

Alkem Laboratories

Estimate change

TP change

Rating change


Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USD\$b)	372 / 4.7
52-Week Range (INR)	4068 / 2835
1, 6, 12 Rel. Per (%)	-8/-11/-16
12M Avg Val (INR M)	457

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	106.3	110.9	124.0
EBITDA	20.5	16.7	22.4
Adj. PAT	16.5	12.7	17.8
EBIT Margin (%)	16.4	12.3	15.5
Cons. Adj. EPS (INR)	138.1	106.1	148.6
EPS Gr. (%)	2.6	-23.2	40.0
BV/Sh. (INR)	722.5	800.8	915.9

Ratios

Net D:E	0.0	0.0	-0.2
RoE (%)	20.6	13.9	17.3
RoCE (%)	17.1	11.9	14.8
Payout (%)	23.7	22.5	22.5

Valuations

P/E (x)	22.4	29.2	20.9
EV/EBITDA (x)	18.1	21.9	15.8
Div. Yield (%)	0.9	0.6	0.9
FCF Yield (%)	2.1	1.7	4.4
EV/Sales (x)	3.5	3.3	2.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	57.1	57.1	58.8
DII	14.1	14.1	14.5
FII	5.7	5.4	4.5
Others	23.1	23.3	22.2

FII Includes depository receipts

CMP: INR3,112
TP: INR3,240 (+4%)
Neutral

US Generics and higher OPEX drags earnings

Downgrade our rating on the stock to Neutral

- ALKEM delivered a lower than expected 1QFY23 earnings, led by a sharp rise in operational cost and increased competition in the US Generics segment. In addition to the Domestic Formulation (DF) segment and US Generics, it is adding Biosimilars and contract development and manufacturing operations (CDMO) as additional growth levers over the next four-to-five years.
- We cut our FY23/FY24 earnings estimate by 24%/13% to factoring in: a) a sharp price erosion in the US base portfolio, b) considerable increase in marketing and promotional spends in the Branded Generics segment, and c) increased logistics cost. We value ALKEM at 21x 12M forward earnings to arrive at our target price of INR3,240.
- Considering the moderate earnings CAGR of 3% over FY22-24 and limited upside from a valuation perspective, we downgrade the stock to Neutral.

Higher employee cost and other expenses hurt margin in 1QFY23

- Revenue declined by 6% YoY to INR25.8b (est. INR25.8b).
- DF sales declined by 7% YoY to INR17.8b (70% of sales). US sales fell 8% YoY to INR5.6b (22% of sales). Other International sales grew 10% YoY to INR2b (8% of sales).
- Gross margin (GMs) contracted by 240bp YoY to 57.5% due to price erosion in the US market and higher raw material price inflation.
- EBITDA margin contracted by 1,110bp YoY to 10.6% (est. 15.5%) due to lower GMs and higher other expenses (up 670bp as a percentage of sales).
- Accordingly, EBITDA decreased by 54% YoY to INR2.7b (est. of INR4b).
- Interest cost increased by 106% to INR265m.
- Adjusted PAT fell at a higher rate of 60% YoY to INR1.9b (est. INR2.9b).

Highlights from the management commentary

- The management remains confident of clocking 10% YoY growth in sales in the US Generic segment in FY23.
- It expects EBITDA margin to be 100-200bp lower than its earlier guidance of 18% for FY23.
- Overall, GM is expected to be 59% in FY23.
- Other expenses rose INR1b QoQ in 1QFY23 due to a forex loss of INR500m and a one-time expense to the tune of INR200-250m.
- Price erosion in the US base portfolio and increased RM cost, resulted in a lower gross margin in 1QFY23.
- Trade Generics constitute ~20% of the Domestic Formulation segment.
- ALKEM has sufficient MRs at present in the DF segment and will focus on improving productivity.

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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.

Quarterly Perf. (Consolidated)											(INR m)	
Y/E March	FY22				FY23E				FY22	FY23E	Vaq	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	%
Net Revenues	27,314	27,999	26,190	24,839	25,764	28,331	29,162	27,660	1,06,342	1,10,917	25,823	-0.2
YoY Change (%)	38.1	18.5	13.0	13.3	-5.7	1.2	11.3	11.4	20.2	4.3	-5.5	
EBITDA	5,929	6,243	4,985	3,372	2,732	4,618	5,016	4,382	20,529	16,748	4,003	-31.7
YoY Change (%)	16.9	4.0	-5.8	-9.1	-53.9	-26.0	0.6	29.9	2.2	-18.4	-32.5	
Margins (%)	21.7	22.3	19.0	13.6	10.6	16.3	17.2	15.8	19.3	15.1	15.5	
Depreciation	705	728	775	831	763	770	780	784	3,040	3,097	770	
EBIT	5,223	5,515	4,210	2,541	1,970	3,848	4,236	3,598	17,490	13,652	3,233	
YoY Change (%)	18.6	4.0	-8.5	-16.0	-62.3	-30.2	0.6	41.6	38.7	-21.2	-38.1	
Margins (%)	19.1	19.7	16.1	10.2	7.6	13.6	14.5	13.0	16.4	12.3	12.5	
Interest	129	120	106	170	265	270	280	297	524	1,112	150	
Other Income	467	420	535	205	514	490	510	521	1,627	2,035	240	
PBT before EO Exp	5,561	5,815	4,639	2,576	2,219	4,068	4,466	3,823	18,592	14,575	3,323	-33.2
EO Exp/(Inc)	0	0	0	150	700	0	0	0	150	700	0	
PBT after EO Exp	5,561	5,815	4,639	2,427	1,519	4,068	4,466	3,823	18,443	13,875	3,323	
Tax	759	230	-694	1,345	204	415	500	337	1,640	1,457	316	
Rate (%)	13.6	4.0	-15.0	55.4	13.5	10.2	11.2	8.8	8.8	10.0	9.5	
PAT (pre Minority Interest)	4,802	5,584	5,334	1,082	1,315	3,653	3,966	3,485	16,803	12,418	3,007	
Minority Interest	121	95	77	6	38	46	28	227	300	339	64	
Reported PAT	4,681	5,489	5,257	1,076	1,276	3,607	3,938	3,259	16,503	12,079	2,943	-56.6
Adj Net Profit	4,681	5,489	4,052	2,293	1,882	3,607	3,938	3,259	16,516	12,685	2,943	-36.0
YoY Change (%)	17.1	16.3	-3.8	-27.7	-59.8	-34.3	-2.8	42.1	2.6	-23.2	-37.1	

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
India formulations	19,097	19,605	18,156	17,187	17,815	20,389	20,698	20,326	74,045	79,228	18,524
YoY Change (%)	65.3	25.9	19.9	16.7	(6.7)	4.0	14.0	18.3	29.9	16.0	(3.0)
US generics	6,043	6,097	5,731	5,419	5,565	5,792	6,189	6,483	23,291	24,030	5,439
YoY Change (%)	(9.3)	(2.6)	(6.9)	(0.3)	(7.9)	(5.0)	8.0	19.6	(5.0)	3.2	(10.0)
International (Ex-US)	1,860	1,954	1,978	1,991	2,039	2,149	2,275	2,490	7,785	8,953	1,860
YoY Change (%)	56.4	27.5	25.0	35.3	9.6	10.0	15.0	25.0	34.8	15.0	0.0
Cost Break-up											
RM Cost (% of Sales)	40.1	37.8	38.1	41.5	42.5	42.0	41.6	42.7	39.3	42.2	42.1
Staff Cost (% of Sales)	19.5	17.7	18.0	18.7	20.7	18.5	18.5	18.5	18.5	19.0	19.0
R&D Expenses(% of Sales)	4.3	5.0	5.5	6.6	5.1	5.2	5.2	5.3	5.3	5.2	6.4
Other Cost (% of Sales)	14.4	17.2	19.4	19.6	21.1	18.0	17.5	17.6	17.6	18.5	17.0
Gross Margins(%)	59.9	62.2	61.9	58.5	57.5	58.0	58.4	57.3	60.7	57.8	57.9
EBITDA Margins(%)	21.7	22.3	19.0	13.6	10.6	16.3	17.2	15.8	19.3	15.1	15.5
EBIT Margins(%)	19.1	19.7	16.1	10.2	7.6	13.6	14.5	13.0	16.4	12.3	12.5

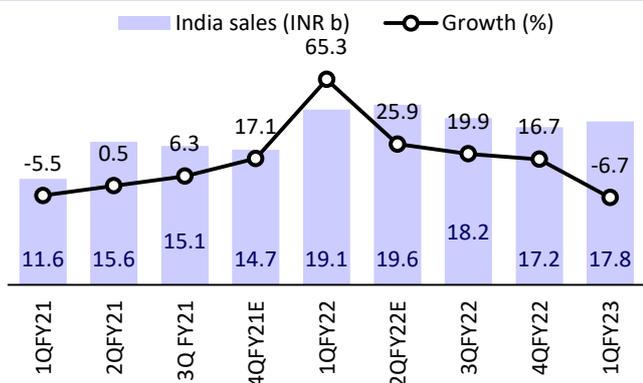


Management call highlights

- The other expenses are expected to be in the range of 23-24% as % of sales for FY23
- Considerable amount of higher cost raw material is already consumed and company expects some softening of prices of raw material going forward.
- ALKEM has built sufficient capacity for US generics segment and do not intend to incur meaningful capex over medium term for this segment.
- ALKEM spends about INR1.5b for opex and INR1b towards R&D related to biosimilars on annual basis.
- ALKEM has working capital cycle of 110 days on consolidated level.

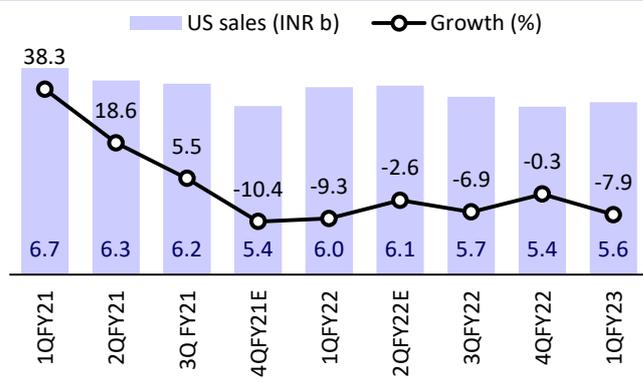
Key exhibits

Exhibit 1: DF revenue declined 7% YoY



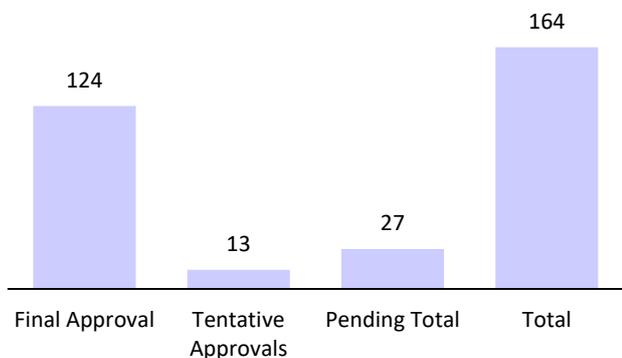
Source: MOFSL, Company

Exhibit 2: US sales declined 8% YoY



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOFSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	164
ANDAs filed in 1QFY23	3
NDA	2

Source: MOFSL, Company

DF: Outperformer; building CDMO/biosimilars as new drivers for growth
New launches remain the key to offset impact of increased competition in the base portfolio

- ALKEM’s sales in US was impacted due to price erosion being witnessed persistently seen in last 9-12 months. Particularly, in 1QFY23, ALKEM witnessed ~20% price erosion in the US portfolio.
- Filing pace has also slowed, with 3 filings and 4 approvals (including 1 tentative approval) in 1QFY23. Having said this, it has 164 ANDAs filed and has 124 final approvals till date.
- New launches remain critical to offset price erosion in the base portfolio.
- Accordingly, we expect ALKEM to deliver 6.5% sales CAGR in the US to reach ~USD352m over FY22-24E.

Superior execution in chronic therapies offset by high base of past year in DF segment

- ALKEM’s DF business declined 7% YoY to INR17.8b in 1MFY23 with sales of INR17.8b. On MAT basis, ALKEM outperformed IPM therapy growth in top therapies.
- Pain management and gastrointestinal witnessed a good double digit growth even on huge base of last year. In chronic therapies, ALKEM outperformed IPM

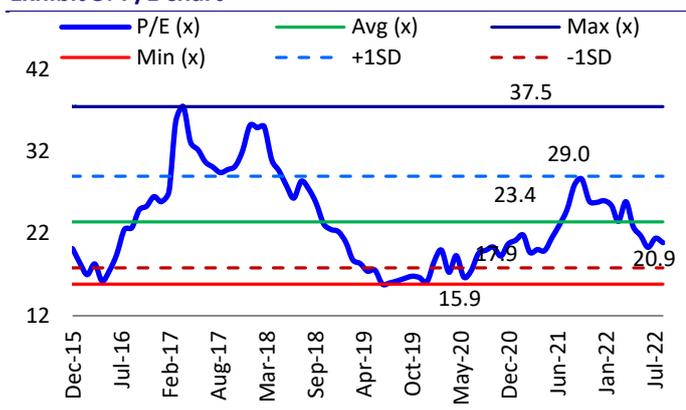
in the therapies of respiratory, anti-diabetes and derma, thereby gaining market share and improving their market rankings.

- In addition, trade generics segment continues to perform well, posting higher growth than the DF, despite decline in Covid cases. This segment contributes ~20% to DF revenues and continues to grow strongly, acting as an additional lever of growth.
- Accordingly, we expect ALKEM to register 10% sales CAGR in DF to INR90b over FY22-24E.

Downgrade to Neutral

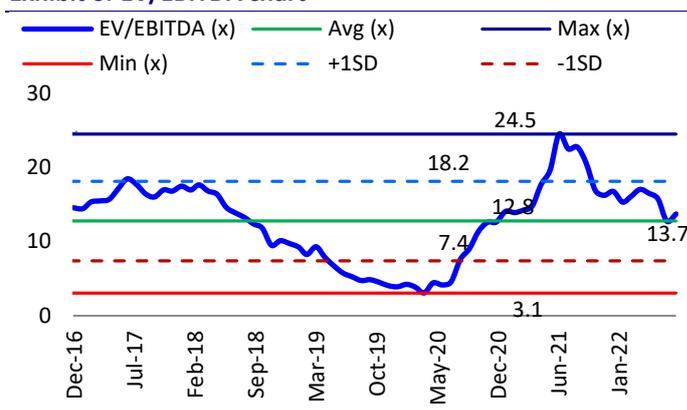
- We cut our earnings estimate by 24%/13% for FY23/FY24 factoring a) sharp price erosion in US base portfolio, b) considerable increase in the marketing and promotional spend in branded generics segment, and c) increased logistics cost.
- We value ALKEM at 21x 12M forward earnings to arrive at price target of INR3,240. Considering moderate CAGR of 3% over FY22-24 and limited upside from valuation perspective, we downgrade to Neutral.

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

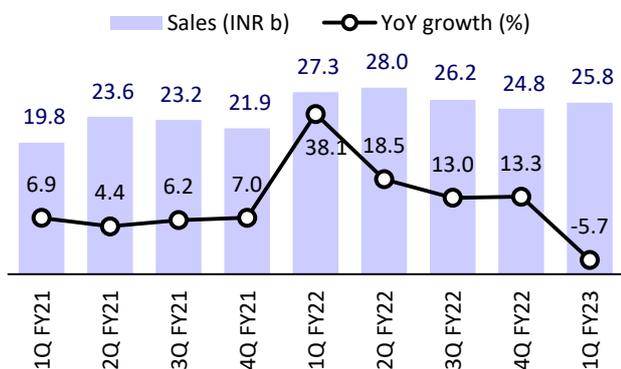
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

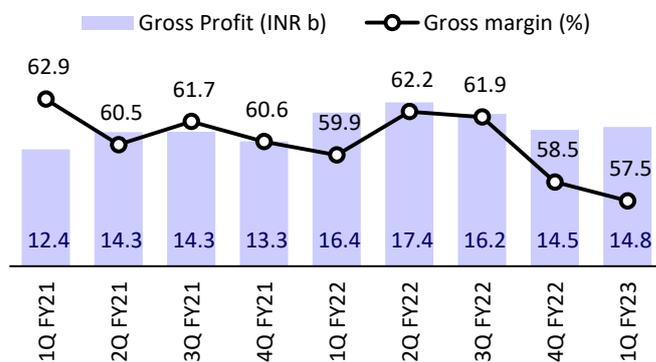
Story in charts

Exhibit 7: Total sales declined 6% YoY in 1QFY23



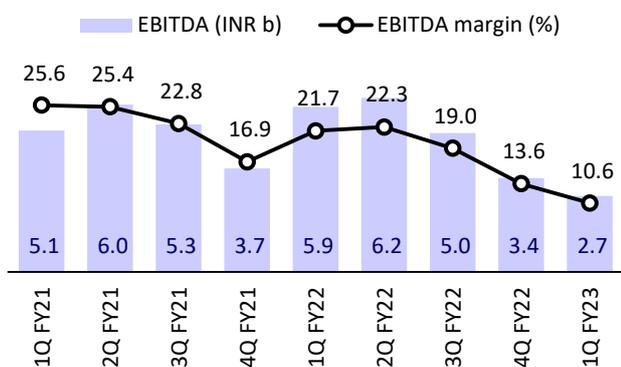
Source: Company, MOFSL

Exhibit 8: Gross margin contracted 240bp YoY in 1QFY23



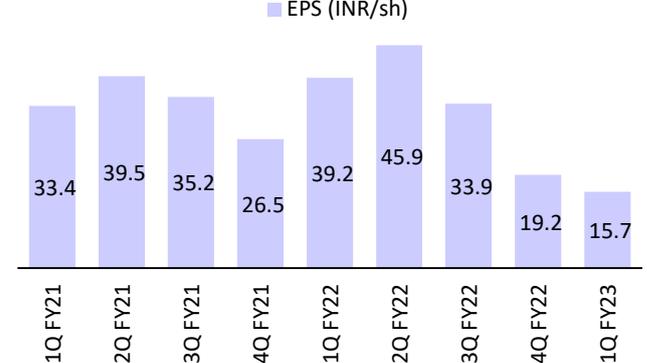
Source: Company, MOFSL

Exhibit 9: EBITDA margin contracted 1,110bp YoY in 1QFY23



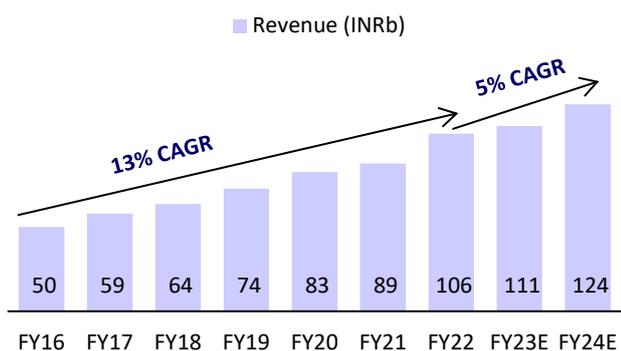
Source: Company, MOFSL

Exhibit 10: EPS declined 60% YoY to INR15.7 in 1QFY23



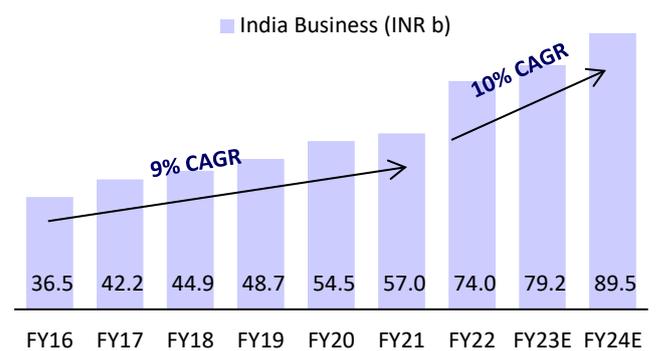
Source: Company, MOFSL

Exhibit 11: Expect revenue CAGR of 5% over FY22-24E



Source: Company, MOFSL

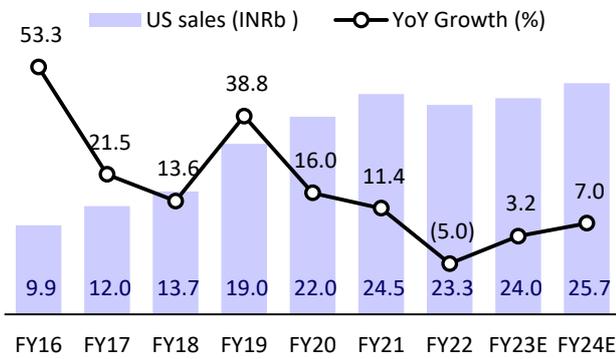
Exhibit 12: Expect India sales CAGR of 10% over FY22-24E



Source: Company, MOFSL

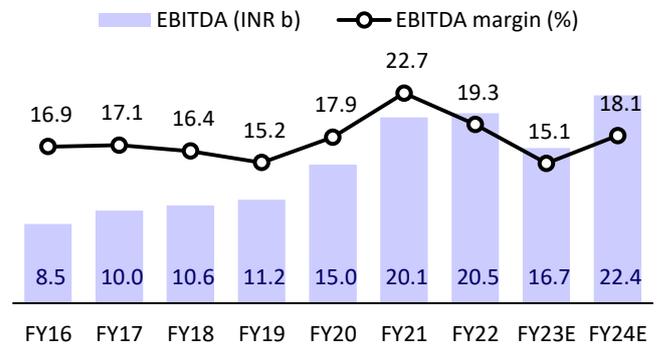
Story in charts

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



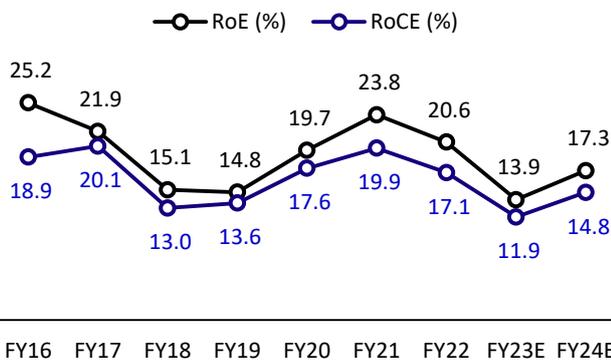
Source: Company, MOFSL

Exhibit 14: EBITDA margin to moderate by FY24



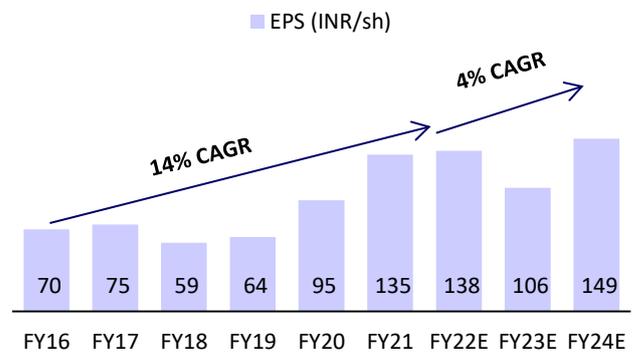
Source: Company, MOFSL

Exhibit 15: Surplus Cash to keep RoCE in check



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 4% over FY22-24E



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement								INRm
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	1,10,917	1,23,975
Change (%)	15.9	9.9	14.4	13.4	6.1	20.2	4.3	11.8
Total Expenditure	48,536	54,028	62,401	68,484	68,426	85,813	94,168	1,01,535
EBITDA	9,990	10,566	11,171	14,960	20,079	20,529	16,748	22,439
Margin (%)	17.1	16.4	15.2	17.9	22.7	19.3	15.1	18.1
Depreciation	1,012	1,430	1,932	2,348	2,746	3,040	3,097	3,178
EBIT	8,978	9,136	9,239	12,612	17,333	17,490	13,652	19,261
Int. and Finance Charges	452	553	546	651	589	524	1,112	1,059
Other Income	1,120	960	877	1,042	1,867	1,627	2,035	2,184
PBT bef. EO Exp.	9,646	9,542	9,570	13,004	18,611	18,592	14,575	20,386
EO Items	0	0	-23	-406	-190	-150	-700	0
PBT after EO Exp.	9,646	9,542	9,547	12,598	18,421	18,443	13,875	20,386
Current Tax	600	2,876	1,810	1,105	2,243	1,640	1,457	2,243
Tax Rate (%)	6.2	30.1	19.0	8.8	12.2	8.9	10.5	11.0
Less: Mionrity Interest	126	75	131	222	328	300	339	383
Reported PAT	8,920	6,309	7,606	11,271	15,850	16,503	12,079	17,761
Adjusted PAT	8,920	7,040	7,629	11,407	16,100	16,516	12,685	17,761
Change (%)	6.0	-21.1	8.4	49.5	41.1	2.6	-23.2	40.0
Margin (%)	15.2	10.9	10.4	13.7	18.2	15.5	11.4	14.3

Consolidated - Balance Sheet								INRm
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	95,500	1,09,262
Net Worth	44,676	48,638	54,393	61,607	73,767	86,379	95,739	1,09,501
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	1,24,299	1,38,061
Net Fixed Assets	13,945	18,733	21,056	23,063	22,339	22,871	24,340	24,885
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&Adv.	32,225	39,012	41,535	54,784	68,923	91,477	99,325	1,16,520
Inventory	12,060	14,422	14,999	18,188	23,124	30,055	30,959	29,487
Account Receivables	7,136	10,805	12,484	16,494	16,072	18,846	20,968	24,455
Cash and Bank Balance	3,993	5,768	6,616	10,922	19,905	25,786	29,885	43,003
Loans and Advances	9,036	8,017	7,437	9,180	9,822	16,790	17,513	19,574
Curr. Liability & Prov.	13,308	17,866	17,334	19,716	22,277	25,753	24,844	28,498
Account Payables	7,414	9,607	9,623	9,541	10,694	11,734	11,610	12,796
Other Current Liabilities	3,628	5,517	4,436	6,108	6,709	7,955	8,298	9,275
Provisions	2,266	2,742	3,275	4,067	4,874	6,064	4,936	6,428
Net Current Assets	18,917	21,145	24,202	35,068	46,647	65,725	74,481	88,021
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	1,24,299	1,38,061

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	106.1	148.6
Cash EPS	83.1	70.9	80.0	115.1	157.6	163.6	132.0	175.1
BV/Share	374	407	455	515	617	723	801	916
DPS	6.0	15.0	15.0	17.9	27.8	27.6	19.2	28.2
Payout (%)	9.7	34.3	28.5	22.5	24.9	23.7	22.5	22.5
Valuation (x)								
P/E	41.6	52.7	48.6	32.5	23.0	22.4	29.2	20.9
Cash P/E	37.3	43.8	38.8	26.9	19.7	19.0	23.5	17.7
P/BV	8.3	7.6	6.8	6.0	5.0	4.3	3.9	3.4
EV/Sales	6.4	5.8	5.1	4.5	4.2	3.5	3.3	2.9
EV/EBITDA	37.4	35.4	33.4	25.2	18.3	18.1	21.9	15.8
Dividend Yield (%)	0.2	0.5	0.5	0.6	0.9	0.9	0.6	0.9
FCF per share	-13.7	-34.4	21.1	19.9	90.4	65.5	52.1	137.0
Return Ratios (%)								
RoE	21.9	15.1	14.8	19.7	23.8	20.6	13.9	17.3
RoCE	20.1	13.0	13.6	17.6	19.9	17.1	11.9	14.8
RoIC	24.4	15.1	15.8	20.5	23.7	21.6	14.4	19.3
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	102	87
Debtor (Days)	45	61	62	72	66	65	68	71
Creditor (Days)	46	55	48	42	44	40	38	38
Leverage Ratio (x)								
Debt/Equity	0.1	0.1	0.0	0.1	0.0	0.0	0.0	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
INRm								
OP/(Loss) before Tax	9,646	9,260	9,547	12,598	18,421	18,443	14,575	20,386
Depreciation	1,012	1,430	1,932	2,528	2,746	3,040	3,097	3,178
Interest & Finance Charges	-592	-234	134	19	-312	-703	-924	-1,125
Direct Taxes Paid	-2,640	-2,032	-2,511	-2,834	-4,007	-3,969	-1,457	-2,243
(Inc)/Dec in WC	-2,626	-5,732	-1,403	-6,472	-3,412	-5,450	-5,357	-422
CF from Operations	4,801	2,692	7,698	5,839	13,436	11,361	9,934	19,775
Others	-90	-32	98	12	-787	-250	0	0
CF from Operating incl EO	4,711	2,660	7,797	5,851	12,649	11,110	9,934	19,775
(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	6,234	16,375
(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	2,035	2,184
CF from Investments	-2,859	-3,572	-3,164	-7,414	-9,985	-14,351	-1,665	-1,216
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	-1,112	-1,059
Dividend Paid	-863	-2,176	-2,186	-4,396	-3,348	-4,219	-2,720	-3,999
Others	0	1,098	649	-193	-230	-212	-339	-383
CF from Fin. Activity	-1,379	846	-3,789	791	-2,718	3,796	-4,170	-5,441
Inc/Dec of Cash	473	-66	843	-771	-54	555	4,099	13,118
Opening Balance	1,270	1,666	1,667	2,490	1,759	1,705	2,297	6,396
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	6,396	19,514
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	29,885	43,003

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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