

India

HOLD (no change)

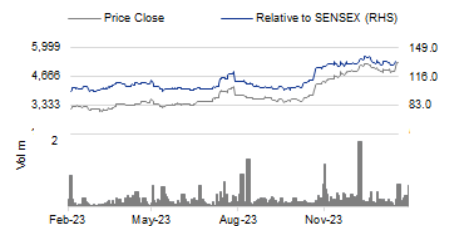
Consensus ratings*: Buy 10 Hold 9 Sell 7

Current price:	Rs5,328
Target price: ▲	Rs5,553
Previous target:	Rs4,046
Up/downside:	4.2%
InCred Research / Consensus:	35.6%
Reuters:	ALKE.NS
Bloomberg:	ALKEM IN
Market cap:	US\$7,672m Rs637,030m
Average daily turnover:	US\$12.9m Rs1067.9m
Current shares o/s:	119.6m
Free float:	43.3%

*Source: Bloomberg

Key changes in this note

- Target price upgrade on rollover to FY26F.
- Earnings upgrade.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.9	24.4	66.2
Relative (%)	4.3	13.4	40.9

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

Good 3Q, but upside in stock price capped

- Alkem Labs posts better-than-expected 3Q margins, surpassing estimates by ~300bp. Management upgrades FY24F margin guidance to 17% (from 16.5%).
- India/RoW markets outperform while the US market was below expectations. The momentum should largely continue along with gradual margin expansion.
- Retain HOLD rating with a higher target price of Rs5,553, rolling forward our valuation to FY26F. Valuation at 24x FY26F EPS caps any meaningful upside.

Trying to get the act right under its new management

Under a new management, Alkem Laboratories' focus is to get the margin trajectory right, which has historically been a cause of concern. The last two quarters point out an improving margin trajectory and management expects to improve margins by ~100bp every year. Alkem Laboratories has given FY24F margin guidance of 17% (from 16.5% earlier), implying 4QFY24F margins at 12-13% (like last year). More importantly, this margin expansion is driven by gross margin expansion (+260bp in 9MFY23; product mix change, lower input costs and reduced US price erosion) and should sustain, as per management.

India, RoW markets outperform but US market lags

India business grew by 12% YoY in 3QFY24, marginally outpacing industry growth, led by strong growth in gastro-intestinal, vitamins & minerals and anti-diabetic segments. Trade generics business, which accounts for 20-21% of India sales, grew strongly as well. A 46% YoY growth in RoW market stood out, and it has grown almost 43% in 9MFY24; Alkem Laboratories is witnessing strong growth in LatAm & EU markets, and it believes the growth momentum should largely sustain, with increased focus from the new management team. US business declined by ~US\$10m QoQ to US\$83m (our estimate: US\$90m) due to a weak flu season.

Other highlights

- a) Alkem Laboratories is investing Rs2bn in a US facility for Enzene Bio.
- b) R&D expenses are likely to be around 4% of sales in FY24F and 4-4.5% in FY25F.
- c) US market price erosion is currently in single digit.
- d) The tax rate is likely to be around 11-12% for the next two-to-three years.
- e) Around 28-32% of India business portfolio is covered under NLEM.
- f) PenG prices have largely been stable.
- g) Will achieve breakeven at Enzene Bio this year.

Outlook and valuation

We upgrade FY24F/25F EPS by 15% each as we factor in higher margins and a lower tax rate. We roll forward our target price to Rs5,553 (Rs4,046 earlier), valuing Alkem Laboratories at 25x FY26F EPS (rollover) and retaining our HOLD rating on the stock as its current valuation at 24x leaves little room for an upside. 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-24F	Mar-25F	Mar-26F
Revenue (Rsm)	106,342	115,993	129,962	143,162	157,598
Operating EBITDA (Rsm)	20,380	16,095	22,780	26,235	30,733
Net Profit (Rsm)	16,456	9,842	18,145	22,270	26,567
Core EPS (Rs)	137.6	89.0	159.8	186.3	222.2
Core EPS Growth	3.8%	(35.4%)	79.7%	16.5%	19.3%
FD Core P/E (x)	38.71	59.89	33.34	28.61	23.98
DPS (Rs)	34.0	54.0	35.0	35.0	40.0
Dividend Yield	0.64%	1.01%	0.66%	0.66%	0.75%
EV/EBITDA (x)	31.21	38.62	27.10	23.06	19.47
P/FCFE (x)	33.63	20.32	27.40	19.43	30.51
Net Gearing	(0.8%)	(17.3%)	(19.4%)	(26.6%)	(26.9%)
P/BV (x)	7.37	7.04	6.24	5.30	4.47
ROE	20.6%	12.0%	19.9%	20.0%	20.2%
% Change In Core EPS Estimates			10.89%	15.03%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	30,794	30,409	29,026	29,677	34,402	33,239	9%	-3%
Consumption of RM	13,070	12,489	12,555	11,986	13,271	13,045	4%	-2%
as % of sales	42.4%	41.1%	43.3%	40.4%	38.6%	39.2%		
Employee costs	5,709	5,254	5,030	5,677	5,554	5,722	9%	3%
as % of sales	18.5%	17.3%	17.3%	19.1%	16.1%	17.2%		
R&D costs	1,300	1,300	1,472	1,202	1,158	1,110	-15%	-4%
as % of sales	4.2%	4.3%	5.1%	4.1%	3.4%	3.3%		
Other expenditure	6177	5376	6437	6921	6952	6286	17%	-10%
as % of sales	20.1%	17.7%	22.2%	23.3%	20.2%	18.9%		
EBITDA	4,539	5,991	3,533	3,892	7,467	7,076	18%	-5%
Margins (%)	14.7%	19.7%	12.2%	13.1%	21.7%	21.3%		
Depreciation	774	784	783	724	739	696		
Other income	507	453	687	658	632	936		
Interest	249	271	289	298	303	255		
PBT	4,023	5,389	3,147	3,529	7,057	7,062	31%	0%
Total tax	546	789	1,440	650	332	506		
Tax rate (%)	13.6%	14.6%	45.8%	18.4%	4.7%	7.2%		
PAT before MI	3,477	4,600	1,707	2,878	6,726	6,556	43%	-3%
Minority interest (MI)	-169	-52	33	-11	56	-93		
Adj. PAT before extraordinary items	3,308	4,547	1,740	2,867	6,782	6,463	42%	-5%
Extraordinary expenses	0	0	-1,030	0	-577	-513		
Reported PAT	3,308	4,547	710	2,867	6,205	5,950	31%	-4%
No. of shares	119.6	119.6	119.6	119.6	119.6	119.6		
EPS	27.7	38.0	14.5	24.0	56.7	54.0		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)								
Gross	58%	59%	57%	60%	61%	61%	3%	-1%
EBITDA	15%	20%	12%	13%	22%	21%	8%	-2%
Adj. PAT	11%	15%	6%	10%	20%	19%	30%	-1%
Effective tax rate	14%	15%	46%	18%	5%	7%	-51%	53%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	4QFY23	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
North America INR	6,040	7,612	5,916	6,955	7,675	6,838	-10%	-11%
% total revenue	19.6%	25.0%	20.4%	23.4%	22.3%	20.6%		
ROW	2,251	2,316	2,654	3,191	2,866	3,402	47%	19%
% total revenue	7.3%	7.6%	9.1%	10.8%	8.3%	10.2%		
India	22,161	19,922	20,113	19,007	23,278	22,328	12%	-4%
% total revenue	72.0%	65.5%	69.3%	64.0%	67.7%	67.2%		
Others	342	559	343	524	583	671	20%	15%
% total revenue	1.1%	1.8%	1.2%	1.8%	1.7%	2.0%		
Total revenue	30,794	30,409	29,026	29,677	34,402	33,239	9%	-3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

Actuals versus estimates	Actuals	Incred Estimate	Variance (%)
Revenue (Rsm)	33,239	33,028	0.6
EBITDA (Rsm)	7,076	6,082	16.3
Margin (%)	21.29	18.42	
PAT (Rsm)	5,950	4,943	20.4

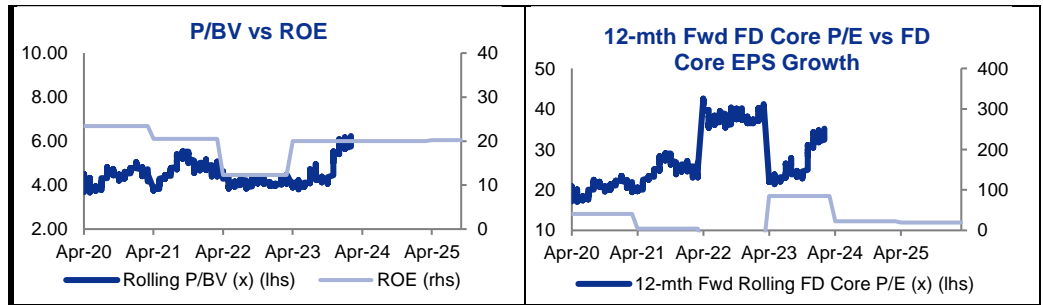
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Change in our earnings estimates

Change in earnings estimates	FY24F			FY25F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,29,292	1,29,962	0.5	1,42,322	1,43,162	0.6
EBITDA (Rsm)	21,548	22,780	5.7	24,644	26,235	6.5
Margin (%)	16.7	17.5		17.3	18.3	
PAT (Rsm)	16,732	19,234	15.0	19,360	22,270	15.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	106,342	115,993	129,962	143,162	157,598
Gross Profit	64,539	66,924	77,786	86,613	96,135
Operating EBITDA	20,380	16,095	22,780	26,235	30,733
Depreciation And Amortisation	(3,040)	(3,104)	(2,909)	(3,100)	(3,300)
Operating EBIT	17,340	12,990	19,872	23,135	27,433
Financial Income/(Expense)	(524)	(1,074)	(1,116)	(1,000)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,627	2,161	2,927	3,200	3,500
Profit Before Tax (pre-EI)	18,443	14,078	21,683	25,335	30,133
Exceptional Items		(1,030)	(1,090)		
Pre-tax Profit	18,443	13,048	20,593	25,335	30,133
Taxation	(1,640)	(2,980)	(2,376)	(3,040)	(3,616)
Exceptional Income - post-tax					
Profit After Tax	16,803	10,068	18,217	22,295	26,517
Minority Interests	(347)	(226)	(73)	(25)	50
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	16,456	9,842	18,145	22,270	26,567
Recurring Net Profit	16,456	10,636	19,109	22,270	26,567
Fully Diluted Recurring Net Profit	16,456	10,636	19,109	22,270	26,567

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	20,380	16,095	22,780	26,235	30,733
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,450)	24	(8,171)	(4,775)	(14,229)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,820)	706	(1,359)	(3,065)	(3,566)
Net Interest (Paid)/Received	(524)	(1,074)	(1,116)	(1,000)	(800)
Tax Paid	(4,923)	649	(3,170)	(5,265)	(6,266)
Cashflow From Operations	11,110	16,825	13,251	18,394	12,938
Capex	(3,280)	(2,297)	(3,250)	(4,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	7,830	14,528	10,001	14,394	7,938
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		1,615			
Shares Repurchased					
Dividends Paid	(4,219)	(5,295)	(6,457)	(4,185)	(4,185)
Preferred Dividends					
Other Financing Cashflow	3,866	(8,820)	722	2,200	1,349
Cash Flow From Financing	(354)	(12,501)	(5,735)	(1,985)	(2,836)
Total Cash Generated	7,477	2,027	4,266	12,410	5,102
Free Cashflow To Equity	18,941	31,353	23,251	32,789	20,876
Free Cashflow To Firm	19,464	32,427	24,367	33,789	21,676

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	27,381	29,409	33,674	46,084	51,186
Total Debtors	18,846	21,322	24,693	27,201	29,944
Inventories	30,055	26,075	29,891	32,927	37,823
Total Other Current Assets	8,072	10,491	11,697	12,885	18,912
Total Current Assets	84,354	87,297	99,955	119,097	137,865
Fixed Assets	26,266	25,135	25,477	26,377	28,077
Total Investments	2,317	3,046	3,046	3,046	3,046
Intangible Assets	6,227	4,926	4,926	4,926	4,926
Total Other Non-Current Assets	21,529	17,163	17,163	17,163	17,163
Total Non-current Assets	56,338	50,270	50,611	51,511	53,211
Short-term Debt	25,923	13,072	13,072	13,072	13,072
Current Portion of Long-Term Debt					
Total Creditors	11,734	11,650	12,309	13,304	14,438
Other Current Liabilities	10,396	12,350	11,912	12,875	11,178
Total Current Liabilities	48,053	37,072	37,293	39,250	38,687
Total Long-term Debt	759				(1,351)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,407	6,145	6,145	6,145	6,145
Total Non-current Liabilities	4,165	6,145	6,145	6,145	4,794
Total Provisions					
Total Liabilities	52,219	43,217	43,438	45,395	43,481
Shareholders Equity	86,379	90,453	102,068	120,128	142,561
Minority Interests	2,094	3,897	3,970	3,995	3,945
Total Equity	88,473	94,350	106,038	124,123	146,506

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	19.8%	9.1%	12.0%	10.2%	10.1%
Operating EBITDA Growth	4.3%	(21.0%)	41.5%	15.2%	17.1%
Operating EBITDA Margin	19.2%	13.9%	17.5%	18.3%	19.5%
Net Cash Per Share (Rs)	5.85	136.64	172.31	276.11	330.08
BVPS (Rs)	722.44	756.52	853.66	1,004.71	1,192.33
Gross Interest Cover	33.11	12.10	17.81	23.14	34.29
Effective Tax Rate	8.9%	22.8%	11.5%	12.0%	12.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.93	63.20	64.62	66.15	66.17
Inventory Days	232.17	208.77	195.76	202.73	210.08
Accounts Payables Days	97.91	86.97	83.81	82.66	82.37
ROIC (%)	14.6%	12.0%	16.6%	18.2%	18.4%
ROCE (%)	16.7%	11.7%	17.5%	18.1%	18.6%
Return On Average Assets	13.4%	8.6%	14.0%	14.3%	15.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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