

Alkem Laboratories

Estimate change

TP change

Rating change


Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USD\$b)	347.1 / 4.5
52-Week Range (INR)	4068 / 2836
1, 6, 12 Rel. Per (%)	-6/-5/-11
12M Avg Val (INR M)	560

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	106.3	116.0	130.5
EBITDA	20.5	21.2	25.7
Adj. PAT	16.5	17.2	21.0
EBIT Margin (%)	16.4	15.7	17.3
Cons. Adj. EPS (INR)	138.1	144.2	175.4
EPS Gr. (%)	2.6	4.4	21.6
BV/Sh. (INR)	722.5	834.3	970.2

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	20.6	18.5	19.4
RoCE (%)	17.1	15.2	16.3
Payout (%)	23.7	22.5	22.5

Valuations

P/E (x)	21.0	20.1	16.6
EV/EBITDA (x)	16.9	16.0	12.7
Div. Yield (%)	0.9	0.9	1.1
FCF Yield (%)	2.3	3.0	5.2
EV/Sales (x)	3.3	2.9	2.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	57.1	57.1	60.2
DII	14.1	13.9	13.2
FII	5.4	5.4	4.4
Others	23.3	23.5	22.2

FII Includes depository receipts

CMP: INR2,903
TP: INR3,680 (+27%)
Buy
Well-placed to outperform in the Domestic Formulation segment
Cost pressures to weigh on near-term performance

- ALKEM delivered a better-than-expected 4QFY22 at the operational level, led by superior performance in Domestic Formulations (DF) and in international markets, excluding the US. Incremental business from launches was offset by higher price erosion in the base business for US Generics.
- We cut our FY23/FY24 EPS estimate by 8.5%/4% to factor in: a) elevated raw material and freight cost, b) price deflation in the US Generics base business, and c) gradually rising OPEX towards Biosimilars. We value ALKEM at 21x 12-month forward earnings to arrive at a TP of INR3,680.
- While the cost-related headwinds will affect near-term performance, we remain positive on ALKEM on the back of a strong prescription brand franchise in the DF segment, consistent launches, successful compliance track record, and superior execution in international markets, excluding the US. We maintain our Buy rating.

Higher OPEX impacts profitability in 4QFY22

- Sales grew 13% YoY to INR24.8b (est. INR21.7b) in 4QFY22.
- Revenue from DF grew 17% YoY to INR17b (70% of sales). International sales (excluding US) grew a sharp 35% YoY to INR2b (8% of sales). US sales were flat YoY at INR5.4b (22% of sales).
- Gross margin contracted by ~210bp YoY to 58.5% due to an escalation in raw material prices. EBITDA margin contracted further by ~330bp YoY to 13.6% (est. 14.6%) due to higher RM cost and other expenses (up 100bp as a percentage of sales).
- Accordingly, EBITDA decreased by 9% YoY to INR3.4b (est. INR3.2b).
- In 4QFY22, there was an exceptional item worth INR150m, pertaining to reassessment of one of its investments in the US. The deferred tax asset was also significantly higher at INR911m as certain promotional expenses have been disallowed for tax deduction purpose.
- Adjusted PAT declined at a higher rate of 28% YoY to INR2.3b (est. INR2.5b), due to higher depreciation, interest cost, and lower other income.
- Revenue/EBITDA/PAT grew 20%/2%/3.5% to INR106b/INR20.5b/INR16.6b in FY22.

Highlights from the management commentary

- ALKEM indicated a lower gross/EBITDA margin (100-150bp YoY) in FY23 on the back of higher RM prices and freight cost. Effectively, EBITDA margin will be at 18-18.5% in FY23.
- The management remains confident of double-digit growth in India/ international markets (excluding the US), despite a higher base in FY22.
- It guided at 10-12% YoY growth in the US market on the back of launches and market share gains in existing products in FY23.
- The benefit from increased MRs, price hike (6-7% YoY), introductions (~3% YoY), and volume growth (3-5% YoY) will drive DF prospects in FY23.
- As a percentage of sales, R&D spends would be 5.5-6%, largely towards building its US product pipeline.

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

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenue	19,775	23,628	23,181	21,922	27,314	27,999	26,190	24,839	88,505	1,06,342	21,714	14.4
YoY Change (%)	6.9	4.4	6.2	7.0	38.1	18.5	13.0	13.3	6.1	20.2	-0.9	
EBITDA	5,072	6,005	5,291	3,711	5,929	6,243	4,985	3,372	20,079	20,529	3,178	6.1
YoY Change (%)	91.8	26.4	16.7	22.5	16.9	4.0	-5.8	-9.1	34.2	2.2	-14.4	
Margin (%)	25.6	25.4	22.8	16.9	21.7	22.3	19.0	13.6	22.7	19.3	14.6	
Depreciation	668	702	690	685	705	728	775	831	2,746	3,040	759	
EBIT	4,404	5,303	4,601	3,026	5,223	5,515	4,210	2,541	17,333	17,490	2,419	
YoY Change (%)	111.0	26.6	16.8	26.1	18.6	4.0	-8.5	-16.0	87.6	38.7	-20.1	
Margin (%)	22.3	22.4	19.8	13.8	19.1	19.7	16.1	10.2	19.6	16.4	11.1	
Interest	171	180	131	107	129	120	106	170	589	524	97	
Other Income	435	355	614	463	467	420	535	205	1,867	1,627	484	
PBT before EO Exp.	4,668	5,478	5,084	3,382	5,561	5,815	4,639	2,576	18,611	18,592	2,806	-8.2
EO Exp./(Inc.)	-260	0	-350	800	0	0	0	150	190	150	0	
PBT after EO Exp.	4,928	5,478	5,434	2,582	5,561	5,815	4,639	2,427	18,421	18,443	2,806	
Tax	696	662	796	89	759	230	-694	1,345	2,243	1,640	270	
Rate (%)	14.1	12.1	14.6	3.5	13.6	4.0	-15.0	55.4	12.1	8.8	9.6	
PAT (pre-Minority Interest)	4,232	4,815	4,639	2,492	4,802	5,584	5,334	1,082	16,178	16,803	2,536	
Minority Interest	12	95	129	92	121	95	77	6	328	347	78	
Reported PAT	4,220	4,721	4,510	2,400	4,681	5,489	5,257	1,076	15,850	16,456	2,458	-56.2
Adj. Net Profit	3,997	4,721	4,211	3,172	4,681	5,489	4,052	2,293	16,100	16,516	2,458	-6.7
YoY Change (%)	115.5	20.5	21.0	47.3	17.1	16.3	-3.8	-27.7	41.1	2.6	-22.5	

Key performance indicators (consolidated)

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
India Formulations	11,550	15,574	15,140	14,732	19,097	19,605	18,156	17,187	56,996	74,045	16,097
YoY Change (%)	(5.5)	0.5	6.3	17.1	65.3	25.9	19.9	16.7	4.5	29.9	9.3
US Generics	6,664	6,258	6,156	5,435	6,043	6,097	5,731	5,419	24,512	23,291	5,730
YoY Change (%)	38.3	18.6	5.5	(10.4)	(9.3)	(2.6)	(6.9)	(0.3)	11.4	(5.0)	5.4
International (Excl. the US)	1,189	1,532	1,582	1,472	1,860	1,954	1,978	1,991	5,776	7,785	2,006
YoY Change (%)	8.6	8.3	11.7	1.2	56.4	27.5	25.0	35.3	7.3	34.8	36.3
Cost Break-up as a percentage of sales											
RM Cost	37.1	39.5	38.3	39.4	40.1	37.8	38.1	41.5	38.6	39.3	40.4
Staff Cost	19.9	17.3	17.7	18.7	19.5	17.7	18.0	18.7	18.3	18.5	20.4
R&D Expenses	6.0	5.9	5.8	6.4	4.3	5.0	5.5	6.6	6.0	5.3	6.1
Other Cost	11.3	11.9	15.4	18.6	14.4	17.2	19.4	19.6	14.4	17.6	18.5
Gross Margin (%)	62.9	60.5	61.7	60.6	59.9	62.2	61.9	58.5	61.4	60.7	59.6
EBITDA Margin (%)	25.6	25.4	22.8	16.9	21.7	22.3	19.0	13.6	22.7	19.3	14.6
EBIT Margin (%)	22.3	22.4	19.8	13.8	19.1	19.7	16.1	10.2	19.6	16.4	11.1



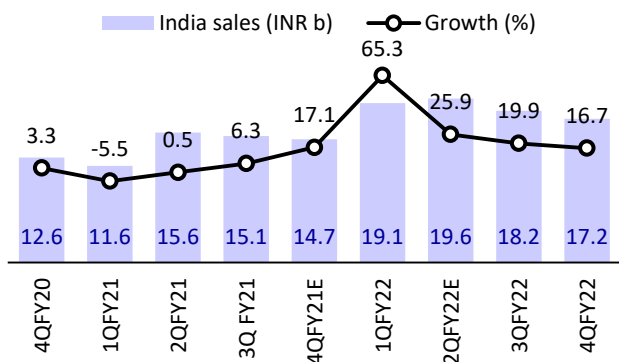
Highlights from the management commentary

- ALKEM has encouraging start in Pulmocare division and considerably outperforming the respiratory therapy.
- Trade Generics constituted ~22% of the DF segment. The prescription base (Acute/Chronic) formed the remaining portion of the DF segment in FY22.
- ALKEM's MR productivity stood at INR0.6m/INR0.3m PCPM in the case of Acute/Chronic therapies.
- ALKEM added about 500MRs in 4QFY22.
- ALKEM has filed six ANDAs and received three final approvals in 4QFY22. With this, ALEM has commercialized 85 ANDAs (out of 123 ANDAs approved) on a cumulative basis till date. It has about 40 ANDAs pending for approval at the end of FY22.
- The price erosion in FY22 in US was 11-12%. ALKEM expects price erosion to reduce to single-digits in FY23.

- The impact on gross margin was 1.7% of sales on account of raw material and 1.7% of sales on account of price erosion for 4QFY22.
- 3 products have been launched by Enzene in India. ALKEM has also signed several out-licensing agreements with some of the European players.
- The effective tax rate is expected to remain at 11-14% over the next two years.

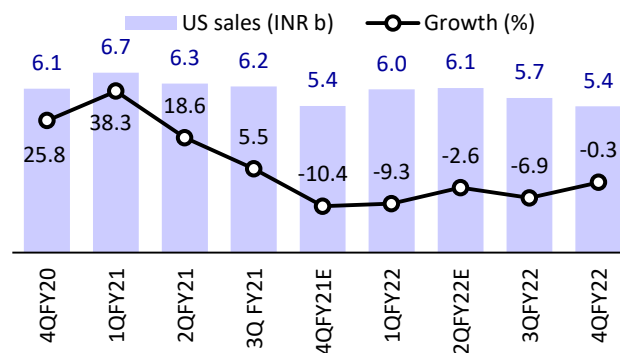
Key exhibits

Exhibit 1: DF revenue grew 16.7% on a YoY basis



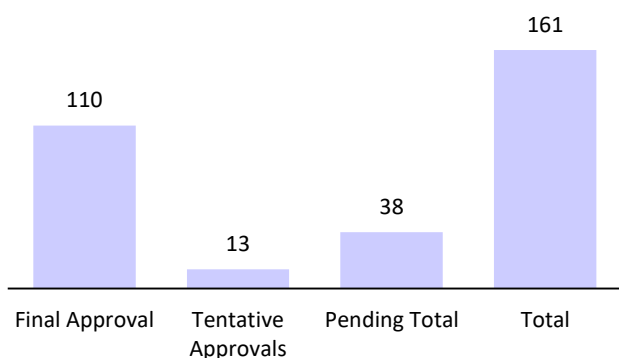
Source: MOFSL, Company

Exhibit 2: US sales were flat YoY



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOSL, Company

Exhibit 4: Robust ANDA pipeline

US filings	Numbers
Total ANDAs filed	161
ANDAs filed in 4QFY22	6
NDA	2

Source: MOSL, Company

DF on a robust growth path; US to gradually revive

Multiple levers for DF business over the next 15-18 months

- ALKEM's DF business recorded growth of 30% YoY in FY22 with sales of INR74b, aided by lower base of FY21 and strong performance of the COVID-19 portfolio.
- On MAT basis ALKEM outperformed IPM and outperformed the IPM therapies in Gastrointestinal, VMN, CNS, Dermatology, AD, and Respiratory in FY22. The growth, however, came off for CNS/Gastro/Cardiac given slightly higher offtake of COVID-related therapies during 4QFY22.
- Trade generics business now 22% of the DF revenues is acting an additional lever and despite a decline in COVID-19 cases continues to grow strongly.
- We expect ALKEM to register 14% sales CAGR in DF to INR96b over FY22-24, led by price increases, launches, and the better MR productivity.

New launches to offset the price erosion and aid growth in US Generics

- ALKEM’s US sales declined 5% YoY to INR23.2b in FY22, largely impacted by the 11-12% price erosion in certain products. It has 161 ANDAs filed till date and has 110 final approvals.
- Alkem has maintained the pace of filings with 15 ANDAs filed in FY22. The pace of approvals has also remained healthy with 18 in FY22. Consistent compliance favorably supported ANDA approvals for ALKEM.
- The launches and reduced intensity of price erosion is expected to aid 11% sales CAGR in the US to USD388m over FY22-24.

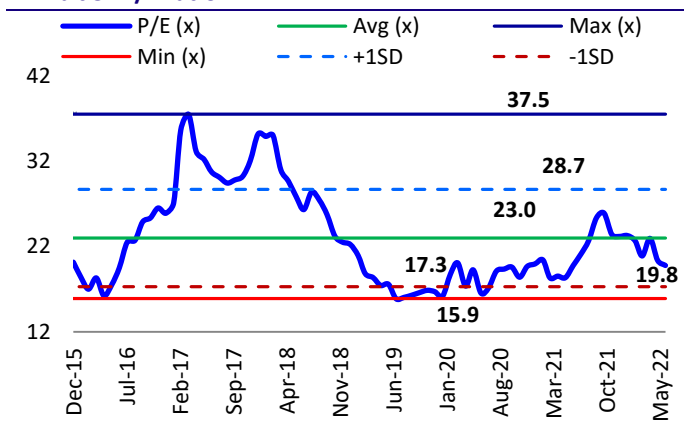
Focus on select markets/strong local presence to drive the EM business

- ALKEM’s Ex-US international sales grew 35% YoY FY22 to INR7.8b with the healthy growth driven by Key markets like Australia, Chile, Philippines and Kazakhstan.
- We expect the business to deliver 15% sales CAGR over FY22-24 driven by: 1) better focus on the select markets, 2) growing business by expanding local presence, and 3) partnership agreements for product in-licensing and out-licensing.

Outperformance in DF to drive earnings growth

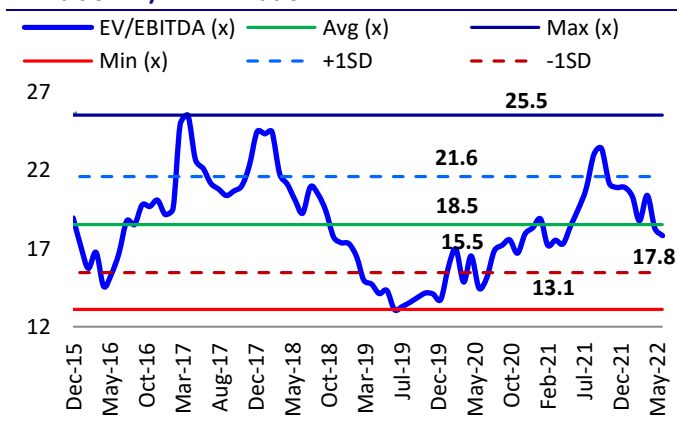
- We have cut our FY23/FY24 EPS estimate by 8.5%/4%, accounting for the raw material price inflation, higher than normal price erosion in US and escalated logistics cost.
- We expect 13% earnings CAGR over FY22-24, led by 15% sales CAGR in EM, 14% sales CAGR in DF, and 5% sales CAGR in the US.
- We continue to value ALKEM at 21x 12-month forward earnings to arrive at our TP of INR3,680. We remain positive on ALKEM on the back of strong growth prospects in DF and improved outlook in emerging markets. We maintain our **Buy rating**.

Exhibit 5: P/E ratio



Source: MOFSL, Company, Bloomberg

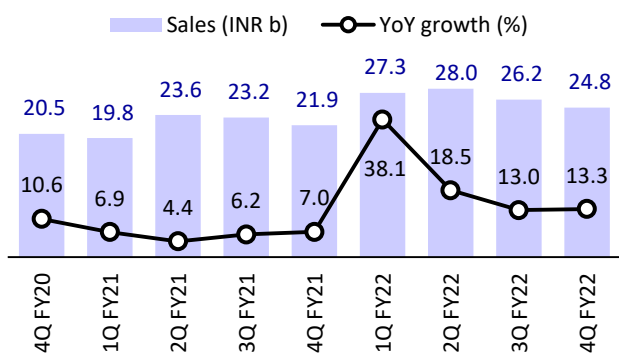
Exhibit 6: EV/EBITDA ratio



Source: MOFSL, Company, Bloomberg

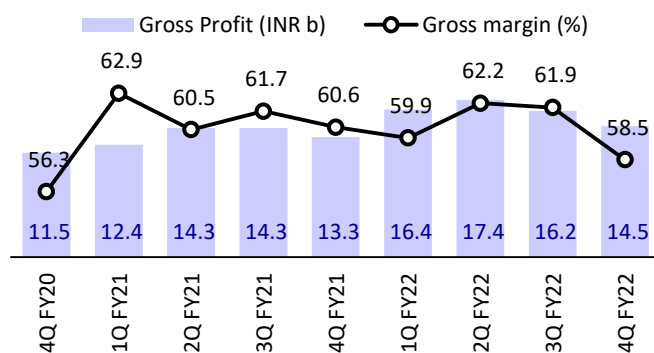
Story in charts

Exhibit 7: Total sales grew 13% YoY in 4QFY22



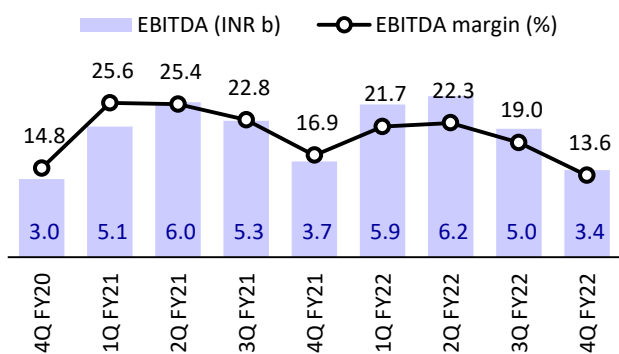
Source: Company, MOFSL

Exhibit 8: Gross margin contracts by 210bp YoY in 4QFY22



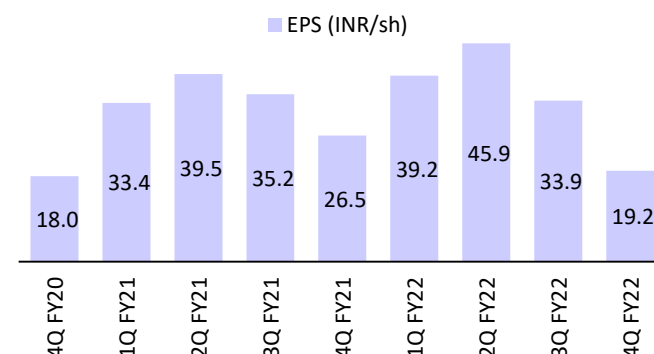
Source: Company, MOFSL

Exhibit 9: EBITDA margin contracts by 330bp YoY



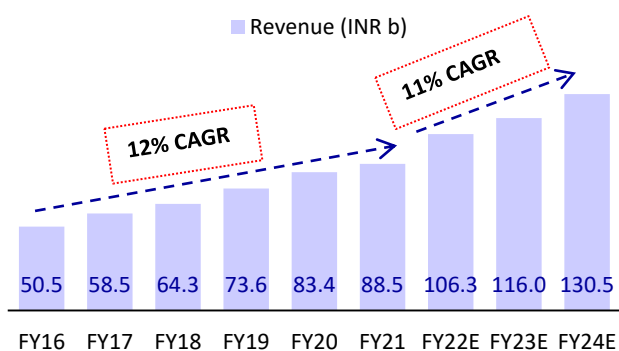
Source: Company, MOFSL

Exhibit 10: EPS declines by 28% YoY to INR19 in 4QFY22



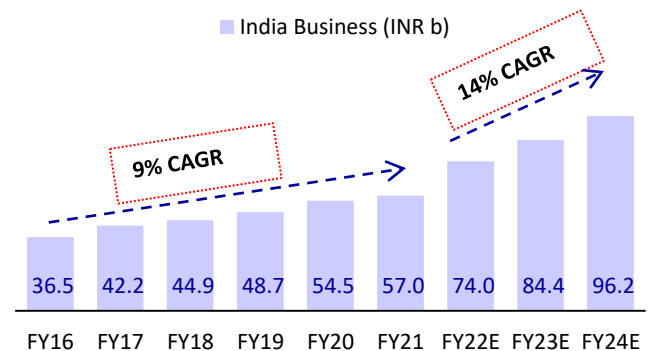
Source: Company, MOFSL

Exhibit 11: Expect 11% revenue CAGR over FY22-24



Source: Company, MOFSL

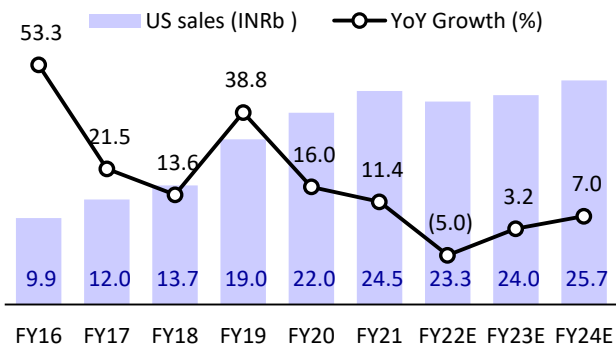
Exhibit 12: Expect India sales CAGR of 14% over FY22-24



Source: Company, MOFSL

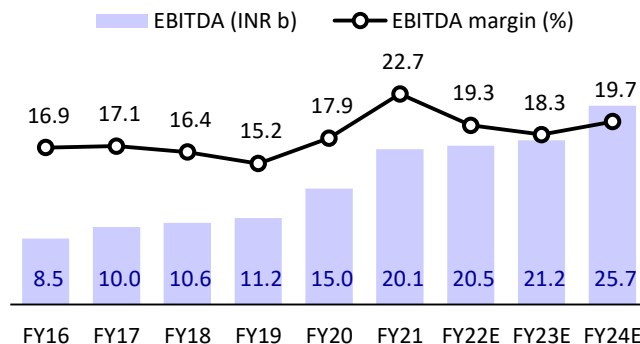
Story in charts

Exhibit 13: Expect 5% sales CAGR in the US over FY22-24



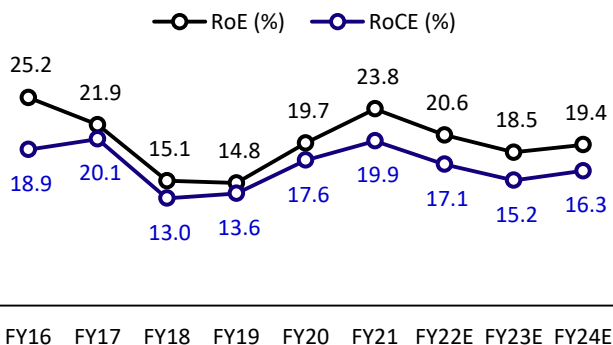
Source: Company, MOFSL

Exhibit 14: Cost pressure to affect profitability in the near term



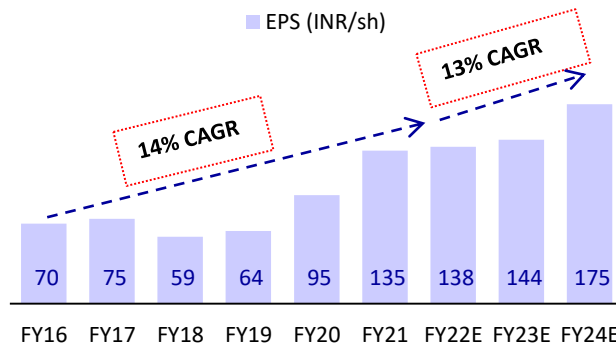
Source: Company, MOFSL

Exhibit 15: Surplus cash to keep RoCE in check



Source: Company, MOFSL

Exhibit 16: Expect 13% earnings CAGR over FY22-24



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement								INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	58,525	64,312	73,572	83,444	88,505	1,06,342	1,15,996	1,30,542
Change (%)	15.9	9.9	14.4	13.4	6.1	20.2	9.1	12.5
Total Expenditure	48,536	54,028	62,401	68,484	68,426	85,813	94,769	1,04,825
EBITDA	9,990	10,566	11,171	14,960	20,079	20,529	21,227	25,717
Margin (%)	17.1	16.4	15.2	17.9	22.7	19.3	18.3	19.7
Depreciation	1,012	1,430	1,932	2,348	2,746	3,040	3,058	3,178
EBIT	8,978	9,136	9,239	12,612	17,333	17,490	18,169	22,539
Int. and Finance Charges	452	553	546	651	589	524	529	529
Other Income	1,120	960	877	1,042	1,867	1,627	2,065	2,047
PBT bef. EO Exp.	9,646	9,542	9,570	13,004	18,611	18,592	19,704	24,056
EO Items	0	0	-23	-406	-190	-150	0	0
PBT after EO Exp.	9,646	9,542	9,547	12,598	18,421	18,443	19,704	24,056
Current Tax	600	2,876	1,810	1,105	2,243	1,640	2,069	2,646
Tax Rate (%)	6.2	30.1	19.0	8.8	12.2	8.9	10.5	11.0
Less: Minority Interest	126	75	131	222	328	347	392	443
Reported PAT	8,920	6,309	7,606	11,271	15,850	16,456	17,243	20,967
Adjusted PAT	8,920	7,040	7,629	11,407	16,100	16,516	17,243	20,967
Change (%)	6.0	-21.1	8.4	49.5	41.1	2.6	4.4	21.6
Margin (%)	15.2	10.9	10.4	13.7	18.2	15.5	14.9	16.1

Consolidated Balance Sheet								INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	239	239	239	239	239	239	239	239
Total Reserves	44,437	48,399	54,154	61,368	73,528	86,140	99,501	1,15,747
Net Worth	44,676	48,638	54,393	61,607	73,767	86,379	99,740	1,15,986
Minority Interest	1,152	1,216	1,326	1,483	1,813	2,094	2,094	2,094
Deferred Tax Liabilities	5	17	3	0	0	0	0	0
Total Loans	6,539	8,920	9,026	16,628	17,336	26,466	26,466	26,466
Capital Employed	52,373	58,790	64,748	79,717	92,916	1,14,939	1,28,300	1,44,546
Net Fixed Assets	13,945	18,733	21,056	23,063	22,339	22,871	24,378	24,923
Goodwill on Consolidation	4,026	4,103	4,248	6,017	5,591	6,146	6,146	6,146
Capital WIP	2,993	3,810	4,930	3,630	3,933	3,395	2,529	2,206
Total Investments	5,530	4,443	3,236	2,614	3,328	3,710	3,710	3,710
Curr. Assets, Loans, and Adv.	32,225	39,012	41,535	54,784	68,923	91,477	1,04,904	1,24,594
Inventory	12,060	14,422	14,999	18,188	23,124	30,055	31,157	30,442
Account Receivables	7,136	10,805	12,484	16,494	16,072	18,846	21,928	25,751
Cash and Bank Balance	3,993	5,768	6,616	10,922	19,905	25,786	33,505	47,790
Loans and Advances	9,036	8,017	7,437	9,180	9,822	16,790	18,315	20,611
Curr. Liability and Prov.	13,308	17,866	17,334	19,716	22,277	25,753	26,460	30,126
Account Payables	7,414	9,607	9,623	9,541	10,694	11,734	11,684	13,211
Other Current Liabilities	3,628	5,517	4,436	6,108	6,709	7,955	8,678	9,766
Provisions	2,266	2,742	3,275	4,067	4,874	6,064	6,099	7,149
Net Current Assets	18,917	21,145	24,202	35,068	46,647	65,725	78,444	94,468
Deferred Tax assets	6,963	6,556	7,076	9,326	11,079	13,093	13,093	13,093
Appl. of Funds	52,373	58,790	64,748	79,717	92,916	1,14,939	1,28,300	1,44,546

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	74.6	58.9	63.8	95.4	134.7	138.1	144.2	175.4
Cash EPS	83.1	70.9	80.0	115.1	157.6	163.6	169.8	202.0
BV/Share	374	407	455	515	617	723	834	970
DPS	6.0	15.0	15.0	17.9	27.8	27.5	27.4	33.3
Payout (%)	9.7	34.3	28.5	22.5	24.9	23.7	22.5	22.5
Valuation (x)								
P/E	38.9	49.3	45.5	30.4	21.6	21.0	20.1	16.6
Cash P/E	34.9	41.0	36.3	25.2	18.4	17.7	17.1	14.4
P/BV	7.8	7.1	6.4	5.6	4.7	4.0	3.5	3.0
EV/Sales	6.0	5.4	4.7	4.2	3.9	3.3	2.9	2.5
EV/EBITDA	35.0	33.1	31.3	23.6	17.2	16.9	16.0	12.7
Dividend Yield (%)	0.2	0.5	0.5	0.6	1.0	0.9	0.9	1.1
FCF per share	-13.7	-34.4	21.1	19.9	90.4	65.5	87.5	150.0
Return Ratios (%)								
RoE	21.9	15.1	14.8	19.7	23.8	20.6	18.5	19.4
RoCE	20.1	13.0	13.6	17.6	19.9	17.1	15.2	16.3
RoIC	24.4	15.1	15.8	20.5	23.7	21.6	19.1	22.4
Working Capital Ratios								
Asset Turnover (x)	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.9
Inventory (Days)	75	82	74	80	95	103	98	85
Debtor (Days)	45	61	62	72	66	65	68	71
Creditor (Days)	46	55	48	42	44	40	37	37
Leverage Ratio (x)								
Debt/Equity ratio	0.1	0.1	0.0	0.1	0.0	0.0	-0.1	-0.2

Consolidated Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	INR m
OP/(Loss) before Tax	9,646	9,260	9,547	12,598	18,421	18,443	19,704	24,056	
Depreciation	1,012	1,430	1,932	2,528	2,746	3,040	3,058	3,178	
Interest and Finance Charges	-592	-234	134	19	-312	-703	-1,535	-1,517	
Direct Taxes Paid	-2,640	-2,032	-2,511	-2,834	-4,007	-3,969	-2,069	-2,646	
(Inc.)/Dec. in WC	-2,626	-5,732	-1,403	-6,472	-3,412	-5,450	-5,000	-1,739	
CF from Operations	4,801	2,692	7,698	5,839	13,436	11,361	14,158	21,332	
Others	-90	-32	98	12	-787	-250	0	0	
CF from Operations incl. EO	4,711	2,660	7,797	5,851	12,649	11,110	14,158	21,332	
(Inc.)/Dec. in FA	-6,344	-6,770	-5,269	-3,477	-1,845	-3,280	-3,700	-3,400	
Free Cash Flow	-1,633	-4,110	2,527	2,374	10,805	7,830	10,458	17,932	
(Pur.)/Sale of Investments	0	868	1,235	458	3	-12,051	0	0	
Others	3,484	2,330	871	-4,395	-8,144	980	2,065	2,047	
CF from Investments	-2,859	-3,572	-3,164	-7,414	-9,985	-14,351	-1,635	-1,353	
Inc./(Dec.) in Debt	121	3,574	-1,057	6,031	1,397	8,628	0	0	
Interest Paid	-636	-553	-546	-651	-536	-401	-529	-529	
Dividend Paid	-863	-2,176	-2,186	-4,396	-3,348	-4,219	-3,882	-4,721	
Others	0	1,098	649	-193	-230	-212	-392	-443	
CF from Fin. Activity	-1,379	846	-3,789	791	-2,718	3,796	-4,804	-5,693	
Inc./Dec. in Cash	473	-66	843	-771	-54	555	7,719	14,285	
Opening Balance	1,270	1,666	1,667	2,490	1,759	1,705	2,297	10,016	
Add/(less) Forex diff. in Cash and Cash eq.	-77	67	-20	40		37			
Closing Cash and Cash Eq.	1,666	1,667	2,490	1,759	1,705	2,297	10,016	24,301	
Bank Balances	2,326	4,101	4,126	9,163	18,199	23,489	23,489	23,489	
Total Cash and Cash Eq.	3,992	5,767	6,616	10,922	19,905	25,786	33,505	47,790	

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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