BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

30 May 2024

RESEARCH

ALKEM LABS | TARGET: Rs 4,450 | -15% | SELL

Misses estimates; steep sequential margin decline

JK LAKSHMI CEMENT | TARGET: Rs 710 | -11% | SELL

Margins gain, volume flat; no major respite, retain SELL

GREENLAM INDUSTRIES | TARGET: Rs 550 | -6% | HOLD

Soft quarter; particleboard project cost revised up again

HINDWARE HOME INNOVATION | TARGET: Rs 600 | +51% | BUY

In-line quarter; upbeat outlook across segments

Daily macro indicators

Indicator	27-May	28-May	Chg (%)
US 10Y yield (%)	4.47	4.55	9bps
India 10Y yield (%)	6.99	7.00	1bps
USD/INR	83.14	83.18	(0.1)
Brent Crude (US$/bbl)	83.1	84.2	1.3
Dow	39,070	38,853	(0.6)
Hang Seng	18,827	18,821	0.0
Sensex	75,391	75,170	(0.3)
India FII (US$ mn)	**24-May**	**27-May**	**Chg ($ mn)**
FII-D	78.5	357.7	279.1
FII-E	(112.7)	83.8	196.5

Source: Bank of Baroda Economics Research

SUMMARY

ALKEM LABS

- ALKEM reported a weak fourth quarter with EBITDA/PAT missing Bloomberg consensus by 9%/16% to Rs 4.0bn/2.9bn
- Gross margin remains strong but EBITDA margin contracted 760bps QoQ to 13.7% due to higher R&D and other expenses
- We pare our FY25E-FY26E EBITDA 5-6% and reduce our TP to Rs 4,450 based on an unchanged EV/EBITDA of 18x. Maintain SELL

Click here **for the full report.**

JK LAKSHMI CEMENT

- Q4 volumes fell 5% YoY as capacity constraints restricted volume even to cater to steady demand; realisations flat YoY despite weak volumes
- Operating cost declined 6%, driven by lower energy cost helping EBITDA margin improve to 16.7% from a low base of ~11% YoY
- Capex increased to maintain growth, may add to balance sheet stress; we now value JKLC at 9x EV/EBITDA with higher TP of Rs 710

Click here **for the full report.**

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GREENLAM INDUSTRIES

- Missed our EBITDA estimates by 4% for Q4FY24 on weak laminates demand from export market
- Management maintained revenue growth guidance at 20% YoY for FY25; EBITDA margin to be flat in FY25
- Maintain HOLD amid weak return ratio profile and expensive valuations; raise TP by 10% to Rs 550 due to valuation roll forward

Click here for the full report.

HINDWARE HOME INNOVATION

- Beat our EBITDA estimate by 4.5% mainly due to better-than-expected plastic pipe sales volume
- Management provided upbeat outlook in anticipation of recovery in demand from Q3FY24 and margin improvement levers across segment
- Maintain BUY with unchanged TP of Rs 600 on strong earnings growth prospects and reasonable valuations

Click here for the full report.

RESULT REVIEW

SELL
TP: Rs 4,450 | ∀ 15%

ALKEM LABS | Pharmaceuticals | 29 May 2024

Misses estimates; steep sequential margin decline

- **ALKEM reported a weak fourth quarter with EBITDA/PAT missing Bloomberg consensus by 9%/16% to Rs 4.0bn/2.9bn**
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Slowdown in acute therapies takes a toll on domestic business: ALKEM reported muted revenue growth in Q4 of 1% YoY (-12% QoQ) to Rs 29.4bn, missing Bloomberg consensus estimate by 8%. This was on account of continued slowdown in acute therapies in the Indian Pharma Market (IPM) due to base correction and some impact of seasonality which resulted in domestic revenue decline of -2%/-12% YoY/QoQ for ALKEM. Sporadic season for largest therapy (anti-infectives) especially in eastern India impacted domestic revenues as well. The company outperformed IPM growth in Anti-diabetic, Derma and VMN therapies in Q4FY24, and in Anti-diabetic, Derma, GI and VMN therapies in FY24. For the full year, the India business grew at 5%.

Seasonality & supply chain impact on US business: US business declined 9% QoQ in constant currency (cc) terms to US$ 75mn due to seasonality impact and some supply issues that lasted two months. The US business reported 8% growth for the year to US$ 334mn. Positive momentum in non-US international markets, with a stabilisation of price erosion in the US at low single digits, contributed to growth in international markets for the full year.

Margin for FY25 to remain in line with FY24: ALKEM ended the year with gross and EBITDA margin gains over FY23 due to softening raw material prices and reduced intensity of US price erosion in addition to operational efficiencies. EBITDA margin in Q4, however, came short of expectations despite better gross margins. Gross margin improved QoQ/YoY by +150bps/+550bps to 62.3%, but EBITDA margin contracted -760bps QoQ and improved +150bps YoY. The steep sequential decline in EBITDA margin (-760bps) was on account of higher R&D and higher other expenses along with decline in revenues.

Maintain SELL; revise TP to Rs 4,450: We lower our FY25-FY26 estimates by 5-6% to factor in higher opex and margin outlook and lower our TP to Rs 4,450 (Rs 4,800) based on an unchanged EV/EBITDA of 18x – in line with the stock's five-year average. The current valuations look expensive at 24.4x/20.9x FY25E/FY26E EV/EBITDA. Thus, we maintain a SELL rating on the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALKEM IN/Rs 5,262
Market cap	US$ 7.7bn
Free float	41%
3M ADV	US$ 11.3mn
52wk high/low	Rs 5,579/Rs 3,307
Promoter/FPI/DII	57%/6%/16%

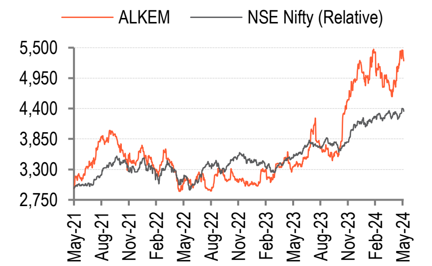
Source: NSE | Price as of 29 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	126,677	141,464	154,594
EBITDA (Rs mn)	22,456	25,453	29,383
Adj. net profit (Rs mn)	19,174	19,126	23,730
Adj. EPS (Rs)	160.4	160.0	198.5
Consensus EPS (Rs)	160.4	181.0	210.0
Adj. ROAE (%)	23.2	20.2	21.6
Adj. P/E (x)	32.8	32.9	26.5
EV/EBITDA (x)	27.7	24.4	20.9
Adj. EPS growth (%)	76.4	(0.2)	24.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

SELL

TP: Rs 710 | ⩔ 11%

JK LAKSHMI CEMENT | Cement | 29 May 2024

Margins gain, volume flat; no major respite, retain SELL

- **Q4 volumes fell 5% YoY as capacity constraints restricted volume even to cater to steady demand; realisations flat YoY despite weak volumes**
- **Operating cost declined 6%, driven by lower energy cost helping EBITDA margin improve to 16.7% from a low base of ~11% YoY**
- **Capex increased to maintain growth, may add to balance sheet stress; we now value JKLC at 9x EV/EBITDA with higher TP of Rs 710**

Milind Raginwar
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Flat realisations despite fall in volume: JKLC reported 5% YoY revenue fall (+4% QoQ) to Rs 16.5bn in Q4FY24 as volumes fell by 5% YoY (+8% QoQ) to 2.55mt (standalone) due to limited supply given restricted capacity available. Realisations (RMC-adjusted) were flat despite weak volume at Rs 6,122/t YoY (down 5% QoQ).

Operating cost softens: Operating cost fell 6% YoY/QoQ to Rs 5,380/t as the fall in energy-adjusted raw material cost by 19%/10% YoY/QoQ to Rs 2,157/t was offset by higher purchase of traded goods cost that rose by 16% YoY due to limited in-house availability. EBITDA for the quarter grew 46%/14% YoY/QoQ to ~Rs 2.8bn with margin improvement to 16.7%, mainly off a weak base. EBITDA/t shot up 54% YoY (5% QoQ) to Rs 1,080 and adj. PAT rose 46%/15% YoY/QoQ to Rs 1.4bn.

Expansion to drive growth: JKLC commissioned the 2.5mt grinding unit (GU) expansion at Udaipur in Mar'24. Its 1.35mt GU expansion in Surat will now be completed in tranches in FY25/FY26. To expand its clinker/cement capacity JKLC is setting up a 2.3mt clinker line at Durg (Chhattisgarh), 4.6mt of grinding capacity at Durg (1.2mt) and three split GUs at Prayagraj (Uttar Pradesh)/Madhubani (Bihar)/Patratu (Jharkhand) of 1.2mt/1.2mt/1mt. Management expects phase-I (1.2mt each at Prayagraj and Durg) to be complete by FY26-end and the rest by FY27E. The company expects to commission expansion in North-east India over the next three years.

Maintain SELL: We tweak FY25E EBITDA to factor in a slow H1, but raise our FY26 estimates by ~2.5% and adj. PAT by 2%/5% to factor in the benefit of easing energy costs and other company-initiated cost savings (railway siding in the Durg facility). In our view, JKLC's performance will be determined by its ability to deliver volumes from the new capacity as its capex is largely backed by debt. Retaining lost market share during the capacity constraint phase will be a key challenge in competitive conditions. We now value JKLC at 9x (from 8x) EV/EBITDA FY26E earnings and arrive at a TP of Rs 710 (from Rs 637). We retain our SELL rating. Growing competition in JKLC's operating regions, balance sheet pressure in the capex phase and weak execution capabilities in the past remain key challenges.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JKLC IN/Rs 798
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.8mn
52wk high/low	Rs 1,000/Rs 607
Promoter/FPI/DII	46%/14%/26%

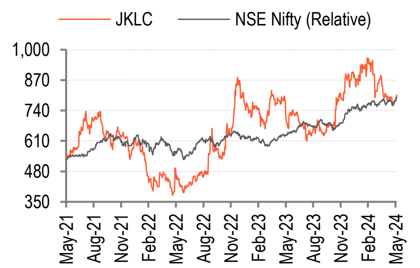
Source: NSE | Price as of 28 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	63,198	68,635	71,756
EBITDA (Rs mn)	8,637	9,769	11,028
Adj. net profit (Rs mn)	4,243	4,892	5,629
Adj. EPS (Rs)	36.1	41.6	47.8
Consensus EPS (Rs)	36.1	46.1	52.5
Adj. ROAE (%)	14.4	14.9	15.1
Adj. P/E (x)	22.1	19.2	16.7
EV/EBITDA (x)	10.3	10.4	8.4
Adj. EPS growth (%)	28.3	15.3	15.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 550 | ∨ 6%

GREENLAM INDUSTRIES | Building Materials | 29 May 2024

Soft quarter; particleboard project cost revised up again

- **Missed our EBITDA estimates by 4% for Q4FY24 on weak laminates demand from export market**
- **Management maintained revenue growth guidance at 20% YoY for FY25; EBITDA margin to be flat in FY25**
- **Maintain HOLD amid weak return ratio profile and expensive valuations; raise TP by 10% to Rs 550 due to valuation roll forward**

Utkarsh Nopany
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Misses estimates: GRLM missed our revenue/EBITDA estimates by 4.1%/3.8% for Q4FY24 due to lower-than-expected laminate revenue (+9.2% YoY vs +17.8% estimated). Overall, GRLM revenue/EBITDA grew by 16.9%/12.8% YoY, but APAT was down 2.7% YoY in Q4FY24 due to the higher capital charge related to the newly-commissioned laminate and plywood project.

Key highlights: Despite the start of a new greenfield laminate unit in Q2FY24, GRLM laminate volume grew at 11.6% YoY (5Y CAGR: +6.8%) in Q4FY24 due to weak demand from the export market. Laminate domestic volume grew by 15% YoY whereas exports volume grew by only 6.3% YoY in FY24. The Plywood segment reported operating loss for the fourth consecutive quarter due to the slow ramp-up of the plant (operated at 23% in Q4FY24). The particleboard project's cost has been raised again to Rs 8.75bn from Rs 7.75bn due to the increase in capacity (from 231,000 CBM to 292,380 CBM) and the delay in project completion timeline (from Q2FY25 to Q3FY25).

Outlook: GRLM has maintained its revenue growth guidance of 20% YoY in FY25. It expects EBITDA margin to be flat in FY25 and likely improve from FY26 with the ramp-up of new projects. Laminate volume is expected to grow at double-digit rate with EBITDA margin of 16% in FY25. GRLM believes the particleboard project will reach breakeven point in FY26. The company plans to spend Rs 3bn in FY25 (Rs 2.5bn for the particleboard project + Rs 0.5bn for maintenance) and Rs 0.5bn in FY26. It expects net debt to peak at Rs 9.25bn-9.5bn in FY25.

Maintain HOLD, raise TP by 10% to Rs 550: We maintain our HOLD rating on the stock due to its weak return ratio profile (ROE likely to be in the low double-digits in FY25E and FY26E) and expensive valuations (trades at 52.1x on 1Y forward P/E vs 5Y average of 31.9x). We have reduced our EPS estimates by 7.0%/8.6% for FY25/FY26 due to the weak Q4FY24 result and delay in the particleboard project, but we have increased our TP to Rs 550 (from Rs 500) due to the roll forward of our valuation multiple from Sep'25 to Mar'26. Our target P/E remains unchanged at 35x on Mar'26E EPS.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	GRLM IN/Rs 588
Market cap	US$ 912.9mn
Free float	49%
3M ADV	US$ 0.7mn
52wk high/low	Rs 662/Rs 356
Promoter/FPI/DII	51%/16%/1%

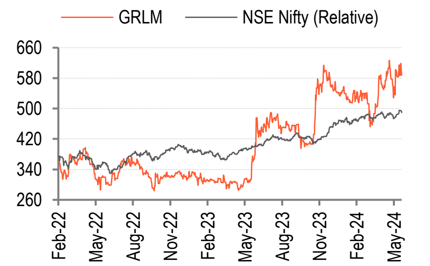
Source: NSE | Price as of 29 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,063	26,900	32,886
EBITDA (Rs mn)	2,947	3,475	4,520
Adj. net profit (Rs mn)	1,363	1,327	2,004
Adj. EPS (Rs)	10.7	10.4	15.7
Consensus EPS (Rs)	10.7	13.9	20.8
Adj. ROAE (%)	13.3	11.7	15.7
Adj. P/E (x)	55.0	56.5	37.4
EV/EBITDA (x)	24.6	20.0	14.7
Adj. EPS growth (%)	10.9	(2.6)	51.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 600 | ⮝ 51%

HINDWARE HOME INNOVATION | Building Materials | 29 May 2024

In-line quarter; upbeat outlook across segments

- **Beat our EBITDA estimate by 4.5% mainly due to better-than-expected plastic pipe sales volume**
- **Management provided upbeat outlook in anticipation of recovery in demand from Q3FY24 and margin improvement levers across segment**
- **Maintain BUY with unchanged TP of Rs 600 on strong earnings growth prospects and reasonable valuations**

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In-line quarter: HINDWARE beat our revenue estimate by 2.8% in Q4FY24 mainly due to better-than-expected plastic pipe volume growth (+30.8% YoY vs +10% estimated). However, EBITDA was lower than our estimate by 18.3% mainly due to the impact of impairment loss of Rs 156mn related to the discontinuation of loss-making retail business in Q4FY24. After adjusting for impairment loss, adjusted EBITDA was ahead of our estimate by 4.5% for Q4FY24. Overall, HINDWARE's revenue grew by 0.9% YoY, but adjusted EBITDA fell 12.4% YoY in Q4FY24 due to sharp operating loss in consumer appliance segment.

Key highlights: Bathware EBITDA grew by 3.2% YoY in Q4 driven by higher revenue (+3.1%) with flat margin (+1bps YoY to 15.3%). Pipe EBITDA grew by 11.9% YoY in Q4 driven by higher volumes (+30.8%) with flat margin (+8bps YoY to 10.8%). Consumer appliances revenue fell sharply by 15.1% YoY and reported operating loss of Rs 125mn in Q4FY24 owing to weak demand and rationalisation of a few non-performing product categories. Net debt fell to Rs 8.52bn in Mar'24 from Rs 9.34 bn in Dec'23 due to better inventory management.

Outlook: We expect demand conditions to improve from Q3FY25. The company expects bathware revenue to grow at 10-15% and margin to improve by 100-200bps over the next 18-24 months. The company aims to grow its pipe volume at 15-17% YoY and margin to improve by 100bps in FY25. It expects the consumer appliances division's performance to turn around over the next two quarters. The company plans to raise equity in future to deleverage its balance sheet.

Maintain BUY with unchanged TP of Rs 600: We maintain our BUY rating on the stock due to strong earnings growth prospects (in anticipation of healthy revenue growth prospect with levers of margin improvement for each segments) and reasonable valuations (stock trades at 29.1x on 1Y forward P/E vs historical average of 41.6x). We have reduced our EPS estimates by 26.8%/23.5% for FY25/FY26, but have kept our TP unchanged at Rs 600 as we roll forward our valuation from Sep'25 to Mar'26. We value HINDWARE at an unchanged P/E of 30x on Mar'26E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HINDWARE IN/Rs 397
Market cap	US$ 349.1mn
Free float	49%
3M ADV	US$ 1.0mn
52wk high/low	Rs 664/Rs 315
Promoter/FPI/DII	51%/7%/9%

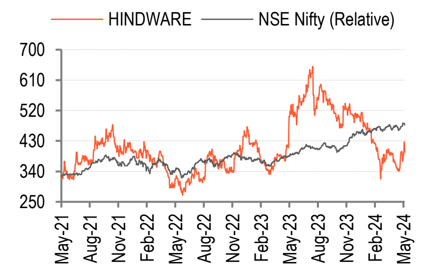
Source: NSE | Price as of 29 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,000	30,738	34,715
EBITDA (Rs mn)	2,377	3,316	4,106
Adj. net profit (Rs mn)	286	893	1,446
Adj. EPS (Rs)	4.0	12.4	20.0
Consensus EPS (Rs)	4.0	19.8	28.1
Adj. ROAE (%)	4.8	13.8	19.1
Adj. P/E (x)	100.3	32.1	19.8
EV/EBITDA (x)	10.4	6.4	5.2
Adj. EPS growth (%)	(50.2)	212.3	61.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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