



## India

**ADD** (previously HOLD)

Consensus ratings\*: Buy 10 Hold 8 Sell 5

Current price:	Rs5,571
Target price: ▲	Rs6,150
Previous target:	Rs5,935
Up/downside:	10.4%
InCred Research / Consensus:	8.1%

Reuters:	ALKE.NS
Bloomberg:	ALKEM IN
Market cap:	US\$7,894m
	Rs666,121m
Average daily turnover:	US\$18.0m
	Rs1523.0m
Current shares o/s:	119.6m
Free float:	43.3%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY25F/26F EPS by 1.5%.
- Raise the target price to Rs6,150 (from Rs5,935 earlier).
- Upgrade the stock's rating to ADD.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.9)	(2.0)	29.6
Relative (%)	(6.0)	(0.2)	8.3

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

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# Alkem Laboratories Ltd

## Moving in the right direction

- 2Q performance was a mixed bag. Revenue miss was on account of weak US market & India biz (weak anti-infectives). EBITDA margin was in line at 22%.
- Gross margin improvement is likely to continue. EBITDA margin is expected to see a gradual recovery.
- Upgrade the stock's rating to ADD (from HOLD earlier) with a higher target price of Rs6,150 (Rs5,935 earlier) on a favourable risk-reward ratio.

**Mixed-bag performance**

Alkem Laboratories' (Alkem) 2QFY25 performance was a mixed bag. Revenue & EBITDA were 5% below estimates, but PAT was 4% above estimates. The revenue miss was largely on account of the US business, YoY/QoQ down by 23%/7% (US\$71m vs. an estimated US\$81m). Supply chain problems (leading to a volume decline of 18.7%) and price erosion (of 6%) led to this. While the RoW market was down QoQ (by 2%), India business (+6% YoY vs. an estimated 8% YoY) was impacted due to anti-infectives (posted a 1% volume growth). On a positive note, gross margin (GM) was up 20bp QoQ (the third consecutive quarter of QoQ margin improvement) led by product mix and lower input costs. The EBITDA margin stood at 22%, driven by lower employee costs (-200bp QoQ). Alkem has given guidance of mid-single digit topline growth and EBITDA at 18.5-19% in FY25F.

**Margin recovery happening gradually**

Alkem's gross margin (GM) in FY25F continues to improve, with a third consecutive quarter of QoQ improvement in 2Q. This has happened because of lower API prices and a better product mix. With the Aurobindo Pen-G plant fully commercializing in 4QFY25F, there is further room for GM improvement. Improved efficiency of the US business led to better profitability (YoY) and is now aimed at reaching company-level margin. Also, the pre-operating expenses related to Enzene plant and medtech business are now being revised to Rs0.6bn (Rs1bn earlier), which will help in further margin improvement. We expect these actions to result in q gradual recovery of the EBITDA margin to 20% by FY26F.

**Other highlights**

a) Alkem has commercialized seven biosimilars for Indian market and will commercialize five for global markets. Completed clinical trials of bDenosumab for the US market. b) Trade generics account for 20% of the India portfolio. c) US market – 3QFY25F will have a product launch with a CGT of 180-day marketing exclusivity. d) US market – received approval for Sacubitril/Valsartan. e) Enzene plant to start pre-production in 4QFY25F or 1QFY26F.

**Upgrade to ADD rating with a higher target price of Rs6,150**

Alkem has underperformed the BSE Healthcare Index by almost 14% in the last six months and we now find the risk-reward ratio favourable. We, thus, upgrade the stock's rating to ADD (from HOLD earlier). Our FY25F/26F EPS increased by 1.5% and the target price raised to Rs6,150 from Rs5,935. Slowdown in India & US business is a key downside risk.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	106,342	115,993	126,676	135,433	148,263
Operating EBITDA (Rsm)	20,380	16,095	22,455	26,029	29,962
Net Profit (Rsm)	16,456	9,842	17,958	22,616	25,731
Core EPS (Rs)	137.6	89.0	159.3	189.2	215.2
Core EPS Growth	3.8%	(35.4%)	79.1%	18.7%	13.8%
FD Core P/E (x)	40.48	62.63	34.98	29.45	25.89
DPS (Rs)	34.0	54.0	35.0	35.0	40.0
Dividend Yield	0.61%	0.97%	0.63%	0.63%	0.72%
EV/EBITDA (x)	32.64	40.43	29.46	24.23	20.81
P/FCFE (x)	35.17	21.25	17.96	9.71	32.52
Net Gearing	(0.8%)	(17.3%)	(4.9%)	(28.9%)	(29.4%)
P/BV (x)	7.71	7.36	6.46	5.48	4.65
ROE	20.6%	12.0%	19.7%	20.1%	19.4%
% Change In Core EPS Estimates				1.54%	1.48%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	30,794	30,409	29,026	29,677	34,402	33,239	29,358	30,318	34,147	-1%	13%
Consumption of raw materials	13,070	12,489	12,555	11,986	13,271	13,045	11,074	10,760	12,047	-9%	12%
as % of sales	42.4%	41.1%	43.3%	40.4%	38.6%	39.2%	37.7%	35.5%	35.3%		
Employee costs	5,709	5,254	5,030	5,677	5,554	5,722	5,058	6,023	6,105	10%	1%
as % of sales	18.5%	17.3%	17.3%	19.1%	16.1%	17.2%	17.2%	19.9%	17.9%		
R&D costs	1,300	1,300	1,472	1,202	1,158	1,110	1,757	1,257	1,465	27%	17%
as % of sales	4.2%	4.3%	5.1%	4.1%	3.4%	3.3%	6.0%	4.1%	4.3%		
Other expenditure	6177	5376	6437	6921	6952	6286	7449	6193	7002	1%	13%
as % of sales	20.1%	17.7%	22.2%	23.3%	20.2%	18.9%	25.4%	20.4%	20.5%		
EBITDA	4,539	5,991	3,533	3,892	7,467	7,076	4,020	6,086	7,528	1%	24%
Margin (%)	14.7%	19.7%	12.2%	13.1%	21.7%	21.3%	13.7%	20.1%	22.0%		
Depreciation	774	784	783	724	739	696	834	805	789		
Other income	507	453	687	658	632	936	882	1,203	1,345		
Interest	249	271	289	298	303	255	269	291	281		
PBT	4,023	5,389	3,147	3,529	7,057	7,062	3,799	6,194	7,803	11%	26%
Total tax	546	789	1,440	650	332	506	629	691	783		
Tax rate (%)	13.6%	14.6%	45.8%	18.4%	4.7%	7.2%	16.5%	11.2%	10.0%		
PAT before MI	3,477	4,600	1,707	2,878	6,726	6,556	3,170	5,502	7,020	4%	28%
Minority interest (MI)	-169	-52	33	-11	56	-93	-109	-51	-133		
Adj. PAT before extraordinary items	3,308	4,547	1,740	2,867	6,782	6,463	3,061	5,452	6,886	2%	26%
Extraordinary expenses	0	0	-1,030	0	-577	-513	-125	0	0		
Reported PAT	3,308	4,547	710	2,867	6,205	5,950	2,936	5,452	6,886	11%	26%
No. of shares	119.6	119.6	119.6	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	25.6	45.6	57.6		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	58%	59%	57%	60%	61%	61%	62%	65%	65%	330	21
EBITDA	15%	20%	12%	13%	22%	21%	14%	20%	22%	34	197
Adj. PAT	11%	15%	6%	10%	20%	19%	10%	18%	20%	45	219
Effective tax rate	14%	15%	46%	18%	5%	7%	17%	11%	10%	534	-112

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
North America	6,040	7,612	5,916	6,955	7,675	6,838	6,241	6,416	5,976	-22%	-7%
% total revenue	19.6%	25.0%	20.4%	23.4%	22.3%	20.6%	21.3%	21.2%	17.5%		
ROW	2,251	2,316	2,654	3,191	2,866	3,402	2,855	3,261	3,205	12%	-2%
% total revenue	7.3%	7.6%	9.1%	10.8%	8.3%	10.2%	9.7%	10.8%	9.4%		
India	22,161	19,922	20,113	19,007	23,278	22,328	19,724	20,223	24,610	6%	22%
% total revenue	72.0%	65.5%	69.3%	64.0%	67.7%	67.2%	67.2%	66.7%	72.1%		
Others	342	559	343	524	583	671	538	418	356	-39%	-15%
% total revenue	1.1%	1.8%	1.2%	1.8%	1.7%	2.0%	1.8%	1.4%	1.0%		
Total revenue	30,794	30,409	29,026	29,677	34,402	33,239	29,358	30,318	34,147	-1%	13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	34,147	35,807	(4.6)	36,280	(5.9)
EBITDA (Rsm)	7,528	7,909	(4.8)	7,802	(3.5)
Margin (%)	22.0	22.1		21.5	
PAT (Rsm)	6,886	6,606	4.2	6,731	2.3

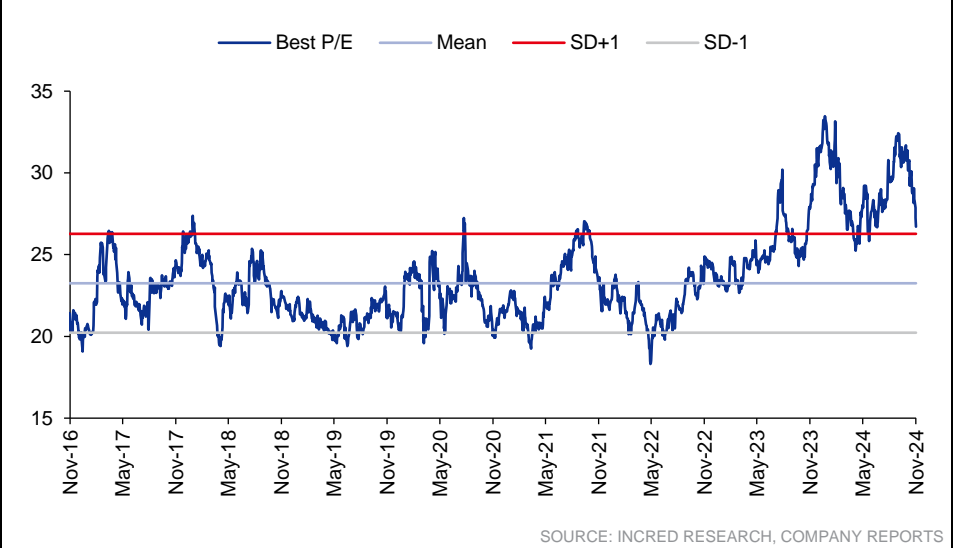
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

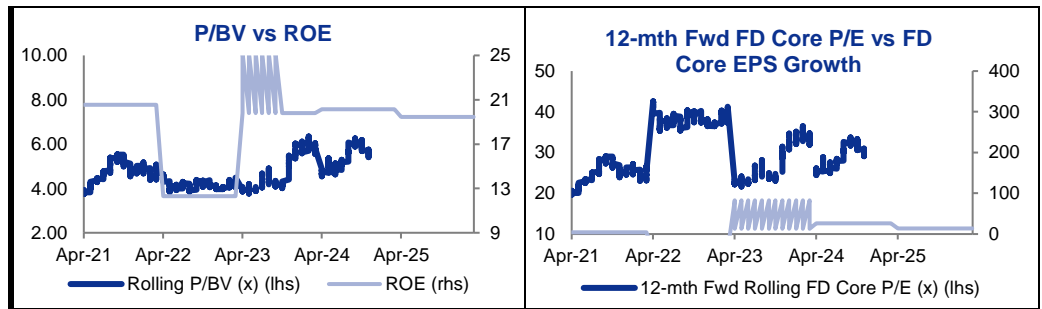
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,37,110	1,35,433	(1.2)	1,50,066	1,48,263	(1.2)
EBITDA (Rsm)	25,638	26,029	1.5	29,525	29,962	1.5
Margin (%)	18.7	19.2		19.7	20.2	
PAT (Rsm)	22,273	22,616	1.5	25,355	25,731	1.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: After the recent price correction, Alkem Laboratories stock trades above SD+1 level**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>106,342</b>	<b>115,993</b>	<b>126,676</b>	<b>135,433</b>	<b>148,263</b>
<b>Gross Profit</b>	<b>64,539</b>	<b>66,924</b>	<b>77,300</b>	<b>86,000</b>	<b>94,888</b>
<b>Operating EBITDA</b>	<b>20,380</b>	<b>16,095</b>	<b>22,455</b>	<b>26,029</b>	<b>29,962</b>
Depreciation And Amortisation	(3,040)	(3,104)	(2,993)	(3,200)	(3,500)
<b>Operating EBIT</b>	<b>17,340</b>	<b>12,990</b>	<b>19,462</b>	<b>22,829</b>	<b>26,462</b>
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
<b>Profit Before Tax (pre-EI)</b>	<b>18,443</b>	<b>14,078</b>	<b>21,446</b>	<b>25,729</b>	<b>29,862</b>
Exceptional Items		(1,030)	(1,215)		
<b>Pre-tax Profit</b>	<b>18,443</b>	<b>13,048</b>	<b>20,231</b>	<b>25,729</b>	<b>29,862</b>
Taxation	(1,640)	(2,980)	(2,117)	(3,087)	(4,181)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>16,803</b>	<b>10,068</b>	<b>18,115</b>	<b>22,641</b>	<b>25,681</b>
Minority Interests	(347)	(226)	(157)	(25)	50
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>16,456</b>	<b>9,842</b>	<b>17,958</b>	<b>22,616</b>	<b>25,731</b>
Recurring Net Profit	16,456	10,636	19,045	22,616	25,731
<b>Fully Diluted Recurring Net Profit</b>	<b>16,456</b>	<b>10,636</b>	<b>19,045</b>	<b>22,616</b>	<b>25,731</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>20,380</b>	<b>16,095</b>	<b>22,455</b>	<b>26,029</b>	<b>29,962</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,450)	24	(517)	13,384	(13,089)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(3,820)	706	(2,457)	(3,112)	(4,131)
Net Interest (Paid)/Received	(524)	(1,074)	(1,124)	(1,100)	(1,100)
Tax Paid	(4,923)	649	(3,227)	(6,012)	(7,531)
<b>Cashflow From Operations</b>	<b>11,110</b>	<b>16,825</b>	<b>19,481</b>	<b>36,300</b>	<b>12,742</b>
Capex	(3,280)	(2,297)	(1,868)	(4,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>7,830</b>	<b>14,528</b>	<b>17,613</b>	<b>32,300</b>	<b>7,742</b>
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	3,430
<b>Cash Flow From Financing</b>	<b>(354)</b>	<b>(12,501)</b>	<b>(29,647)</b>	<b>(1,685)</b>	<b>(755)</b>
Total Cash Generated	7,477	2,027	(12,035)	30,615	6,987
<b>Free Cashflow To Equity</b>	<b>18,941</b>	<b>31,353</b>	<b>37,093</b>	<b>68,600</b>	<b>20,484</b>
<b>Free Cashflow To Firm</b>	<b>19,464</b>	<b>32,427</b>	<b>38,217</b>	<b>69,700</b>	<b>21,584</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	27,381	29,409	17,374	47,989	54,977
Total Debtors	18,846	21,322	22,528	25,732	28,170
Inventories	30,055	26,075	26,612	31,150	35,583
Total Other Current Assets	8,072	10,491	37,602	12,189	17,792
<b>Total Current Assets</b>	<b>84,354</b>	<b>87,297</b>	<b>104,116</b>	<b>117,060</b>	<b>136,521</b>
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
<b>Total Non-current Assets</b>	<b>56,338</b>	<b>50,270</b>	<b>51,633</b>	<b>52,433</b>	<b>53,933</b>
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	12,155	13,135
Other Current Liabilities	10,396	12,350	10,725	11,763	10,169
<b>Total Current Liabilities</b>	<b>48,053</b>	<b>37,072</b>	<b>39,946</b>	<b>35,658</b>	<b>35,043</b>
Total Long-term Debt	759		400		30
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,407	6,145	8,260	8,260	8,260
<b>Total Non-current Liabilities</b>	<b>4,165</b>	<b>6,145</b>	<b>8,660</b>	<b>8,260</b>	<b>8,290</b>
Total Provisions					
<b>Total Liabilities</b>	<b>52,219</b>	<b>43,217</b>	<b>48,605</b>	<b>43,918</b>	<b>43,333</b>
Shareholders Equity	86,379	90,453	103,121	121,527	143,123
Minority Interests	2,094	3,897	4,023	4,048	3,998
<b>Total Equity</b>	<b>88,473</b>	<b>94,350</b>	<b>107,144</b>	<b>125,575</b>	<b>147,122</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	19.8%	9.1%	9.2%	6.9%	9.5%
Operating EBITDA Growth	4.3%	(21.0%)	39.5%	15.9%	15.1%
Operating EBITDA Margin	19.2%	13.9%	17.7%	19.2%	20.2%
Net Cash Per Share (Rs)	5.85	136.64	43.78	303.18	361.37
BVPS (Rs)	722.44	756.52	862.46	1,016.41	1,197.03
Gross Interest Cover	33.11	12.10	17.31	20.75	24.06
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	65.03	66.35
Inventory Days	232.17	208.77	194.74	213.25	228.17
Accounts Payables Days	97.91	86.97	107.67	109.41	86.47
ROIC (%)	14.6%	12.0%	13.6%	18.1%	18.2%
ROCE (%)	16.7%	11.7%	17.2%	17.8%	17.9%
Return On Average Assets	13.4%	8.6%	13.8%	14.4%	14.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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#### Recommendation Framework

##### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.  
**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.  
**Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.  
**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.  
**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.  
**Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.  
**Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.