FIRST LIGHT

08 November 2023

RESEARCH

ALKEM LABS | TARGET: Rs 3,850 | -4% | HOLD

Sizeable margin gains; tax guided to reduce – raise to HOLD

JK CEMENT | TARGET: Rs 3,578 | +6% | HOLD

Healthy performance; positive outlook

ZYDUS WELLNESS | TARGET: Rs 1,556 | +0% | HOLD

Subdued growth in a seasonally weak quarter

JK LAKSHMI CEMENT | TARGET: Rs 551 | -29% | SELL

Some respite but challenges continue

Daily macro indicators

Indicator	3-Nov	6-Nov	Chg (%)
US 10Y yield (%)	4.57	4.64	7bps
India 10Y yield (%)	7.31	7.31	(1bps)
USD/INR	83.29	83.22	0.1
Brent Crude (US$/bbl)	84.9	85.2	0.3
Dow	34,061	34,096	0.1
Hang Seng	17,664	17,967	1.7
Sensex	64,364	64,959	0.9
India FII (US$ mn)	**2-Nov**	**3-Nov**	**Chg ($ mn)**
FII-D	131.7	67.5	(64.2)
FII-E	(142.7)	(10.3)	132.4

Source: Bank of Baroda Economics Research

SUMMARY

ALKEM LABS

- Q2 EBITDA/PAT outstripped consensus by 44%/54% on higher margins, strong US growth and low taxes
- Margin guidance remains cautious at ~59%/16.5% on gross/EBITDA level for FY24; tax rate guided to stay low at 12-15%
- Our TP rises to Rs 3,850 (vs Rs 3,300) as we hike FY24-FY25 EBITDA estimates by 9%/14%; upgrade from SELL to HOLD

Click here for the full report.

JK CEMENT

- Q2 revenue grew 20% YoY to Rs 25.7bn as grey cement volumes surged 22% to 3.9mt
- EBITDA climbed 50% YoY to Rs 4.5bn with 350bps margin expansion to 17.4%
- Our TP rises to Rs 3,578 (vs. Rs 3,474) based on revised estimates and a higher 13x FY25E EV/EBITDA multiple (vs. 12.5x); retain HOLD

Click here for the full report.

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ZYDUS WELLNESS

- Flattish volume growth in Q2 owing to muted performance in glucose and sweetener categories
- Gross margin expands but EBITDA margin remains unchanged YoY at 3.8% owing to higher overheads
- Revival in HFD, strong international sales and gross margin expansion bode well; maintain HOLD, TP Rs 1,556 (unchanged)

Click here for the full report.

JK LAKSHMI CEMENT

- Q2 topline grew 12% YoY led by ~10% volume growth; realisation flat due to price hikes in eastern region
- Cost benefit marginal as 4% savings on fuel (raw material adjusted) were offset by higher logistics and inter-unit purchases
- Maintain SELL for a TP of Rs 551 (unchanged) as long-term challenges continue

Click here for the full report.

HOLD
TP: Rs 3,850 | ∀ 4%

ALKEM LABS | Pharmaceuticals | 08 November 2023

Sizeable margin gains; tax guided to reduce – raise to HOLD

- **Q2 EBITDA/PAT outstripped consensus by 44%/54% on higher margins, strong US growth and low taxes**
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Strong US growth aids revenue, margin gains lift PAT: ALKEM reported healthy revenue growth of 12% YoY to Rs 34.4bn in Q2FY24 led by the US business which grew 24% YoY (+9% QoQ) to US$ 92mn. Management highlighted that the US had no one-off sales (barring some seasonality benefit) and it was a better product mix, easing raw material costs and moderating price erosion that lent a fillip to the quarter. Cost-saving measures saw gross/EBITDA margins swell 390bps/700bps YoY to 61.4%/ 21.7%. Margin gains and a lower tax rate propelled PAT up 88% YoY to Rs 6.2bn.

India business grows despite slowdown in acute therapies: ALKEM's revenue was further supported by 5% YoY growth in India business despite an industry-wide slowdown in acute therapies on account of a delayed and sporadic monsoon. ALKEM slightly underperformed the market in anti-infectives, pain and dermatology but outperformed in antidiabetics, gastrointestinal, vitamins, minerals & nutrients (VMN), neurology and cardiac therapies. Trade generics formed ~20% of revenue and grew 6-7% YoY. Chronic therapies fared well, especially antidiabetic (+23% YoY), cardiac (+9.6%) and neurology (+9.1%).

Margin guidance conservative despite strong H1: Alkem closed H1FY24 with gross/EBITDA margins of 60.6%/17.7%. Even so, considering a better product mix than usual in Q2 and "supernormal" operating margins, management conservatively retains its FY24 margin guidance of 59-59.5%/16.5%, also allowing for historically weaker profit trends in the fourth quarter. Ongoing cost-saving measures aided Q2 margins by way of low R&D & employee cost and reduced overheads as a percentage of revenue, apart from operating leverage upon recovery in the international business. On the tax front, management expects a low 12-15% tax rate for FY24 vs. 18% earlier.

Upgrade to HOLD: We raise our FY24/FY25 EBITDA estimates by 9%/14% and hike our operating margin assumptions by 100-200bps to incorporate recovery in the US and international business and an improving margin profile. This takes our TP to Rs 3,850 (from Rs 3,300), based on an unchanged FY25E EV/EBITDA multiple of 16x, a 10% discount to the stock's 5Y average. As the stock now offers slight upside potential, we upgrade from SELL to HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	ALKEM IN/Rs 4,027
Market cap	US$ 5.9bn
Free float	41%
3M ADV	US$ 7.6mn
52wk high/low	Rs 4,243/Rs 2,940
Promoter/FPI/DII	57%/6%/16%

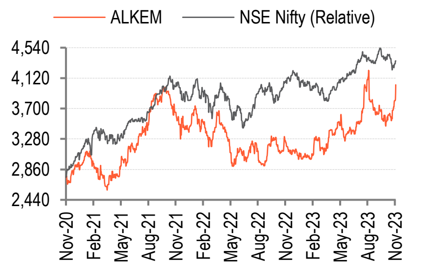
Source: NSE | Price as of 7 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	115,993	131,776	145,807
EBITDA (Rs mn)	16,095	22,365	26,943
Adj. net profit (Rs mn)	10,872	18,112	21,727
Adj. EPS (Rs)	90.9	151.5	181.7
Consensus EPS (Rs)	90.9	127.3	155.7
Adj. ROAE (%)	14.4	21.7	22.3
Adj. P/E (x)	44.3	26.6	22.2
EV/EBITDA (x)	29.7	21.2	17.1
Adj. EPS growth (%)	(34.5)	66.6	20.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 3,578 | ⮝ 6%

JK CEMENT | Cement | 08 November 2023

Healthy performance; positive outlook

- **Q2 revenue grew 20% YoY to Rs 25.7bn as grey cement volumes surged 22% to 3.9mt**
- **EBITDA climbed 50% YoY to Rs 4.5bn with 350bps margin expansion to 17.4%**
- **Our TP rises to Rs 3,578 (vs. Rs 3,474) based on revised estimates and a higher 13x FY25E EV/EBITDA multiple (vs. 12.5x); retain HOLD**

Milind Raginwar | Shree Kirloskar
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Healthy topline growth: JKCE reported 20% YoY (-2% QoQ) standalone revenue growth to Rs 25.7bn in Q2FY24. Grey cement volumes at 3.9mn tonnes jumped 22% YoY (-4% QoQ) while realisation improved 3% YoY (flat QoQ) to Rs 4,985/t due to a better product mix. White cement volumes (including putty) fell 3.1% YoY (+2% QoQ) to 0.4mt and realisation stayed flat at Rs 12,568/t.

Margins recover on lower pet coke prices: Operating costs decreased 3% YoY (-1% QoQ) to Rs 4,890/t as raw material-adjusted energy cost fell 10% (-6% QoQ) to Rs 2,186/t. Logistics cost softened 3% YoY (-6% QoQ) to Rs 1,160/t on lower lead time and a high base effect due to the seeding of new markets. EBITDA rose 50% YoY (+11% QoQ) to Rs 4.5bn with margin gains of 350ps YoY (+205bps QoQ) to 17.4%. JKCE saw an additional one-off maintenance charge of Rs 0.15-0.2bn due to scheduled maintenance. Aggregate EBITDA/t climbed 26% YoY (+15% QoQ) to Rs 1,028/t and adj. PAT increased 43% YoY (+27% QoQ) to Rs 1.8bn.

Expansion plans on track: JKCE's 1.5mtpa greenfield Ujjain expansion is scheduled to be commissioned by Q3FY24 and the 2mt greenfield Panna expansion is due by Q2FY25. Panna clinker debottlenecking is complete and undergoing trial runs; it is to be used for production from Q4FY24. Management expects clinker capacity to reach 24mt by FY25 with ~85% utilisation. Additionally, the 18MW WHRS capacity at Karnataka is expected to come online by Q3FY24.

Positives priced in, maintain HOLD: We revise our FY24/FY25 EBITDA estimates by +7%/+2% to incorporate the healthy H1FY24 performance and improved outlook for FY25 as new capacities kick in. Upon factoring in higher depreciation and interest payment following capex execution, EPS for our forecast years moves down by 9%/11%. Even so, our TP rises to Rs 3,578 (from Rs 3,474) as we raise our FY25E EV/EBITDA multiple to 13x (from 12.5x) to account for JKCE's healthy growth outlook and steady balance sheet. Maintain HOLD as the positives appear priced in at current valuations of 12x FY25E EV/EBITDA.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JKCE IN/Rs 3,365
Market cap	US$ 3.2bn
Free float	54%
3M ADV	US$ 5.1mn
52wk high/low	Rs 3,476/Rs 2,540
Promoter/FPI/DII	46%/16%/22%

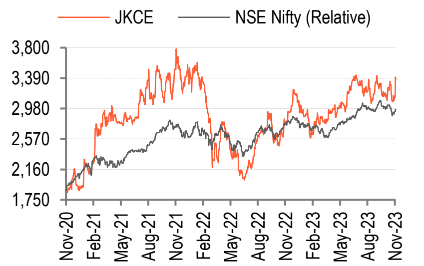
Source: NSE | Price as of 7 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,768	1,09,319	1,27,032
EBITDA (Rs mn)	11,175	17,964	23,918
Adj. net profit (Rs mn)	5,626	7,999	10,887
Adj. EPS (Rs)	72.8	103.5	140.9
Consensus EPS (Rs)	72.8	109.0	138.0
Adj. ROAE (%)	12.9	16.2	18.6
Adj. P/E (x)	46.2	32.5	23.9
EV/EBITDA (x)	25.6	16.2	12.2
Adj. EPS growth (%)	(26.0)	42.2	36.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 1,556 | ⮝ 0%

ZYDUS WELLNESS | Consumer Staples | 07 November 2023

Subdued growth in a seasonally weak quarter

- **Flattish volume growth in Q2 owing to muted performance in glucose and sweetener categories**
- **Gross margin expands but EBITDA margin remains unchanged YoY at 3.8% owing to higher overheads**
- **Revival in HFD, strong international sales and gross margin expansion bode well; maintain HOLD, TP Rs 1,556 (unchanged)**

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Soft performance amid seasonal weakness: ZYWL reported only 2% YoY revenue growth to Rs 4.4bn in Q2FY24 owing to uneven rain distribution that affected offtake during the quarter. Volume growth was flat despite a stable operating environment, as demand revival remains sluggish. The company did maintain leadership in four brands – *Sugar Free*, *Glucon-D*, *Everyuth* (scrub and peel-off face mask), and *Nycil*. It also continues to strengthen sales on new-age platforms with the revenue contribution from e-commerce rising to 10% from 8% in Q2FY23.

Gross margin improves on lower input cost: Gross margin expanded 190bps YoY to 45.2% as key commodity prices continued to moderate sequentially during Q2 and the benefits of calibrated price hikes kicked in. EBITDA margin, however, was unchanged YoY at 3.8% as other expenses increased 11% YoY and employee cost rose 11% during the quarter. Reported PAT fell 30% YoY to Rs 59mn due to a deferred tax liability on non-cash items.

International markets continue to perform amid headwinds: ZYWL reported strong double-digit growth in international markets during H1FY24, barring Nigeria business which continued to suffer from currency devaluation. The company is targeting 8-10% revenue from international markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% revenue share. The company expects to launch a range of new products in Q3FY24 in its *Sugar Free D'lite* portfolio in international markets.

Maintain HOLD: ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the health food drink (HFD) and personal care businesses. Gross margin improved during the quarter though higher employee and other expenses kept operating margin flat. Considering the company's commitment to broaden the portfolio and expand margins over the near-to-mid-term, we retain our HOLD rating with an unchanged TP of Rs 1,556. We continue to value the stock at 22x FY25E EPS – in line with the 10Y average multiple.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,556
Market cap	US$ 1.2bn
Free float	21%
3M ADV	US$ 1.2mn
52wk high/low	Rs 1,790/Rs 1,370
Promoter/FPI/DII	69%/3%/28%

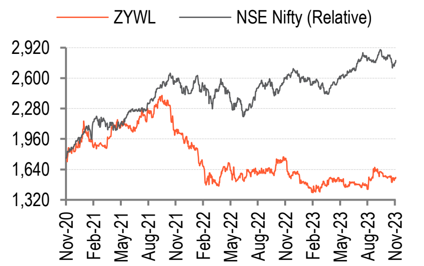
Source: NSE | Price as of 6 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	22,549	24,090	26,996
EBITDA (Rs mn)	3,373	3,564	4,801
Adj. net profit (Rs mn)	3,205	3,392	4,503
Adj. EPS (Rs)	50.4	53.3	70.8
Consensus EPS (Rs)	50.4	60.2	71.0
Adj. ROAE (%)	6.1	6.3	7.9
Adj. P/E (x)	30.9	29.2	22.0
EV/EBITDA (x)	29.3	27.8	20.6
Adj. EPS growth (%)	0.5	9.2	32.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

SELL
TP: Rs 551 | ∀ 29%

JK LAKSHMI CEMENT | Cement | 07 November 2023

Some respite but challenges continue

- **Q2 topline grew 12% YoY led by ~10% volume growth; realisation flat due to price hikes in eastern region**
- **Cost benefit marginal as 4% savings on fuel (raw material adjusted) were offset by higher logistics and inter-unit purchases**
- **Maintain SELL for a TP of Rs 551 (unchanged) as long-term challenges continue**

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Volumes support topline: JKLC reported 12% YoY (-11% QoQ) revenue growth to Rs 14.5bn in Q2FY24 as volumes grew 9.8% (-13% QoQ) to 2.5mn tonnes whereas realisations stayed flat YoY at Rs 5,500/t (+3% QoQ). Key markets such as Gujarat and Rajasthan saw adverse weather impacts due to floods in the early part of the quarter. Realisation gains QoQ came from a late spike in eastern market prices.

Cost respite marginal despite savings on fuel: Operating cost/tonne was flattish YoY at Rs 5,032/t despite energy-adjusted raw material cost falling by 4% to Rs 2,210/t on a higher base. Limited in-house clinker prompted purchases from UCWL (+4% YoY). Logistics cost jumped 4% YoY to Rs 1,125/t due to higher road transport and other expenditure increased 9% to ~Rs 1.6bn.

Margins improve off lower base: EBITDA increased 29% YoY (+7% QoQ) to Rs 1.8bn with 170bps improvement in margin to 12.3% mainly off a weak base. Similarly, EBITDA/t grew 17% YoY (+23% QoQ) to Rs 705/t and adj. PAT rose 40% YoY (+10% QoQ) to Rs 830mn. Management has set an ambitious EBITDA/t target of Rs 1,000/t in the medium term.

Expansion plans: Subsidiary UCWL's 1.5mt clinker unit was commissioned in Q2FY24 and its 2.5mt cement plant expansion is due in early FY25. JKLC is setting up an additional 1.35mt grinding unit at the Surat plant by H1FY26. It further plans 6mt of greenfield capacity, for which it has been allocated two mines in Nagaur (Rajasthan) and Kutch (Gujarat). The conveyor belt at the Durg plant is still awaiting clearance while the railway siding at the same location has received approvals.

Maintain SELL: Despite a respite in Q2, we believe long-term challenges continue for JKLC. The company plans to fund capex through debt and estimates that this will take the net debt/EBITDA ratio to a peak of 4x. We also expect competition in key markets to keep margins under pressure. Factoring in these negatives, we maintain SELL and continue to value the stock at 8x FY25E EV/EBITDA for a TP of Rs 551 (unchanged). Our TP implies a replacement cost of Rs 6.6bn/mt, a 6% discount to the industry.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	JKLC IN/Rs 774
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 3.1mn
52wk high/low	Rs 897/Rs 607
Promoter/FPI/DII	46%/14%/26%

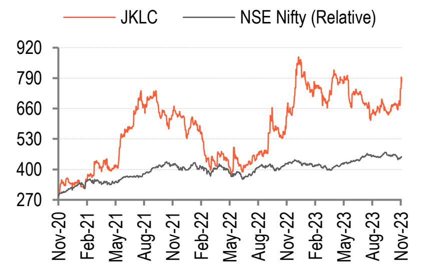
Source: NSE | Price as of 7 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	60,711	67,356	73,729
EBITDA (Rs mn)	7,043	7,869	9,555
Adj. net profit (Rs mn)	3,308	3,875	4,708
Adj. EPS (Rs)	28.1	32.9	40.0
Consensus EPS (Rs)	28.1	44.2	51.1
Adj. ROAE (%)	12.6	13.2	14.4
Adj. P/E (x)	27.5	23.5	19.3
EV/EBITDA (x)	12.6	11.5	10.3
Adj. EPS growth (%)	(26.4)	17.1	21.5

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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