




Alkem Laboratories

Estimate change 

TP change

Rating change 

CMP: INR3,293

TP: INR3,470 (+5%)

Neutral

4Q – A Miss; Ends FY23 on weakest margins since past 5-years

Shutdown of St. Louis facility to improve profitability going forward

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	393.7 / 4.8
52-Week Range (INR)	3625 / 2830
1, 6, 12 Rel. Per (%)	-5/6/-2
12M Avg Val (INR M)	368

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	116.0	127.1	142.9
EBITDA	16.8	21.0	24.7
Adj. PAT	12.7	16.5	20.0
EBIT Margin (%)	11.8	14.0	15.1
Cons. Adj. EPS (INR)	106.0	138.4	167.0
EPS Gr. (%)	-23.2	30.5	20.6
BV/Sh. (INR)	756.6	863.9	993.2

Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	14.3	17.1	18.0
RoCE (%)	11.3	15.8	16.8
Payout (%)	23.7	22.5	22.5

Valuations

P/E (x)	31.1	23.9	19.8
EV/EBITDA (x)	22.8	18.2	15.2
Div. Yield (%)	0.5	0.8	1.0
FCF Yield (%)	4.6	1.1	2.0
EV/Sales (x)	3.3	3.0	2.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	57.2	57.2	57.1
DII	16.7	16.4	14.1
FII	4.4	4.4	5.4
Others	21.7	22.0	23.3

FII Includes depository receipts

- Alkem Laboratories (ALKEM) reported lower-than-expected operating performance in 4QFY23. While sales were better than expected in domestic formulation (DF) and Non-US exports, higher raw material (RM) and marketing costs hit profitability for the quarter. It continued to lead the industry in DF segment for FY23 across its focus therapies.
- We cut our FY24E/FY25E earnings by 6%/7% to factor in: a) increased promotional spends, b) prolonged period of elevated RM cost, particularly Pen-G, and c) higher effective tax rate (ETR). We continue to value ALKEM at 21x 12M forward earnings to arrive at our TP of INR3,470.
- While ALKEM is on a steady growth path in the DF segment, it is also executing its efforts to optimize operating cost and improve overall profitability. Further, the company is adding another growth lever through investment in biosimilar segment. **Maintain Neutral due to limited upside from the current levels.**

Higher RM cost/price erosion in the US/higher opex hurt margins in 4Q

- ALKEM's 4QFY23 revenue rose 17% YoY to INR29b (our estimate: INR27.1b).
- DF grew 17% YoY to INR20b (73% of sales). International business was up 16% YoY to INR8.6b. The US sales rose 9% YoY to INR5.9b (20% of sales). Other international sales grew 33% YoY to INR2.7b (7% of sales) in 4QFY23.
- Gross margin (GM) contracted 170bp YoY to 56.7% due to price erosion in the US market and high raw material prices.
- EBITDA margin contracted 140bp YoY to 12.2% (our est: 15.9%) due to lower GM and higher other expenses (+260bp YoY) offset by lower R&D cost and employee expenses (-140bp/-150bp YoY as a % of sales).
- Accordingly, EBITDA increased 5% YoY to INR3.5b (v/s est. of INR4.3b).
- There was a one-time impairment loss of INR1b with respect to one of the manufacturing units located at St. Louis under S & B Pharma LLC, USA.
- Adjusted for the one-time tax impact of INR1.2b on account of impairment, adj PAT grew 28% YoY to INR2.9b (our est: INR3.1b).
- For FY23, sales grew 9% YoY to INR116b; however, EBITDA/PAT declined 18%/23% YoY to INR17b/INR13b.

Highlights from the management commentary

- ALKEM guided for 200bp YoY margin expansion to 16% in FY24. The margin improvement would be driven by lower RM prices, cost optimization and closure of St. Louis facility.
- With shutdown of the St. Louis facility, the cost savings would be INR1.0b-INR1.1b on an annualized basis.
- Sales and marketing expenses were higher in 4QFY23 (+INR300-400m QoQ) dragging margins. Further, NLEM-linked price reduction also impacted profitability adversely for the quarter.

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR m)

Y/E March	FY22				FY23				FY22	FY23	4QE	Vaq %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	27,314	27,999	26,190	24,839	25,764	30,794	30,409	29,026	106,342	115,993	27,123	7.0
YoY Change (%)	38.1	18.5	13.0	13.3	-5.7	10.0	16.1	16.9	20.2	9.1	9.2	
EBITDA	5,929	6,243	4,985	3,372	2,732	4,539	5,991	3,533	20,529	16,795	4,308	-18.0
YoY Change (%)	16.9	4.0	-5.8	-9.1	-53.9	-27.3	20.2	4.8	2.2	-18.2	27.7	
Margins (%)	21.7	22.3	19.0	13.6	10.6	14.7	19.7	12.2	19.3	14.5	15.9	
Depreciation	705	728	775	831	763	774	784	783	3,040	3,104	776	
EBIT	5,223	5,515	4,210	2,541	1,970	3,765	5,206	2,749	17,490	13,690	3,532	
YoY Change (%)	18.6	4.0	-8.5	-16.0	-62.3	-31.7	23.7	8.2	38.7	-21.0	39.0	
Margins (%)	19.1	19.7	16.1	10.2	7.6	12.2	17.1	9.5	16.4	11.8	13.0	
Interest	129	120	106	170	265	249	271	290	524	1,074	275	
Other Income	467	420	535	205	514	507	453	687	1,627	2,161	473	
PBT before EO Exp	5,561	5,815	4,639	2,576	2,219	4,023	5,389	3,146	18,592	14,778	3,730	-15.6
EO Exp/(Inc)	0	0	0	150	700	0	0	1,030	150	1,730	0	
PBT after EO Exp	5,561	5,815	4,639	2,427	1,519	4,023	5,389	2,117	18,443	13,048	3,730	
Tax	759	230	-694	1,345	204	546	789	1,440	1,640	2,980	513	
Rate (%)	13.6	4.0	-15.0	55.4	13.5	13.6	14.6	68.0	8.8	20.2	13.7	
PAT (pre Minority Interest)	4,802	5,584	5,334	1,082	1,315	3,477	4,600	677	16,803	10,068	3,217	
Minority Interest	121	95	77	6	38	169	53	-33	300	226	80	
Reported PAT	4,681	5,489	5,257	1,076	1,276	3,308	4,547	710	16,503	9,842	3,138	-77.4
Adj Net Profit	4,681	5,489	4,052	2,293	1,882	3,308	4,547	2,940	16,516	12,678	3,138	-6.3
YoY Change (%)	17.1	16.3	-3.8	-27.7	-59.8	-39.7	12.2	28.2	2.6	-23.2	36.8	

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23				FY22	FY23	4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
INRm											
India formulations	19,097	19,605	18,156	17,187	17,815	22,161	19,922	20,113	74,045	80,011	19,330
YoY Change (%)	65.3	25.9	19.9	16.7	(6.7)	13.0	9.7	17.0	29.9	8.1	12.5
US generics	6,043	6,097	5,731	5,419	5,565	6,040	7,612	5,916	23,291	25,134	6,692
YoY Change (%)	(9.3)	(2.6)	(6.9)	(0.3)	(7.9)	(0.9)	32.8	9.2	(5.0)	7.9	23.5
International (Ex-US)	1,860	1,954	1,978	1,991	2,039	2,251	2,316	2,654	7,785	9,259	2,347
YoY Change (%)	56.4	27.5	25.0	35.3	9.6	15.2	17.1	33.3	34.8	18.9	17.9
Cost Break-up											
RM Cost (% of Sales)	40.1	37.8	38.1	41.5	42.5	42.4	41.1	43.3	39.3	42.3	42.0
Staff Cost (% of Sales)	19.5	17.7	18.0	18.7	20.7	18.5	17.3	17.3	18.5	18.4	19.5
R&D Expenses(% of Sales)	4.3	5.0	5.5	6.6	5.1	4.2	4.3	5.1	5.3	4.7	4.5
Other Cost (% of Sales)	14.4	17.2	19.4	19.6	21.1	20.0	17.7	22.2	17.6	20.2	18.1
Gross Margin (%)	59.9	62.2	61.9	58.5	57.5	57.6	58.9	56.7	60.7	57.7	58.0
EBITDA Margin (%)	21.7	22.3	19.0	13.6	10.6	14.7	19.7	12.2	19.3	14.5	15.9
EBIT Margin (%)	19.1	19.7	16.1	10.2	7.6	12.2	17.1	9.5	16.4	11.8	13.0

E: MOFSL Estimates

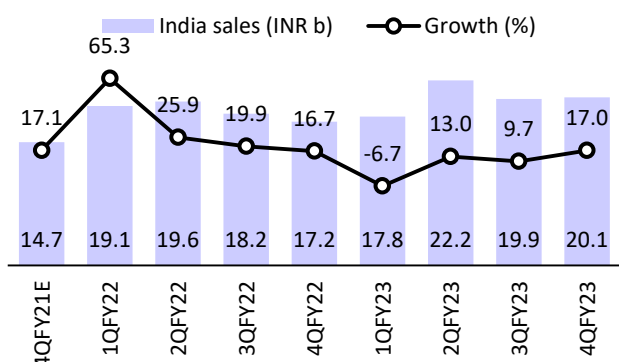


Management call highlights

- Inflation-linked price hike benefit would be visible from 2QFY24 onwards
- ALKEM had product introduction-related YoY growth to the tune of 3.1% in DF segment v/s industry run-rate of 2.1% in FY23.
- Management guided for capex of INR3.0b-INR3.5b in FY24, largely towards the biosimilar segment.
- There is scope of value unlocking in Enzene over the next 4-5 years.
- Trade generics contribution stood at 21% YoY in FY23 and grew in single digit during the year.
- The ETR would be 14-15% for FY24.

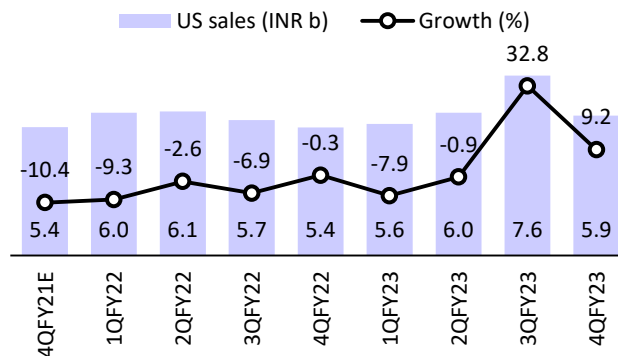
Key exhibits

Exhibit 1: DF revenue grew 17% YoY in 4QFY23



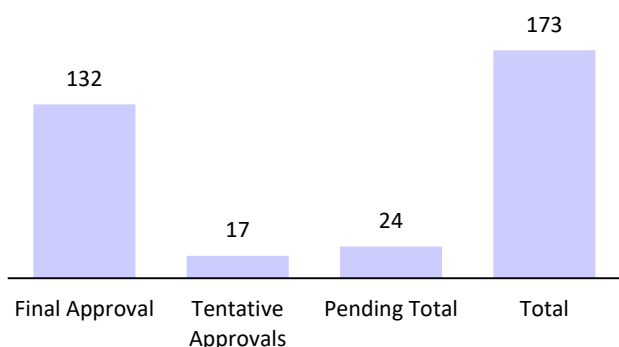
Source: MOFSL, Company

Exhibit 2: The US sales increased 9% YoY in 4QFY23



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOFSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	173
ANDAs filed in 4QFY23	4
NDA	2

Source: MOFSL, Company

Superior execution continues in DF; new launches remain the key for revival in the US

Strong traction in chronic/robust franchise in acute to sustain growth momentum

- ALKEM's DF business grew 8% YoY to INR80b in FY23. The outperformance was fueled by robust performance across chronic and acute therapies.
- In FY23, in the acute segment, anti-infectives/GI/pain outperformed IPM by 240bp/520bp/600bp.
- Similarly, in FY23, ALKEM delivered phenomenal growth in chronic segment with anti-diabetic segment growing at 29.4% YoY v/s 6.8% YoY for IPM. Moreover, it grew 19.8%/16.0% YoY v/s IPM growth of 11.5%/6.2% YoY in Neuro/Derma therapies.
- Accordingly, we expect ALKEM to register 13% sales CAGR in DF to INR103b over FY23-25.

US: product introduction/cost rationalization measures to aid better outlook

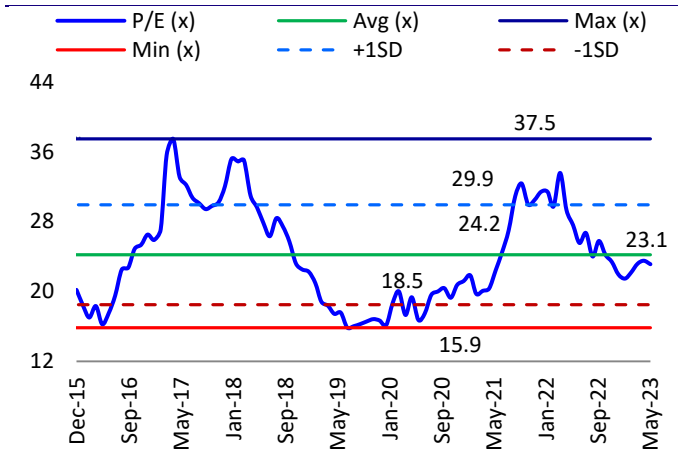
- In FY23, the US sales stood flat YoY to USD310m. The US business continued to face significant competition leading to price erosion on the base portfolio. However, in INR terms, the US sales grew 8% YoY to INR25b due to the impact of INR depreciation v/s the USD.
- Moreover, ALKEM continues to focus on new product launches. In FY23, the company filed 12 ANDAs. At the end of FY23, it has 173 ANDAs filed and has 132 final approvals.
- In addition to product launches, the closure of St. Louis facility will help increase cost savings by INR1.0-1.1b in FY24.
- Overall, we expect ALKEM to deliver 4.5% sales CAGR in the US to reach ~USD339m over FY23-25.

Maintain Neutral

We cut our FY24E/FY25E earnings by 6%/7% to factor in: a) increased promotional spends, b) prolonged period of elevated RM cost, particularly Pen-G, and c) higher effective tax rate (ETR). We continue to value ALKEM at 21x 12M forward earnings to arrive at our TP of INR3,470.

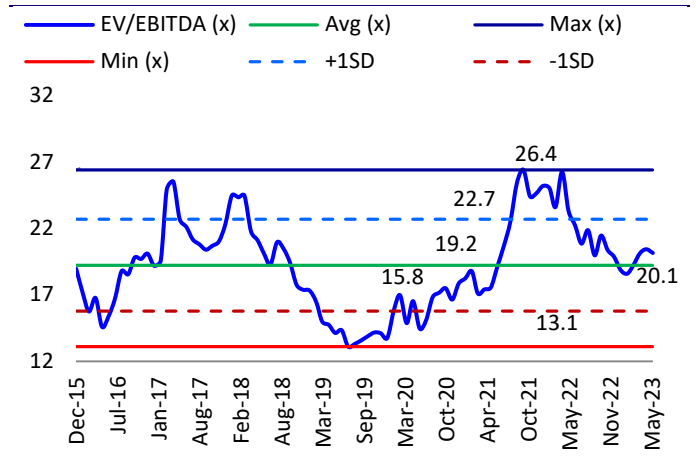
- While ALKEM is on a steady growth path in the DF segment, it is also executing its efforts to optimize operating cost and improve overall profitability. Further, the company is adding another growth lever through investment in biosimilar segment. **Maintain Neutral due to limited upside from the current levels.**

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

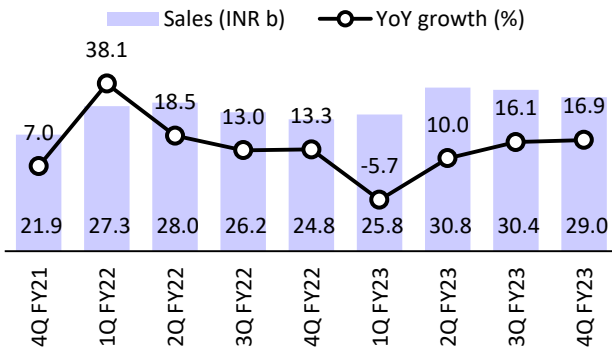
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

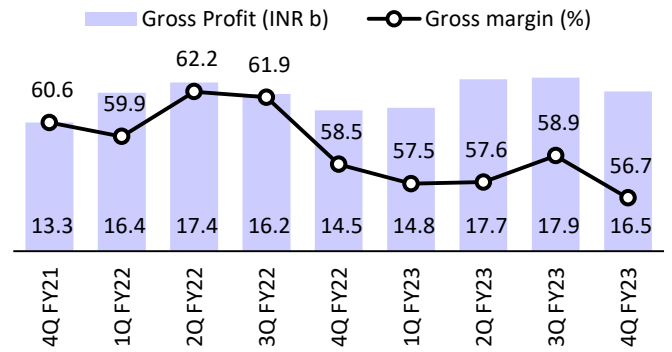
Story in charts

Exhibit 7: Total sales grew 17% YoY in 4QFY23



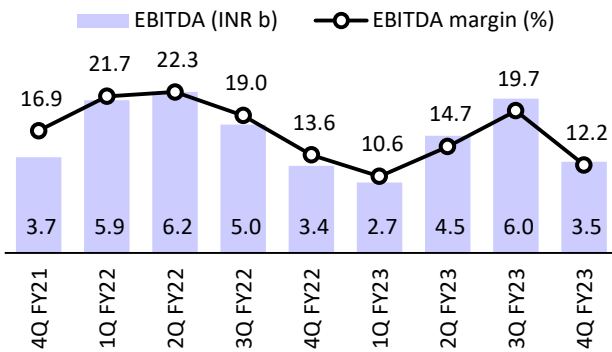
Source: Company, MOFSL

Exhibit 8: Gross margin contracted 170bp YoY in 4QFY23



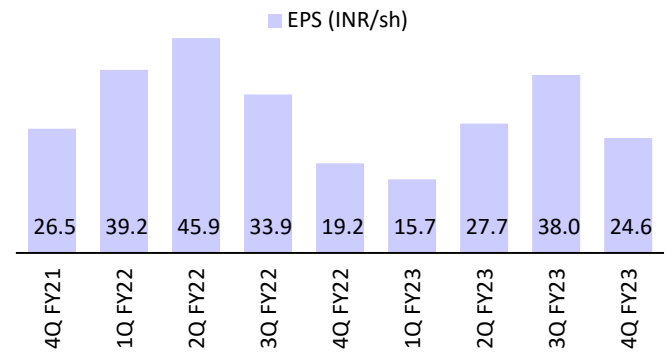
Source: Company, MOFSL

Exhibit 9: EBITDA margin contracted 140bp YoY in 4QFY23



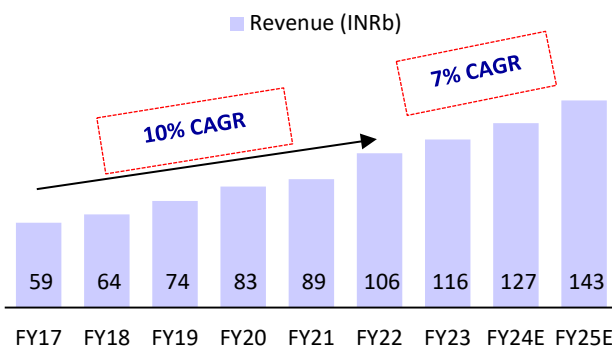
Source: Company, MOFSL

Exhibit 10: EPS increased 28% YoY to ~INR25 in 4QFY23



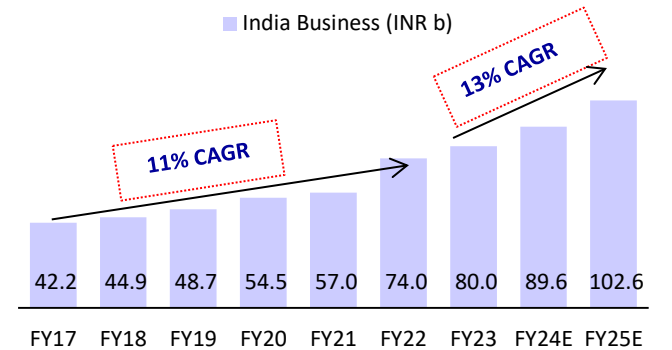
Source: Company, MOFSL

Exhibit 11: Expect revenue CAGR of 7% over FY23-25



Source: Company, MOFSL

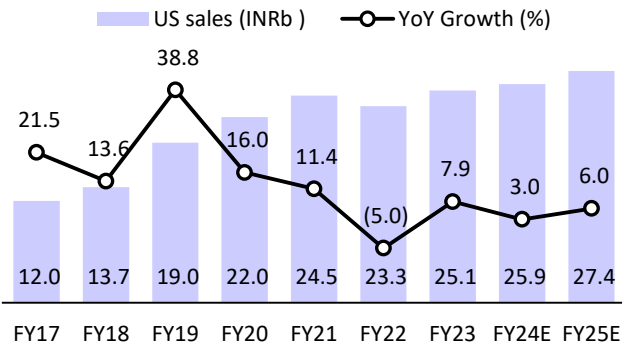
Exhibit 12: Expect India sales CAGR of 13% over FY23-25



Source: Company, MOFSL

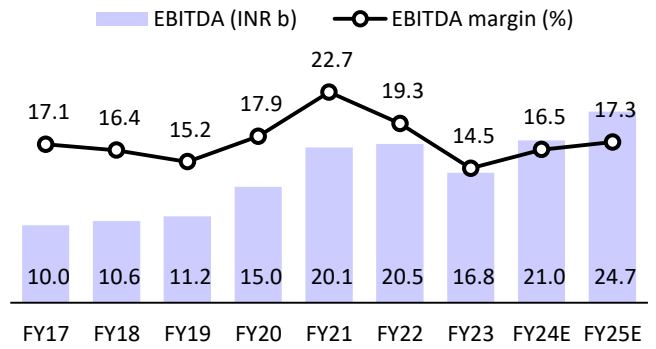
Story in charts

Exhibit 13: Expect 4.5% sales CAGR in the US over FY23-25



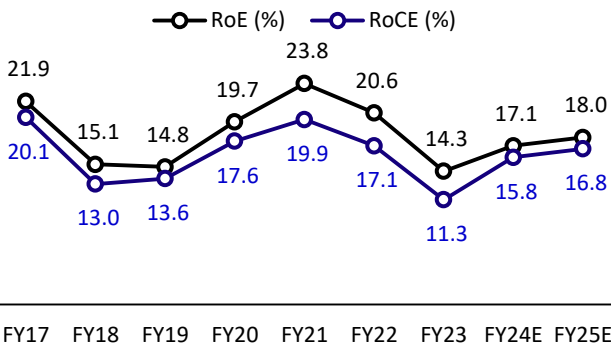
Source: Company, MOFSL

Exhibit 14: EBITDA margin to expand 280bp over FY23-25E



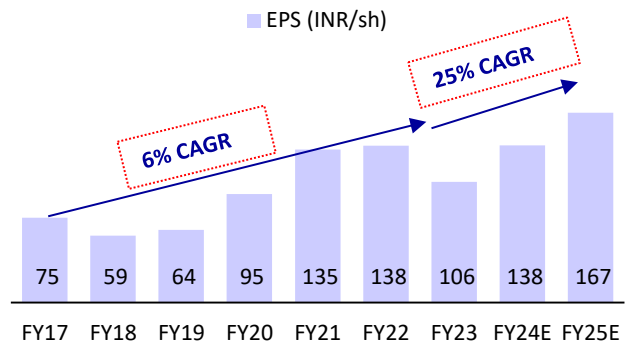
Source: Company, MOFSL

Exhibit 15: Return ratios to increase going forward



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 25% over FY23-25



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement

INR m

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	58,525	64,312	73,572	83,444	88,505	106,342	115,993	127,098	142,923
Change (%)	15.9	9.9	14.4	13.4	6.1	20.2	9.1	9.6	12.5
Total Expenditure	48,536	54,028	62,401	68,484	68,426	85,813	99,198	106,127	118,197
EBITDA	9,990	10,566	11,171	14,960	20,079	20,529	16,795	20,971	24,726
Margin (%)	17.1	16.4	15.2	17.9	22.7	19.3	14.5	16.5	17.3
Depreciation	1,012	1,430	1,932	2,348	2,746	3,040	3,104	3,114	3,169
EBIT	8,978	9,136	9,239	12,612	17,333	17,490	13,690	17,857	21,557
Int. and Finance Charges	452	553	546	651	589	524	1,074	826	758
Other Income	1,120	960	877	1,042	1,867	1,627	2,161	2,240	2,475
PBT bef. EO Exp.	9,646	9,542	9,570	13,004	18,611	18,592	14,778	19,271	23,275
EO Items	0	0	-23	-406	-190	-150	-1,730	0	0
PBT after EO Exp.	9,646	9,542	9,547	12,598	18,421	18,443	13,048	19,271	23,275
Current Tax	600	2,876	1,810	1,105	2,243	1,640	2,980	2,467	3,026
Tax Rate (%)	6.2	30.1	19.0	8.8	12.2	8.9	22.8	12.8	13.0
Less: Minority Interest	126	75	131	222	328	300	226	256	289
Reported PAT	8,920	6,309	7,606	11,271	15,850	16,503	9,842	16,548	19,960
Adjusted PAT	8,920	7,040	7,629	11,407	16,100	16,516	12,678	16,548	19,960
Change (%)	6.0	-21.1	8.4	49.5	41.1	2.6	-23.2	30.5	20.6
Margin (%)	15.2	10.9	10.4	13.7	18.2	15.5	10.9	13.0	14.0

Consolidated - Balance Sheet

INR m

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	239	239	239	239	239	239	239	239	239
Total Reserves	44,437	48,399	54,154	61,368	73,528	86,140	90,214	103,036	118,502
Net Worth	44,676	48,638	54,393	61,607	73,767	86,379	90,453	103,275	118,741
Minority Interest	1,152	1,216	1,326	1,483	1,813	2,094	3,897	3,897	3,897
Deferred Tax Liabilities	5	17	3	0	0	0	0	0	0
Total Loans	6,539	8,920	9,026	16,628	17,336	26,466	13,775	13,775	13,775
Capital Employed	52,373	58,790	64,748	79,717	92,916	114,939	108,125	120,947	136,413
Net Fixed Assets	13,945	18,733	21,056	23,063	22,339	22,871	20,654	21,722	22,161
Goodwill on Consolidation	4,026	4,103	4,248	6,017	5,591	6,146	4,796	4,796	4,796
Capital WIP	2,993	3,810	4,930	3,630	3,933	3,395	3,103	2,321	2,215
Total Investments	5,530	4,443	3,236	2,614	3,328	3,710	6,218	6,218	6,218
Curr. Assets, Loans&Adv.	32,225	39,012	41,535	54,784	68,923	91,477	89,770	101,903	121,066
Inventory	12,060	14,422	14,999	18,188	23,124	30,055	26,075	29,076	33,354
Account Receivables	7,136	10,805	12,484	16,494	16,072	18,846	21,322	25,071	32,500
Cash and Bank Balance	3,993	5,768	6,616	10,922	19,905	25,786	25,786	27,688	32,645
Loans and Advances	9,036	8,017	7,437	9,180	9,822	16,790	16,587	20,068	22,566
Curr. Liability & Prov.	13,308	17,866	17,334	19,716	22,277	25,753	29,442	29,038	33,068
Account Payables	7,414	9,607	9,623	9,541	10,694	11,734	11,650	13,375	15,220
Other Current Liabilities	3,628	5,517	4,436	6,108	6,709	7,955	10,370	9,508	10,692
Provisions	2,266	2,742	3,275	4,067	4,874	6,064	7,421	6,155	7,156
Net Current Assets	18,917	21,145	24,202	35,068	46,647	65,725	60,329	72,866	87,998
Deferred Tax assets	6,963	6,556	7,076	9,326	11,079	13,093	13,025	13,025	13,025
Appl. of Funds	52,373	58,790	64,748	79,717	92,916	114,939	108,125	120,947	136,413

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	74.6	58.9	63.8	95.4	134.7	138.1	106.0	138.4	167.0
Cash EPS	83.1	70.9	80.0	115.1	157.6	163.6	132.0	164.5	193.5
BV/Share	374	407	455	515	617	723	757	864	993
DPS	6.0	15.0	15.0	17.9	27.8	27.6	16.5	26.3	31.7
Payout (%)	9.7	34.3	28.5	22.5	24.9	23.7	23.7	22.5	22.5
Valuation (x)									
P/E	44.3	56.1	51.7	34.6	24.5	23.9	31.1	23.9	19.8
Cash P/E	39.7	46.6	41.3	28.7	20.9	20.2	25.0	20.1	17.1
P/BV	8.8	8.1	7.3	6.4	5.4	4.6	4.4	3.8	3.3
EV/Sales	6.8	6.2	5.4	4.8	4.4	3.7	3.3	3.0	2.6
EV/EBITDA	39.8	37.7	35.6	26.8	19.5	19.3	22.8	18.2	15.2
Dividend Yield (%)	0.2	0.5	0.5	0.5	0.8	0.8	0.5	0.8	1.0
FCF per share	-13.7	-34.4	21.1	19.9	90.4	65.5	152.5	37.4	67.1
Return Ratios (%)									
RoE	21.9	15.1	14.8	19.7	23.8	20.6	14.3	17.1	18.0
RoCE	20.1	13.0	13.6	17.6	19.9	17.1	11.3	15.8	16.8
RoIC	24.4	15.1	15.8	20.5	23.7	21.6	13.6	19.7	20.8
Working Capital Ratios									
Asset Turnover (x)	1.1	1.1	1.1	1.0	1.0	0.9	1.1	1.1	1.0
Inventory (Days)	75	82	74	80	95	103	82	84	85
Debtor (Days)	45	61	62	72	66	65	67	72	83
Creditor (Days)	46	55	48	42	44	40	37	38	39
Leverage Ratio (x)									
Debt/Equity	0.1	0.1	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	9,646	9,260	9,547	12,598	18,421	18,443	14,778	19,271	23,275
Depreciation	1,012	1,430	1,932	2,528	2,746	3,040	3,104	3,114	3,169
Interest & Finance Charges	-592	-234	134	19	-312	-703	-1,087	-1,414	-1,718
Direct Taxes Paid	-2,640	-2,032	-2,511	-2,834	-4,007	-3,969	-2,980	-2,467	-3,026
(Inc)/Dec in WC	-2,626	-5,732	-1,403	-6,472	-3,412	-5,450	3,666	-10,634	-10,176
CF from Operations	4,801	2,692	7,698	5,839	13,436	11,361	17,481	7,870	11,524
Others	-90	-32	98	12	-787	-250	0	0	0
CF from Operating incl EO	4,711	2,660	7,797	5,851	12,649	11,110	17,481	7,870	11,524
(Inc)/Dec in FA	-6,344	-6,770	-5,269	-3,477	-1,845	-3,280	755	-3,400	-3,502
Free Cash Flow	-1,633	-4,110	2,527	2,374	10,805	7,830	18,237	4,470	8,022
(Pur)/Sale of Investments	0	868	1,235	458	3	-12,051	-2,508	0	0
Others	3,484	2,330	871	-4,395	-8,144	980	2,161	2,240	2,475
CF from Investments	-2,859	-3,572	-3,164	-7,414	-9,985	-14,351	408	-1,160	-1,027
Inc/(Dec) in Debt	121	3,574	-1,057	6,031	1,397	8,628	-12,691	0	0
Interest Paid	-636	-553	-546	-651	-536	-401	-1,074	-826	-758
Dividend Paid	-863	-2,176	-2,186	-4,396	-3,348	-4,219	-2,332	-3,726	-4,494
CF from Fin. Activity	-1,379	846	-3,789	791	-2,718	3,796	-16,324	-4,808	-5,541
Inc/Dec of Cash	473	-66	843	-771	-54	555	1,565	1,902	4,957
Opening Balance	1,270	1,666	1,667	2,490	1,759	1,705	2,297	3,862	5,764
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	3,862	5,764	10,721
Bank Balances	2,326	4,101	4,126	9,163	18,199	23,489	21,924	21,924	21,924
Total Cash and Cash Eq.	3,992	5,767	6,616	10,922	19,905	25,786	25,786	27,688	32,645

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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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