

FIRST LIGHT

RESEARCH

Alkem Labs | Target: Rs 3,620 | +25% | BUY

Poor US sales and inventory provision affect Q4

Greenpanel Industries | Target: Rs 295 | +19% | BUY

Lockdown to subdue near-term demand but outlook upbeat

SUMMARY

Alkem Labs

Alkem Labs reported a below-expected Q4FY21 with +7%/-4% YoY sales/EBITDA growth. Gross margin was a miss, contracting 470bps QoQ to 57% (due to a Rs 800mn inventory provision), though adj. EBITDA margin was up 215bps YoY. India sales grew strongly at 17% YoY but US sales declined. Alkem is optimistic on US business (double-digit FY22 launches) and expects India sales growth in the mid-teens with >200bps of margin gains over FY20. We cut FY22/FY23 EPS by 8% each and retain BUY with a new Mar'22 TP of Rs 3,620 (vs. Rs 3,750).

[Click here for the full report.](#)

Greenpanel Industries

Key takeaways from our interaction with the management of Greenpanel Industries (GREENP): (1) Demand trends were in line with management's expectations till April but have weakened thereafter due to lockdowns across several states. The company is hopeful of domestic demand recovery as restrictions ease. (2) Management plans to focus on higher MDF exports for the next couple of months till the domestic market reopens and demand revives. (3) GREENP has an unfulfilled export obligation of ~176,000cbm under the EPCG scheme for its Andhra Pradesh facility, to be fulfilled by FY23.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	(1bps)	8bps	95bps
India 10Y yield (%)	5.97	(1bps)	(7bps)	20bps
USD/INR	72.97	(0.2)	2.8	3.7
Brent Crude (US\$/bbl)	68.50	3.1	1.6	84.2
Dow	34,394	0.5	1.2	39.8
Shanghai	3,497	0.3	0.6	21.6
Sensex	50,652	0.2	5.1	63.4
India FII (US\$ mn)	21 May	MTD	CYTD	FYTD
FII-D	(40.0)	261.3	(2,131.0)	(103.7)
FII-E	45.5	(386.7)	5,450.5	(1,875.8)

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 3,620 | ▲ 25%

ALKEM LABS

Pharmaceuticals

26 May 2021

Poor US sales and inventory provision affect Q4

Alkem Labs reported a below-expected Q4FY21 with +7%/-4% YoY sales/EBITDA growth. Gross margin was a miss, contracting 470bps QoQ to 57% (due to a Rs 800mn inventory provision), though adj. EBITDA margin was up 215bps YoY. India sales grew strongly at 17% YoY but US sales declined. Alkem is optimistic on US business (double-digit FY22 launches) and expects India sales growth in the mid-teens with >200bps of margin gains over FY20. We cut FY22/FY23 EPS by 8% each and retain BUY with a new Mar'22 TP of Rs 3,620 (vs. Rs 3,750).

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India trade generics and VMN growth robust: Double digit growth in the trade generics business (~20% of domestic sales) in Q4, recovery in acute business and continued improvement in prescription (Rx) sales led domestic sales growth of 17% YoY. The VMN/ antidiabetic/gastrointestinal portfolios grew 36%/27%/17% YoY and larger brands continued to do well. US sales declined 11% QoQ to US\$ 75mn due to higher price erosion and the Covid impact. We expect a US/India sales CAGR of 10%/13% over FY21-FY23.

Ticker/Price	ALKEM IN/Rs 2,905
Market cap	US\$ 4.8bn
Shares o/s	120mn
3M ADV	US\$ 8.9mn
52wk high/low	Rs 3,152/Rs 2,222
Promoter/FPI/DII	60%/4%/13%

Source: NSE

Gross margin hit by inventory write-off: Gross margin contraction of 470bps QoQ (+63bps YoY) caused EBITDA margin to drop 95bps QoQ (-150bps YoY) to 13.3%. Other factors like front-loading of costs as well as higher employee and selling expenses from staff additions and reversal of pandemic-led savings further weakened operating margins. Alkem expects its gross margin to decline 100bps in FY22 but intends to maintain EBITDA margin via cost control.

STOCK PERFORMANCE



Source: NSE

Earnings call highlights: (1) Launched 12 products in the US out of 19 final approvals. (2) No change in dividend policy or M&A activity on the cards. (3) Tax rate to be 13-14% going forward. (4) Net cash levels at >Rs 5bn. (5) MR strength at 12,000 with 600 added to the acute division. (6) Launched first biosimilar (peptide) in India and planning more rollouts over the next few years.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	73,558	82,983	88,650	99,976	1,11,114
EBITDA (Rs mn)	11,135	14,730	19,424	20,234	23,067
Adj. net profit (Rs mn)	7,298	11,270	15,850	15,313	17,815
Adj. EPS (Rs)	61.0	94.3	132.6	128.1	149.0
Adj. EPS growth (%)	15.7	54.4	40.6	(3.4)	16.3
Adj. ROAE (%)	16.3	22.7	27.6	22.3	21.9
Adj. P/E (x)	47.6	30.8	21.9	22.7	19.5
EV/EBITDA (x)	31.3	23.6	18.0	17.1	14.5

Source: Company, BOBCAPS Research | P – Provisional



BUY

TP: Rs 295 | ▲ 19%

**GREENPANEL
INDUSTRIES**

Construction Materials

26 May 2021

Lockdown to subdue near-term demand but outlook upbeat

We interacted with the management of Greenpanel Industries (GREENP) for an update on MDF business prospects. Following are the key takeaways:

- Demand trends were in line with management's expectations till April but have weakened thereafter due to lockdowns across several states. The company is hopeful of domestic demand recovery as restrictions ease.
- Management plans to focus on higher MDF exports for the next couple of months till the domestic market reopens and demand revives.
- Higher exports at this time will enable GREENP to have more capacity available in future quarters to meet domestic demand.
- The company has an unfulfilled export obligation of ~176,000cbm under the Export Promotion Capital Goods (EPCG) scheme availed for its Andhra Pradesh facility, which is to be fulfilled by FY23.
- Operating margin may be subdued in the near term due to lower capacity utilisation (with domestic markets under lockdown) and weaker margins earned on exports (11-12%). Management expects margins for FY22 to retrace at least to FY21 levels as domestic markets reopen.
- GREENP has hiked MDF prices by ~4% in the domestic market (~85% of sales in FY21) from May'21 due to increased raw material cost. These hikes will fully offset the higher RM cost burden.
- MDF plant debottlenecking will be completed by Q3FY22, adding ~65,000cbm of capacity. Capex for debottlenecking and backward integration totals ~Rs 550mn.
- The company has been focusing on domestic distribution and now has over 1,400 MDF dealers across India vs. 1,080 as on Mar'20. It plans to continue scaling up its reach and targeting smaller cities to widen the market.
- Net debt has reduced further in April and the company is on track to achieve its guidance of net debt reduction of Rs 1.5bn to Rs 2.2bn in FY22.

Our view: We believe GREENP will continue to see a strong demand revival post unlocking due to higher acceptance of readymade furniture and a demand shift from low-cost plywood to MDF. Maintain BUY with a Mar'22 TP of Rs 295, set at 18x FY23E P/E.

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Ticker/Price	GREENP IN/Rs 247
Market cap	US\$ 416.2mn
Shares o/s	123mn
3M ADV	US\$ 2.1mn
52wk high/low	Rs 268/Rs 24
Promoter/FPI/DII	53%/4%/43%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	10,208	13,278	15,782
EBITDA (Rs mn)	2,034	3,056	3,730
Adj. net profit (Rs mn)	778	1,482	1,998
Adj. EPS (Rs)	6.3	12.1	16.3
Adj. EPS growth (%)	207.4	90.6	34.8
Adj. ROAE (%)	11.2	18.4	20.4
Adj. P/E (x)	39.0	20.4	15.2
EV/EBITDA (x)	17.6	11.4	9.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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