

Alkem Laboratories

Estimate change



TP change



Rating change



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Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	286.5 / 3.9
52-Week Range (INR)	2882 / 1660
1, 6, 12 Rel. Per (%)	-19/30/51
12M Avg Val (INR M)	197

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	83.4	90.3	103.1
EBITDA	15.0	17.2	20.7
Adj. PAT	11.4	12.3	15.0
EBIT Margin (%)	15.1	16.5	17.7
Cons. Adj. EPS (INR)	95.4	103.3	125.7
EPS Gr. (%)	49.5	8.5	21.7
BV/Sh. (INR)	515.3	595.3	692.7

Ratios

Net D:E	0.1	0.0	-0.1
RoE (%)	19.7	18.6	19.5
RoCE (%)	17.6	16.4	17.4
Payout (%)	22.5	22.5	22.5

Valuations

P/E (x)	25.0	23.1	18.9
EV/EBITDA (x)	19.4	16.6	13.5
Div. Yield (%)	0.8	0.8	1.0
FCF Yield (%)	0.7	3.3	3.0
EV/Sales (x)	3.5	3.2	2.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	65.9	66.0	66.0
DII	11.8	12.0	5.4
FII	3.6	2.7	2.4
Others	18.7	19.2	26.2

FII Includes depository receipts

CMP: INR2,396
TP: INR2850 (+19%)
Buy

Healthy US sales/better operating leverage drive earnings

ANDA filings/successful compliance improve visibility for US growth

- ALKEM ended FY20 on strong note – earnings were up 50% YoY, led by healthy growth in the US (a key market), domestic formulation (DF) and improved operating leverage. While the COVID-19 pandemic could affect DF growth in the near term and subsequently impact earnings, we believe that ALKEM has enough levers (new launches/increased market share in DF/the US and minimal regulatory risk) to strengthen its earnings trajectory.
- We cut our EPS estimates by 6%/4% for FY21/FY22E to factor in the near-term weakness in the DF segment. Accordingly, we revise our price target to INR2,850 on 22x 12-month forward earnings. We remain positive on ALKEM due to robust ANDA pipeline/minimal regulatory risk in the US and sustained outperformance in DF. Maintain **Buy**.

Overall performance better than estimates

- 4QFY20 revenues grew 10.6% YoY to INR20.5b (v/s est. INR18.1b).
- The US business increased 26% YoY to INR6.1b (29.6% of sales); Other International business grew ~14.2% YoY to INR1.5b (7% of sales).
- DF grew at a subdued rate of ~3.3% YoY to INR12.6b (61.4% of sales).
- Gross Margin declined by ~180bp YoY to 56.3% YoY on changed product mix.
- However, EBITDA margin improved by ~210bp YoY to 14.8% (v/s est. 15.1%), mainly due to lower staff costs/other opex (-270bpYoY/-110bp YoY as % of sales). EBITDA grew 28.4% YoY to INR3b (v/s est. INR2.7b).
- R&D expense stood at INR1.3b, 6.1% of sales for the quarter.
- In 4QFY20, ALKEM had one-offs of INR180m as accelerated depreciation.
- Adj. PAT grew 43% YoY to INR2.1b (v/s est. INR1.7b), and was higher than EBITDA growth due to higher other income.
- For FY20, revenues/EBITDA/Adj. PAT grew 30%/42%/50% YoY to INR83.4b/INR15b/INR11.4b, led by better traction in DF/the US.

Highlights from management commentary

- Spillover of INR1-1.5b revenue in DF to be accounted in 1QFY21.
- The company intends to file 12-15 ANDAs and launch 10 ANDAs in FY21.
- ALKEM has guided for maintaining MR strength for the DF business in FY21.
- It has also guided for low-to-mid-teen YoY growth in US sales over 12-24 months.
- Despite the COVID-19 led headwinds, ALKEM remains confident of improving EBITDA margin in FY21.
- For FY21, ALKEM expects effective tax rate at 12-14% and capex at INR3.5b.

Valuation and view

- We expect 15% earnings CAGR over FY20-22E, led by 16%/10% sales CAGR in the US/DF generics on new launches and better traction in existing products.
- The reduced promotional expense in DF and improving profitability in the US should drive 220bp margin expansion over FY20-22E. We value ALKEM at 22x 12-month forward earnings to arrive at TP of INR2,850. Re-iterate **Buy**.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Quarterly Perf. (Consolidated)

(INR m)

Y/E March	FY19				FY20				FY19	FY20	Var	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Revenues	16,695	19,189	19,263	18,530	18,495	22,640	21,818	20,490	73,677	83,444	18,080	13.3
YoY Change (%)	28.9	2.9	10.7	24.2	10.8	18.0	13.3	10.6	14.6	29.7	-2.5	
EBITDA	2,142	3,637	3,131	2,361	2,645	4,752	4,533	3,030	11,271	14,960	2,738	10.7
YoY Change (%)	127.0	-21.0	-13.0	79.8	23.5	30.7	44.8	28.4	6.7	41.6	15.4	
Depreciation	425	458	477	573	558	564	595	631	1,932	2,348	582	
EBIT	1,718	3,179	2,654	1,788	2,087	4,188	3,938	2,400	9,339	12,612	2,156	
YoY Change (%)	169.5	-25.4	-17.7	96.6	21.5	31.7	48.4	34.2	2.2	38.0	19.8	
Interest	163	164	154	66	161	178	170	142	546	651	168	
Other Income	163	240	245	76	175	314	279	275	724	1,042	218	
PBT before EO Exp	1,718	3,255	2,745	1,798	2,100	4,325	4,046	2,533	9,517	13,004	2,206	14.8
EO Exp/(Inc)				-23		226		180	-23	406		
PBT	1,718	3,255	2,745	1,821	2,100	4,098	4,046	2,353	9,539	12,598	2,206	
Tax	345	656	526	283	227	293	147	438	1,810	1,105	578	
Rate (%)	20.1	20.2	19.2	15.7	10.8	6.8	3.6	17.3	19.0	8.5	26.2	
PAT (pre Minority Interest)	1,373	2,599	2,219	1,538	1,873	3,805	3,900	1,915	7,729	11,493	1,628	
Minority Interest	11	60	29	31	18	97	80	28	131	222	-46	
Reported PAT	1,362	2,540	2,190	1,507	1,855	3,708	3,820	1,888	7,598	11,271	1,674	12.8
YoY Change (%)												
Adj Net Profit	1,362	2,540	2,190	1,484	1,855	3,918	3,481	2,125	7,575	11,379	1,674	28.6
YoY Change (%)	130.8	-16.1	8.4	74.8	36.2	54.3	58.9	43.3	31.6	50.2	12.0	

Key performance Indicators (Consolidated)

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
INRm										
India formulations	10,906	13,184	12,475	12,176	12,222	15,503	14,239	12,576	48,742	54,540
YoY Change (%)	25.7	4.9	(0.7)	26.8	12.1	17.6	14.1	3.3	8.6	11.9
Us generics	4,237	4,725	5,182	4,822	4,817	5,276	5,837	6,068	18,967	21,997
YoY Change (%)	43.0	31.5	44.3	18.4	13.7	11.7	12.6	25.8	38.8	16.0
International (Ex-US)	1,242	1,084	1,350	1,275	1,095	1,415	1,416	1,455	4,950	5,382
YoY Change (%)	13.4	1.5	26.4	9.4	(11.9)	30.5	4.9	14.1	6.0	8.7
Cost Break-up										
RM Cost (% of Sales)	39.9	38.6	41.4	41.9	38.5	38.9	38.2	43.7	40.0	39.8
Staff Cost (% of Sales)	20.3	17.1	18.0	18.8	21.1	17.2	18.1	16.1	18.5	18.0
R&D Expenses(% of Sales)	5.9	5.5	6.2	7.5	5.6	5.5	5.5	6.1	6.3	5.7
Other Cost (% of Sales)	21.0	19.9	18.1	19.1	20.5	17.4	18.0	19.3	20.0	18.6
Gross Margins(%)	60.1	61.4	58.6	58.1	61.5	61.1	61.8	56.3	60.0	60.2
EBITDA Margins(%)	12.8	19.0	16.3	12.7	14.3	21.0	20.8	14.8	15.2	17.9
EBIT Margins(%)	10.3	16.6	13.8	9.7	11.3	18.5	18.0	11.7	12.6	15.1

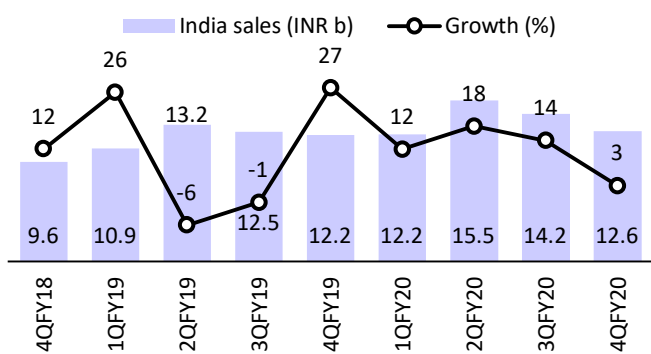


Management call highlights

- ALKEM expects to outperform industry by 200-300bp in FY21.
- 26% of DF is under NLEM.
- Expect pick-up in acute therapy related off-take in 3-4 months.
- ALKEM expects trade generics to deliver double-digit growth in FY21.
- The Gross Margin impact for the quarter is mainly due to change in the product mix, rather than on increased RM cost.
- Debt is higher due to increased dividend and working capital loans.

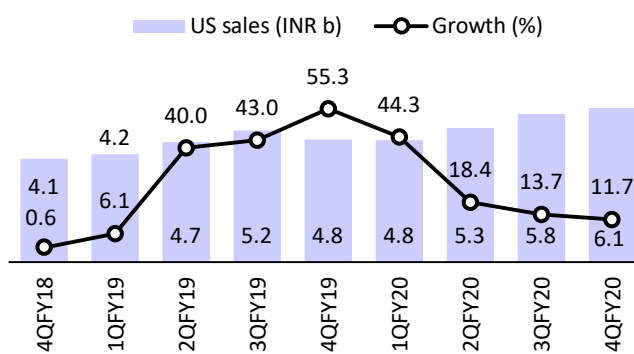
Key exhibits

Exhibit 1: Domestic business grew 3.3% YoY in 4QFY20



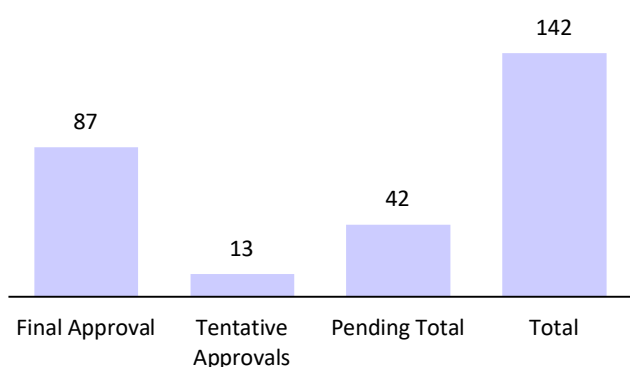
Source: MOFSL, Company

Exhibit 2: US sales saw healthy growth of 11.7% YoY



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	142
ANDAs filed in FY20	18
NDAs	2

Source: MOSL, Company

Valuation view

DF remains on track to outperform industry

- ALKEM delivered 14% CAGR in DF sales to INR55b over FY15-20; it has dominant 3.5% market share in such a fragmented industry, and continues to grow better than industry in the segment.
- ALKEM has maintained 25-30% sales CAGR in chronic categories (15% of DF sales) like Anti-Diabetic/Cardiac/CNS/Derma and established its presence in acute therapies (85% of DF sales) like Anti-Infective/Gastro-Intestinal/Pain/VMNs.
- The deferral of elective procedures on the back of COVID headwinds is expected to impact its business in the near term. Over FY20-22E, we expect ALKEM to garner 10% CAGR in DF sales to INR66b.

US biz to grow on steady stream of filings/launches (27% of total sales)

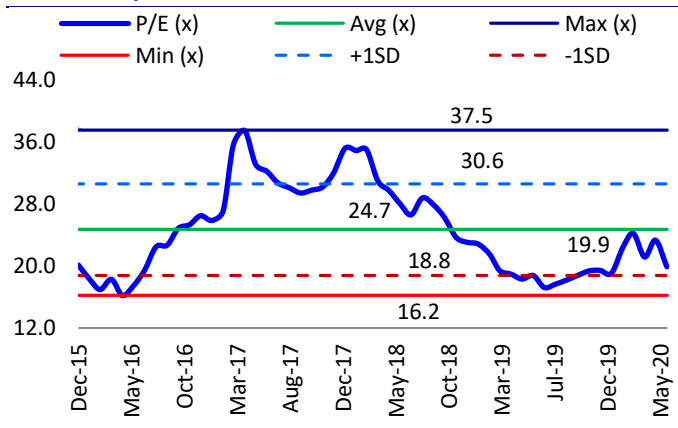
- ALKEM has delivered 24% CAGR in US sales to USD310m over FY15-20. It has 144 ANDAs filed till date with only half of them commercialized in the US. This implies that the company has enough ammunition to not only offset the impact of price erosion but to also deliver growth over the next 3-4 years. The company aims to maintain its pace of 12-15 filings per year over the next 3-4 years. Its St.

Louis/Baddi formulation facilities have received Establishment Inspection Reports (EIRs) in May'20/Mar'20. ALKEM now has EIRs for all its facilities supplying to the US. Based on product pipeline and minimal regulatory risk in the US, we expect ALKEM's US sales to deliver 16% CAGR at ~USD420m over FY20-22E.

Valuation and view

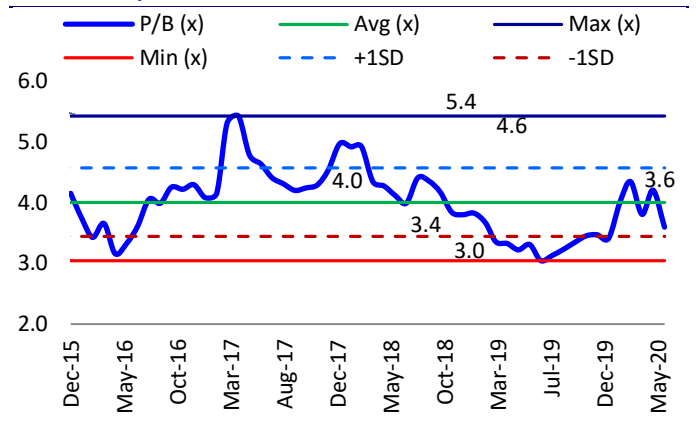
- We cut our EPS estimates by 6%/4% for FY21/FY22E to factor in the weakness in DF segment over the near term. Accordingly, we revise our price target to INR2,850 on 22x 12-month forward earnings.
- We expect 15% earnings CAGR over FY20-22E, led by 16%/10% sales CAGR in the US/DF generics on new launches and better traction in existing products. The reduced promotional expense in DF and improving profitability in the US should drive 220bp margin expansion over FY20-22E. Re-iterate **Buy**

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

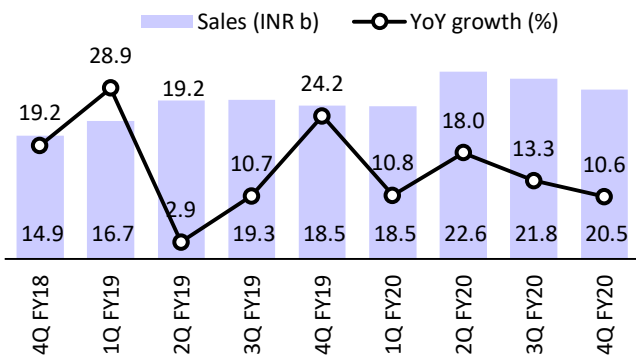
Exhibit 6: P/B chart



Source: MOFSL, Company, Bloomberg

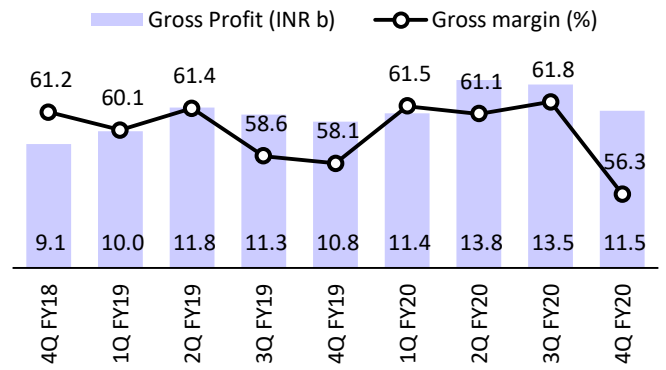
Story in charts

Exhibit 7: Growth led by India sales



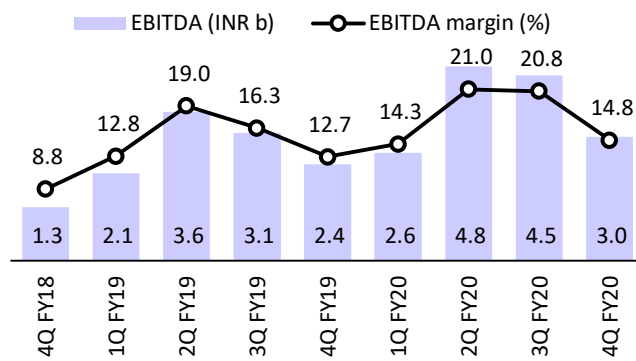
Source: Company, MOFSL

Exhibit 8: Gross margin declined 180bp YoY



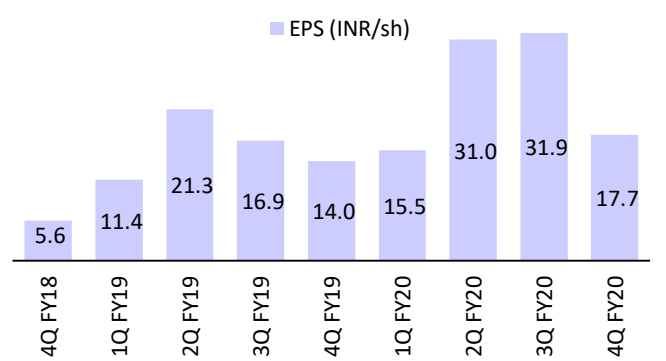
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded 210bp YoY



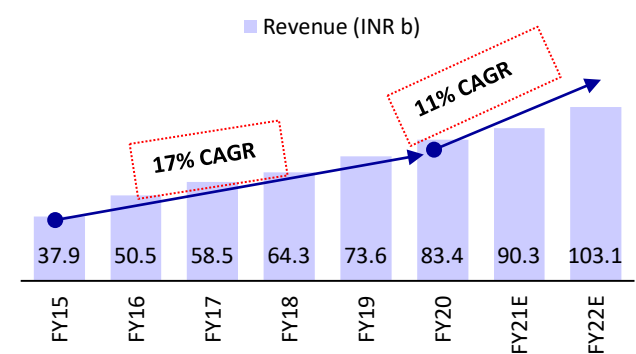
Source: Company, MOFSL

Exhibit 10: EPS grew 26% YoY to INR17.7 in 4QFY20



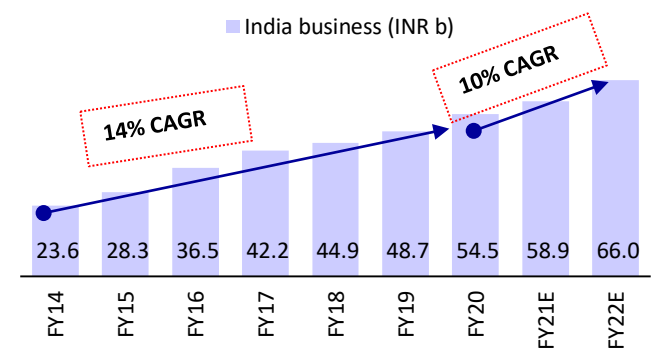
Source: Company, MOFSL

Exhibit 11: Expect revenue CAGR of 11% over FY20-22E



Source: Company, MOFSL

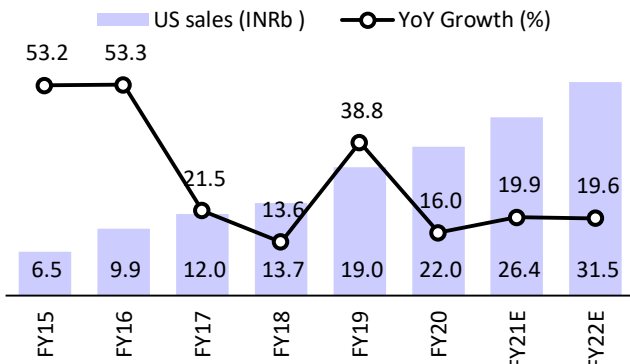
Exhibit 12: Expect India sales CAGR of 10% over FY20-22E



Source: Company, MOFSL

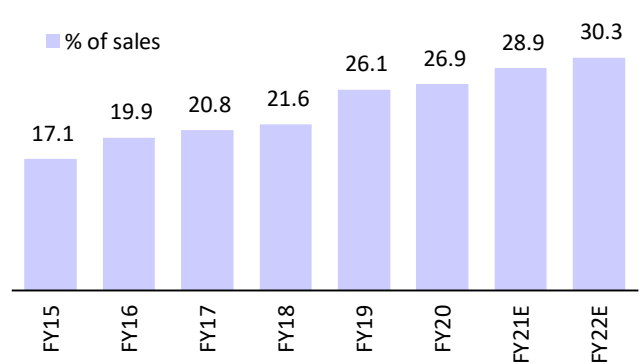
Story in charts

Exhibit 13: US sales to be driven by new launches



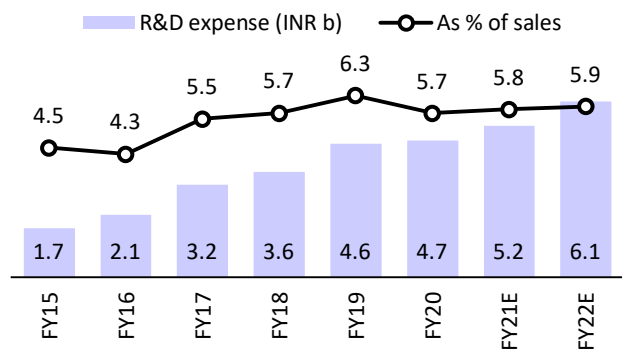
Source: Company, MOFSL

Exhibit 14: US contribution to sales increasing gradually



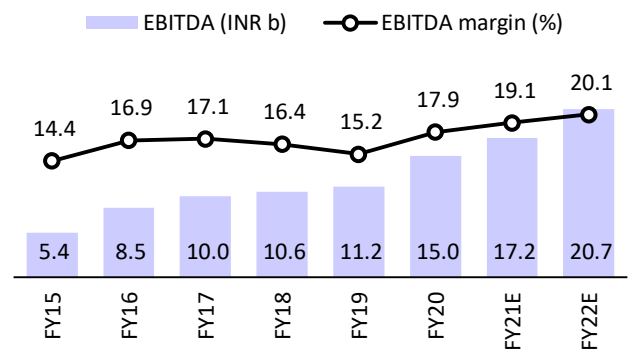
Source: Company, MOFSL

Exhibit 15: R&D expense to be 5.5-6% of sales over FY20-22E



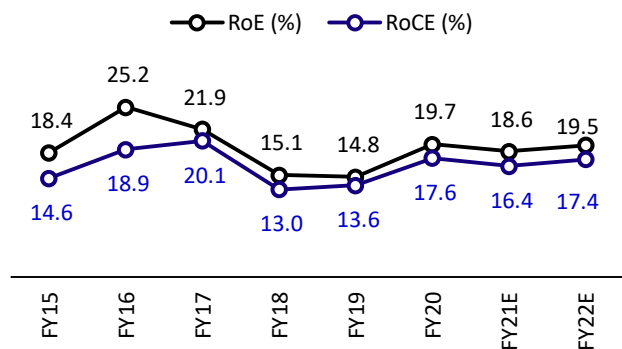
Source: Company, MOFSL

Exhibit 16: Better business mix to drive profitability



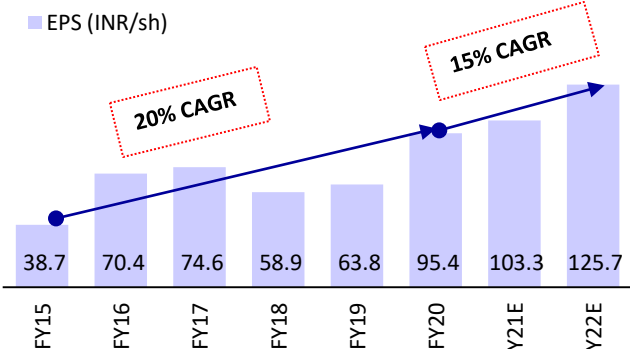
Source: Company, MOFSL

Exhibit 17: Improving return ratios



Source: Company, MOFSL

Exhibit 18: Expect earnings CAGR of 15% over FY20-22E



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement									INR m
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	31,260	37,887	50,479	58,525	64,312	73,677	83,444	90,315	103,059
Change (%)	25.3	21.2	33.2	15.9	9.9	14.6	13.3	8.2	14.1
EBITDA	4,100	5,445	8,533	9,990	10,566	11,275	14,960	17,205	20,715
Margin (%)	13.1	14.4	16.9	17.1	16.4	15.3	17.9	19.1	20.1
Depreciation	523	703	933	1,012	1,430	1,932	2,348	2,288	2,516
EBIT	3,578	4,742	7,599	8,978	9,136	9,339	12,612	14,917	18,199
Int. and Finance Charges	931	811	712	452	553	546	651	1,197	1,164
Other Income	1,653	1,810	2,397	1,120	960	724	1,042	677	762
PBT bef. EO Exp.	4,300	5,741	9,284	9,646	9,542	9,517	13,004	14,397	17,797
EO Items	0	-574	0	0	0	23	-406	0	0
PBT after EO Exp.	4,300	5,167	9,284	9,646	9,542	9,539	12,598	14,397	17,797
Current Tax	25	85	1,762	600	2,876	1,810	1,105	1,800	2,492
Deferred Tax	-79	457	0	0	0	0	0	0	0
Tax Rate (%)	-1.2	10.5	19.0	6.2	30.1	19.0	8.8	12.5	14.0
Less: Mionrity Interest	0	0	114	126	75	131	222	251	284
Reported PAT	4,353	4,625	7,409	8,920	6,309	7,598	11,271	12,346	15,022
Adjusted PAT	4,353	5,139	8,419	8,920	7,040	7,575	11,379	12,346	15,022
Change (%)	13.4	18.1	63.8	6.0	-21.1	7.6	50.2	8.5	21.7
Margin (%)	13.9	13.6	16.7	15.2	10.9	10.3	13.6	13.7	14.6

Consolidated - Balance Sheet									INR m
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	120	239	239	239	239	239	239	239	239
Total Reserves	25,730	29,752	36,681	44,437	48,399	54,154	61,368	70,934	82,573
Net Worth	25,850	29,991	36,920	44,676	48,638	54,393	61,607	71,173	82,812
Minority Interest	0	857	950	1,152	1,216	1,326	1,483	1,483	1,483
Deferred Tax Liabilities	781	1,256	10	5	17	3	0	0	0
Total Loans	11,284	13,059	5,876	6,539	8,920	9,026	16,628	16,628	16,628
Capital Employed	37,915	45,162	43,756	52,373	58,790	64,748	79,717	89,284	100,923
Net Fixed Assets	9,797	11,429	10,310	13,945	18,733	21,056	23,063	25,429	26,894
Goodwill on Consolidation	1,903	3,421	4,185	4,026	4,103	4,248	6,017	6,017	6,017
Capital WIP	0	0	1,724	2,993	3,810	4,930	3,630	2,476	2,495
Total Investments	5,880	4,808	5,086	5,530	4,443	3,236	2,614	2,614	2,614
Curr. Assets, Loans&Adv.	25,414	33,008	28,878	32,225	39,012	41,535	54,784	66,599	79,927
Inventory	6,203	7,842	9,094	12,060	14,422	14,999	18,188	20,431	23,237
Account Receivables	3,669	5,271	5,675	7,136	10,805	12,484	16,494	19,795	24,565
Cash and Bank Balance	2,063	7,908	7,809	3,993	5,768	6,616	10,922	16,437	20,788
Loans and Advances	13,478	11,987	6,300	9,036	8,017	7,437	9,180	9,936	11,338
Curr. Liability & Prov.	5,251	7,796	11,589	13,308	17,866	17,334	19,716	23,178	26,350
Account Payables	3,057	4,619	5,805	7,414	9,607	9,623	9,541	10,185	11,471
Other Current Liabilities	1,267	1,667	3,908	3,628	5,517	4,436	6,108	6,611	7,544
Provisions	926	1,510	1,877	2,266	2,742	3,275	4,067	6,382	7,335
Net Current Assets	20,163	25,212	17,288	18,917	21,145	24,202	35,068	43,421	53,577
Deferred Tax assets	172	292	5,162	6,963	6,556	7,076	9,326	9,326	9,326
Appl. of Funds	37,915	45,162	43,756	52,373	58,790	64,748	79,717	89,283	100,923

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS	36.4	38.7	70.4	74.6	58.9	63.8	95.4	103.3	125.7
Cash EPS	40.8	48.9	78.2	83.1	70.9	80.0	115.1	122.4	146.7
BV/Share	216	251	309	374	407	455	515	595	693
DPS	2.0	4.0	12.7	6.0	15.0	15.0	17.9	19.6	23.9
Payout (%)	6.4	12.3	24.7	9.7	34.3	28.5	22.5	22.5	22.5
Valuation (x)									
P/E	65.4	61.6	33.8	31.9	40.4	37.3	25.0	23.1	18.9
Cash P/E	58.4	48.7	30.4	28.7	33.6	29.8	20.7	19.5	16.2
P/BV	11.0	9.5	7.7	6.4	5.9	5.2	4.6	4.0	3.4
EV/Sales	9.4	7.6	5.6	4.9	4.5	3.9	3.5	3.2	2.7
EV/EBITDA	71.7	53.2	33.1	28.7	27.2	25.7	19.4	16.6	13.5
Dividend Yield (%)	0.1	0.2	0.5	0.3	0.6	0.6	0.8	0.8	1.0
FCF per share	15.9	16.1	39.5	-13.7	-34.4	21.1	17.3	75.8	70.4
Return Ratios (%)									
RoE	18.3	18.4	25.2	21.9	15.1	14.8	19.7	18.6	19.5
RoCE	14.2	14.6	18.9	20.1	13.0	13.6	17.6	16.4	17.4
RoIC	13.7	13.6	20.0	24.4	15.1	15.8	20.5	20.0	21.9
Working Capital Ratios									
Asset Turnover (x)	0.8	0.8	1.2	1.1	1.1	1.1	1.0	1.0	1.0
Inventory (Days)	72	76	66	75	82	74	80	83	82
Debtor (Days)	41	49	40	45	61	62	72	78	85
Creditor (Days)	36	45	42	46	55	48	42	41	41
Leverage Ratio (x)									
Debt/Equity	0.4	0.2	-0.1	0.1	0.1	0.0	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	4,300	5,142	9,284	9,646	9,260	9,547	13,004	14,397	17,797
Depreciation	523	703	933	1,012	1,430	1,932	2,348	2,288	2,516
Interest & Finance Charges	-555	-1,196	-599	-592	-234	134	-392	520	402
Direct Taxes Paid	-1,111	-1,056	-1,982	-2,640	-2,032	-2,511	-1,105	-1,800	-2,492
(Inc)/Dec in WC	-364	-963	101	-2,626	-5,732	-1,403	-6,966	-2,838	-5,805
CF from Operations	2,793	2,630	7,737	4,801	2,692	7,698	6,889	12,567	12,418
Others	107	652	-478	-90	-32	98	0	0	0
CF from Operating incl EO	2,900	3,281	7,258	4,711	2,660	7,797	6,889	12,567	12,418
(Inc)/Dec in FA	-1,004	-1,354	-2,535	-6,344	-6,770	-5,269	-4,824	-3,500	-4,000
Free Cash Flow	1,897	1,928	4,724	-1,633	-4,110	2,527	2,066	9,067	8,418
(Pur)/Sale of Investments	25	1,028	325	0	868	1,235	622	0	0
CF from Investments	-4,792	3,081	2,023	-2,859	-2,751	-1,812	-3,159	-2,823	-3,238
Issue of Shares	0	0	0	0	1	0	0	0	0
Inc/(Dec) in Debt	-4,732	871	-6,714	121	3,574	-1,057	7,602	0	0
Interest Paid	-914	-793	-713	-636	-553	-546	-651	-1,197	-1,164
Dividend Paid	-319	-567	-1,845	-863	-2,176	-2,186	-2,538	-2,780	-3,382
CF from Fin. Activity	-6,000	-518	-9,273	-1,379	1,944	-3,140	2,577	-6,556	-4,829
Inc/Dec of Cash	-7,892	5,845	8	473	1,853	2,844	6,307	3,188	4,351
Opening Balance	9,955	2,063	1,262	1,193	1,589	1,446	2,289	10,922	14,110
Closing Balance	2,063	7,908	7,809	3,993	5,768	6,616	10,922	16,437	20,788

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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