

India

**HOLD** (no change)

Consensus ratings\*: Buy 15 Hold 6 Sell 6

Current price:	Rs3,293
Target price: ▲	Rs3,434
Previous target:	Rs3,124
Up/downside:	4.3%
InCred Research / Consensus:	6.6%
Reuters:	ALKE.NS
Bloomberg:	ALKEM IN
Market cap:	US\$4,772m Rs393,692m
Average daily turnover:	US\$3.6m Rs297.0m
Current shares o/s:	119.6m
Free float:	42.9%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY23F core earnings estimate by 5%.
- Raise target price to Rs3,434 from Rs3,124.
- Maintain HOLD rating on the stock.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	6.9	3.7	(5.9)
Relative (%)	6.2	5.6	(9.9)

<b>Major shareholders</b>	% held
Promoters	57.1
LIC	3.9
DSP MF	2.6

**Analyst(s)**



**Bino PATHIPARAMPIL**

T (91) 22 4161 1552  
E bino.pathiparampil@incredcapital.com

**Kashish THAKUR**

T (91) 22 4161 1549  
E kashish.thakur@incredcapital.com

# Alkem Laboratories Ltd

## Green shoots seen, but we prefer to wait

- The 500bp QoQ expansion in EBITDA margin in 3QFY23 surprised positively; the reiteration of full-year margin at 15-15.5% was a positive surprise as well.
- US revenue surprised on the upside; the outlook remains strong. Domestic business growth was in line with expectations.
- Growth/margin outlook has improved, but we prefer to wait for a more visible upside. Retain our HOLD rating with a higher target price of Rs3,434.

### Good 3QFY23 performance

Alkem Laboratories' 3QFY23 revenue and EBITDA were above our estimates by 3% and 9%, respectively. PAT was 6% above our estimate, being partly impacted by higher finance expenses. The 500bp QoQ expansion in EBITDA margin surprised positively; it was driven by better gross margin and a QoQ decline in other expenses. A part of the decline in other expenses was attributed to a forex gain of Rs0.5bn.

### Margin guidance surprises positively

Alkem Laboratories' management reiterated its FY23F EBITDA margin guidance at 15-15.5%, which again was a surprise as the nine-month margin was tracking lower. Management mentioned about additional carried forward revenue in 4QFY24F which will pull up the full-year margin. Thus, the overall margin outlook has improved when compared with the last two quarters.

### US business growth improves, but gPradaxa lacks visibility

US revenue at \$93m in 3Q surged by \$18m QoQ, despite only a marginal contribution from gPradaxa 180-day marketing exclusivity. The company attributed this to a spurt in demand during the quarter. There is a continuous flow of enquiries from customers, but management was cautious in giving a bullish outlook. We expect the growth momentum to continue as multiple companies have started surprising on the upside in the US market. However, Alkem Laboratories may not benefit from the limited-competition gPradaxa opportunity as supply side problems are unlikely to be resolved, at least in next six months.

### Domestic business growth broadly in line with expectations

Alkem Laboratories' domestic business growth at 10% YoY was broadly in line with our expectations. The domestic business grew at a 11.4% CAGR in the FY16-FY20 timeframe. We expect a 10-11% CAGR in the near- to medium-term.

### Outlook improves, but no major upside likely

We raise our FY23F core earnings estimate by 5% and retain FY24F-25F core earnings estimates. Alkem Laboratories trades at 27.5x our FY24F core earnings estimate. We feel that its growth/margin outlook has improved, but we will wait for more visible upside before upgrading our view. We retain HOLD rating on it while raising our target price to Rs3,434 (Rs3,124), which is 26x FY25F core earnings plus cash per share. Better traction in the US market is key upside risk while continued margin pressure is the downside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	88,765	106,342	116,027	126,429	136,859
Operating EBITDA (Rsm)	19,539	20,380	17,388	20,114	22,074
Net Profit (Rsm)	15,850	16,456	12,835	14,931	16,269
Core EPS (Rs)	132.6	137.6	107.3	124.9	136.1
Core EPS Growth	40.6%	3.8%	(22.0%)	16.3%	9.0%
FD Core P/E (x)	24.84	23.92	30.67	26.37	24.20
DPS (Rs)	28.0	34.0	60.0	35.0	35.0
Dividend Yield	0.85%	1.03%	1.82%	1.06%	1.06%
EV/EBITDA (x)	20.00	19.27	22.23	19.06	17.02
P/FCFE (x)	16.86	20.79	16.98	16.58	14.73
Net Gearing	(4.2%)	(0.8%)	(7.5%)	(10.3%)	(16.0%)
P/BV (x)	5.34	4.56	4.15	3.85	3.45
ROE	23.4%	20.6%	14.2%	15.2%	15.1%
% Change In Core EPS Estimates			5.09%	0.18%	0.13%
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: 3QFY23 results snapshot**

(Rs m)	3QFY23	3QFY22	yoy(%)	2QFY23	qoq(%)
Revenue	30,409	26,190	16%	30,794	-1%
EBITDA	5,991	4,985	20%	4,539	32%
EBITDA Margin (%)	20%	19%	1%	15%	5%
PAT	4,547	5,257	-13%	3,308	37%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Actuals vs. estimates**

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	30,409	29,463	3%
EBITDA	5,991	5,485	9%
EBITDA Margin (%)	20%	19%	6%
PAT	4,547	4,281	6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Actuals vs. Bloomberg consensus estimates**

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	30,409	29,644	3%
EBITDA	5,991	4,801	25%
EBITDA Margin (%)	20%	16%	22%
PAT	4,547	3,955	15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Our revised estimates**

(Rs m)	New estimates		Old estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	1,16,027	1,26,429	1,14,416	1,24,011	1%	2%
EBITDA	17,388	20,114	16,490	20,075	5%	0%
EBITDA Margin (%)	15%	16%	14%	16%	1%	-2%
PAT	12,835	14,931	12,222	14,903	5%	0%

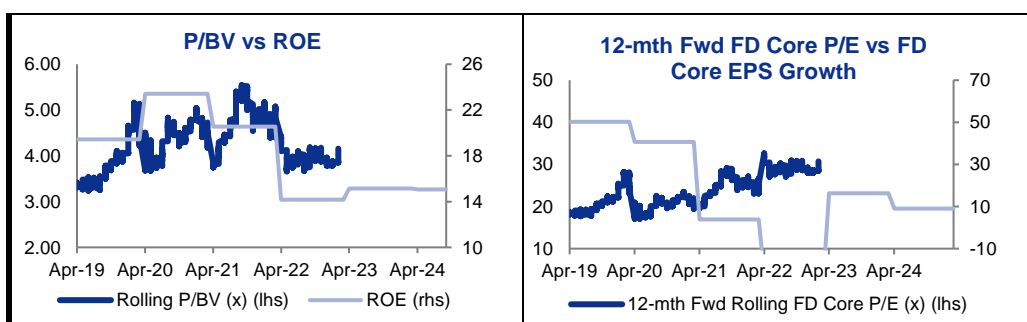
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Core valuation table**

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	116.2	125.2	93.9	113.9	125.2
Core EPS growth	34.7%	7.8%	-25.0%	21.3%	9.9%
Cash per share (Rs)	166.3	228.9	158.2	178.5	245.1
Current Core P/E (Rs)	27.0	25.1	33.4	27.6	25.1
Core ROIC	24.3%	24.0%	16.2%	18.5%	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>88,765</b>	<b>106,342</b>	<b>116,027</b>	<b>126,429</b>	<b>136,859</b>
<b>Gross Profit</b>	<b>53,780</b>	<b>64,539</b>	<b>67,599</b>	<b>74,593</b>	<b>81,021</b>
<b>Operating EBITDA</b>	<b>19,539</b>	<b>20,380</b>	<b>17,388</b>	<b>20,114</b>	<b>22,074</b>
Depreciation And Amortisation	(2,746)	(3,040)	(3,131)	(3,450)	(3,750)
<b>Operating EBIT</b>	<b>16,793</b>	<b>17,340</b>	<b>14,257</b>	<b>16,664</b>	<b>18,324</b>
Financial Income/(Expense)	(589)	(524)	(1,054)	(600)	(500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,217	1,627	1,834	1,500	1,500
<b>Profit Before Tax (pre-EI)</b>	<b>18,421</b>	<b>18,443</b>	<b>15,037</b>	<b>17,564</b>	<b>19,324</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>18,421</b>	<b>18,443</b>	<b>15,037</b>	<b>17,564</b>	<b>19,324</b>
Taxation	(2,243)	(1,640)	(1,868)	(2,283)	(2,705)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>16,178</b>	<b>16,803</b>	<b>13,169</b>	<b>15,281</b>	<b>16,619</b>
Minority Interests	(328)	(347)	(334)	(350)	(350)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>15,850</b>	<b>16,456</b>	<b>12,835</b>	<b>14,931</b>	<b>16,269</b>
Recurring Net Profit	15,850	16,456	12,835	14,931	16,269
<b>Fully Diluted Recurring Net Profit</b>	<b>15,850</b>	<b>16,456</b>	<b>12,835</b>	<b>14,931</b>	<b>16,269</b>

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>19,539</b>	<b>20,380</b>	<b>17,388</b>	<b>20,114</b>	<b>22,074</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,412)	(5,450)	(1,846)	(3,610)	(3,407)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,478)	(3,820)	(2,202)	(2,633)	(3,055)
Net Interest (Paid)/Received	(589)	(524)	(1,054)	(600)	(500)
Tax Paid	(5,106)	(4,923)	(780)	(900)	(1,000)
<b>Cashflow From Operations</b>	<b>12,649</b>	<b>11,110</b>	<b>13,339</b>	<b>13,871</b>	<b>15,611</b>
Capex	(1,949)	(3,280)	(3,500)	(4,000)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>10,700</b>	<b>7,830</b>	<b>9,839</b>	<b>9,871</b>	<b>11,111</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,348)	(4,219)	(4,065)	(7,174)	(4,185)
Preferred Dividends					
Other Financing Cashflow	1,630	3,866	(14,233)	(269)	1,038
<b>Cash Flow From Financing</b>	<b>(1,718)</b>	<b>(354)</b>	<b>(18,298)</b>	<b>(7,443)</b>	<b>(3,147)</b>
Total Cash Generated	8,982	7,477	(8,458)	2,428	7,964
<b>Free Cashflow To Equity</b>	<b>23,349</b>	<b>18,941</b>	<b>23,179</b>	<b>23,741</b>	<b>26,723</b>
<b>Free Cashflow To Firm</b>	<b>23,938</b>	<b>19,464</b>	<b>24,233</b>	<b>24,341</b>	<b>27,223</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs m)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	19,905	27,381	18,923	21,351	29,315
Total Debtors	16,072	18,846	22,045	24,021	26,003
Inventories	23,124	30,055	27,847	30,343	32,846
Total Other Current Assets	10,187	8,072	13,923	15,171	16,423
<b>Total Current Assets</b>	<b>69,288</b>	<b>84,354</b>	<b>82,738</b>	<b>90,886</b>	<b>104,587</b>
Fixed Assets	22,339	26,266	26,635	27,185	27,935
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
<b>Total Non-current Assets</b>	<b>45,904</b>	<b>56,338</b>	<b>56,707</b>	<b>57,257</b>	<b>58,007</b>
Short-term Debt	16,360	25,923	1,000	1,000	1,000
Current Portion of Long-Term Debt					
Total Creditors	10,694	11,734	15,289	16,479	17,792
Other Current Liabilities	8,987	10,396	11,837	12,758	13,774
<b>Total Current Liabilities</b>	<b>36,041</b>	<b>48,053</b>	<b>28,126</b>	<b>30,237</b>	<b>32,566</b>
Total Long-term Debt	343	759	10,669	9,500	9,538
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,230	3,407	3,407	3,407	3,407
<b>Total Non-current Liabilities</b>	<b>3,572</b>	<b>4,165</b>	<b>14,076</b>	<b>12,907</b>	<b>12,944</b>
Total Provisions					
<b>Total Liabilities</b>	<b>39,613</b>	<b>52,219</b>	<b>42,202</b>	<b>43,143</b>	<b>45,510</b>
Shareholders' Equity	73,767	86,379	94,815	102,221	113,956
Minority Interests	1,813	2,094	2,428	2,778	3,128
<b>Total Equity</b>	<b>75,580</b>	<b>88,473</b>	<b>97,243</b>	<b>105,000</b>	<b>117,084</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	6.4%	19.8%	9.1%	9.0%	8.3%
Operating EBITDA Growth	32.6%	4.3%	(14.7%)	15.7%	9.7%
Operating EBITDA Margin	22.0%	19.2%	15.0%	15.9%	16.1%
Net Cash Per Share (Rs)	26.78	5.85	60.67	90.75	157.05
BVPS (Rs)	616.96	722.44	793.00	854.94	953.08
Gross Interest Cover	28.50	33.11	13.53	27.77	36.65
Effective Tax Rate	12.2%	8.9%	12.4%	13.0%	14.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	66.95	59.93	64.32	66.50	66.71
Inventory Days	215.51	232.17	218.20	204.87	206.52
Accounts Payables Days	105.56	97.91	101.83	111.85	112.01
ROIC (%)	17.0%	14.6%	11.7%	13.1%	13.8%
ROCE (%)	19.5%	16.7%	12.7%	14.9%	15.1%
Return On Average Assets	15.5%	13.4%	10.0%	10.9%	10.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

---

## DISCLAIMER

---

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

#### Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.