.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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