

Alkem Laboratories



Estimate change



TP change



Rating change



CMP: INR4,141

TP: INR3,810 (-8%)

Neutral

International markets and lower RM cost drive earnings Bioscience off-take at a healthy pace

- Alkem Laboratories (ALKEM) delivered better-than-expected 1QFY24 performance, fueled by superior traction in international markets. ALKEM's business growth was broad-based within international markets including the US, Chile, the UK, Kazakhstan and the Philippines.
- We cut our earnings estimates by 7%/1% for FY24/FY25, factoring in: a) unfavorable seasonality effect in domestic formulation (DF) segment, b) increased tax rate, and c) better prospects in bioscience segment as well as in international markets. We value ALKEM at 21x 12M forward earnings to arrive at our TP of INR3,810.
- While ALKEM continues to progress well in chronic segment (17-19% of branded generics part of DF sales), the growth prospects of acute segment remain volatile due to seasonality factor. The exports (34% of 1QFY24 sales) have seen healthy uptick from existing products. However, we await new approvals for sustainable growth. Further, the valuation adequately factors in the upside in the earnings. **Maintain Neutral.**

Better geography mix drives profitability YoY/QoQ

- ALKEM's 1QFY24 revenue increased 15.2% YoY to INR29.7b (our estimate: INR29.2b). Domestic business grew 7% YoY to INR19b (64% of sales). International business rose 33% YoY to INR10b. Within international business, the US sales grew 25% YoY to INR6.9b (23% of sales). Other International sales jumped 56% YoY to INR3.2b (11% of sales).
- Gross margin expanded 210bp YoY to 59.6% due to lower RM prices.
- EBITDA margin improved 250bp YoY to 13.1% (our est: 12.5%) due to higher GM and lower R&D costs/employee expenses (-110bp/-150bp YoY as a % of sales) offset by increase in other expenses (+220bp as a % of sales).
- Accordingly, EBITDA increased 42.4% YoY to INR3.9b (vs. est. of INR3.7b).
- Adj PAT jumped 52.3% YoY to INR2.9b (our est: INR2.7b) due to lower taxes.

Highlights from the management commentary

- ALKEM guided for high-single digit YoY growth in DF segment vs. earlier guidance of double-digit growth for FY24.
- ALKEM maintained its overall EBITDA margin guidance of 16% for FY24.
- The US generics witnessed price erosion of high-single digit vs. double-digit decline experienced earlier.
- The Enzene biosciences (biotech arm) garnered sales of INR570m for 1QFY24. Management guided for FY24 sales of INR2.4b (vs INR1.6b in FY23).
- ALKEM expects Enzene breakeven by FY25.
- Management guided for gross margin to be at 59.0%-59.5% for FY24
- The effective tax rate is expected to be 17-19% for FY24.



Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	495.5 / 6
52-Week Range (INR)	4271 / 2830
1, 6, 12 Rel. Per (%)	18/16/29
12M Avg Val (INR M)	458

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	116.0	126.5	142.1
EBITDA	16.8	19.9	24.6
Adj. PAT	12.7	15.3	19.5
EBIT Margin (%)	11.8	13.4	15.1
Cons. Adj. EPS (INR)	106.0	128.1	163.2
EPS Gr. (%)	-23.2	20.8	27.4
BV/Sh. (INR)	756.6	855.9	982.4

Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	14.3	15.9	17.8
RoCE (%)	11.3	15.0	16.5
Payout (%)	23.7	22.5	22.5

Valuations

P/E (x)	39.0	32.3	25.4
EV/EBITDA (x)	28.8	24.3	19.4
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	4.6	0.7	2.1
EV/Sales (x)	4.2	3.8	3.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	57.2	57.2	57.1
DII	16.3	16.7	14.1
FII	5.6	4.4	5.7
Others	20.9	21.7	23.1

FII Includes depository receipts

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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 Perf. (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23E	FY24E	FY24	Var %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Revenues	25.8	30.8	30.4	29.0	29.7	33.3	31.6	32.0	116.0	126.5	29.2	1.5
YoY Change (%)	-5.7	10.0	16.1	16.9	15.2	8.0	3.9	10.2	9.1	9.1	13.4	
Total Expenditure	23.0	26.3	24.4	25.5	25.8	27.1	26.5	27.2	64.4	65.7	25.6	
EBITDA	2.7	4.5	6.0	3.5	3.9	6.1	5.1	4.7	16.8	19.9	3.7	6.5
YoY Change (%)	-53.9	-27.3	20.2	4.8	42.4	34.8	-14.6	33.9	-18.2	18.2	33.7	
Margins (%)	10.6	14.7	19.7	12.2	13.1	18.4	16.2	14.8	14.5	15.7	12.5	
Depreciation	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	3.1	2.9	0.8	
EBIT	2.0	3.8	5.2	2.7	3.2	5.4	4.4	4.0	13.7	16.9	2.9	
YoY Change (%)	-62.3	-31.7	23.7	8.2	60.8	43.1	-15.9	45.0	-21.0	-3.3	45.9	
Margins (%)	7.6	12.2	17.1	9.5	10.7	16.2	13.9	12.5	11.8	13.4	9.8	
Interest	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	1.1	1.1	0.3	
Other Income	0.5	0.5	0.5	0.7	0.7	0.7	0.7	0.7	2.2	2.7	0.6	
PBT before EO Exp	2.2	4.0	5.4	3.1	3.5	5.8	4.8	4.4	14.8	18.5	3.2	11.9
EO Exp/(Inc)	0.7	0.0	0.0	1.0	0.0	0.0	0.0	0.0	1.7	0.0	-	
PBT after EO Exp	1.5	4.0	5.4	2.1	3.5	5.8	4.8	4.4	13.0	18.5	3.2	
Tax	0.2	0.5	0.8	1.4	0.7	0.9	0.7	0.7	3.0	3.0	0.4	
Rate (%)	13.5	13.6	14.6	68.0	18.4	16.0	15.0	15.1	20.2	16.0	14.0	
PAT (pre Minority Interest)	1.3	3.5	4.6	0.7	2.9	4.9	4.1	3.8	10.1	15.6	2.7	
Minority Interest	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.0	
Reported PAT	1.3	3.3	4.5	0.7	2.9	4.8	4.0	3.6	9.8	15.3	2.7	6.9
Adj Net Profit	1.9	3.3	4.5	2.9	2.9	4.8	4.0	3.6	12.7	15.3	2.7	6.9
YoY Change (%)	-59.8	-39.7	12.2	28.2	52.3	46.1	-11.2	21.7	-23.2	20.8	42.6	

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23E	FY24E	FY24
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
India formulations	17.8	22.2	19.9	20.1	19.0	23.5	21.9	22.0	80.0	86.4	20.8
YoY Change (%)	(6.7)	13.0	9.7	17.0	6.7	6.0	10.0	9.4	8.1	8.0	17.0
Us generics	5.6	6.0	7.6	5.9	7.0	6.9	6.9	6.9	25.1	27.6	6.0
YoY Change (%)	(7.9)	(0.9)	32.8	9.2	25.0	15.0	(10.0)	16.6	7.9	10.0	7.0
International (Ex-US)	2.0	2.3	2.3	2.7	3.2	2.8	2.8	2.7	9.3	11.5	2.4
YoY Change (%)	9.6	15.2	17.1	33.3	56.5	25.0	22.0	(0.1)	18.9	24.0	19.0
Cost Break-up											
RM Cost (% of Sales)	42.5	42.4	41.1	43.3	40.4	40.5	40.8	42.3	42.3	41.0	43.0
Staff Cost (% of Sales)	20.7	18.5	17.3	17.3	19.1	17.0	18.0	18.0	18.4	18.0	17.5
R&D Expenses(% of Sales)	5.1	4.2	4.3	5.1	4.1	4.1	4.0	4.2	4.7	4.0	5.0
Other Cost (% of Sales)	21.1	20.0	17.7	22.2	23.3	20.0	21.0	23.2	20.2	21.3	22.0
Gross Margins (%)	57.5	57.6	58.9	56.7	59.6	59.5	59.2	57.7	57.7	59.0	57.0
EBITDA Margins (%)	10.6	14.7	19.7	12.2	13.1	18.4	16.2	14.8	14.5	15.7	12.5
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E: MOFSL Estimates

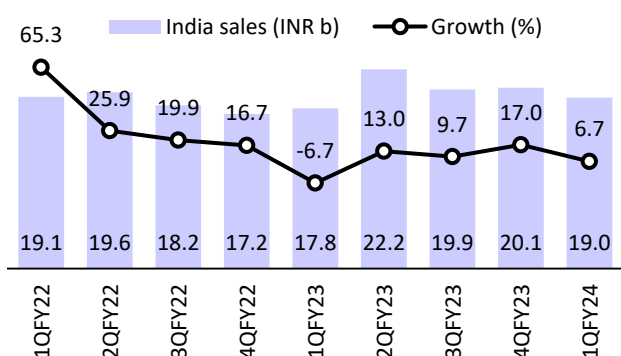


Management call highlights

- The MR strength is ~12k and productivity at INR5.4L PCPM.
- ALKEM’s volume/price/new launches grew 1%/3%/2.3% YoY in 1QFY24
- It continues to work on addressing raw material issues related to dabigatran for the US market.
- ALKEM makes about 18-20% EBITDA margin in overall chronic segment.
- Capex for the year to be INR3.5-4b
- R&D spend for the year to be 5% of sales
- Capex for the quarter is INR800m

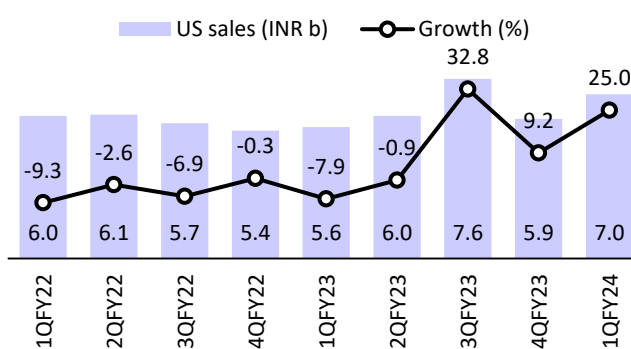
Key exhibits

Exhibit 1: DF revenue grew 6.7% YoY in 1QFY24



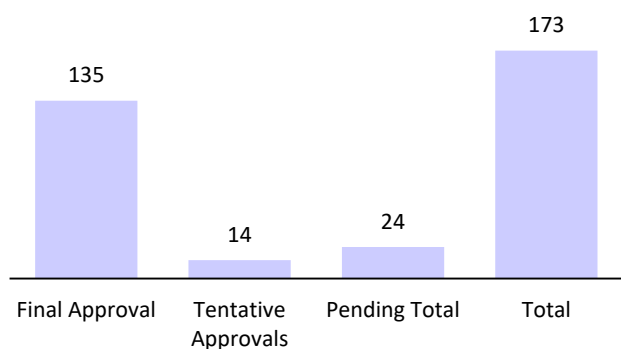
Source: MOFSL, Company

Exhibit 2: The US sales increased 25% YoY in 1QFY24



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 1QFY24	1
NDA	2

Source: MOFSL, Company

Revival in international business offset by subdued show in acute DF segment to some extent

Strong progress in chronic/new therapy to aid growth in DF business

- ALKEM’s DF business grew 6.7% YoY to INR19b in 1QFY24 fueled by robust growth across chronic therapies.
- However, on an overall basis, ALKEM has underperformed IPM growth due to slower off-take in acute therapy led by delayed monsoon.
- In 1QFY24, ALKEM delivered phenomenal growth in chronic segment with anti-diabetic segment growing at 30% YoY vs. 6.5% YoY for IPM. Moreover, it grew 21.4%/12.2% YoY vs. IPM growth of 8%/8.7% YoY in Derma/Neuro therapies.

- However, ALKEM’s Anti-infective therapy has underperformed the IPM by 410bp in 1QFY24.
- Besides this, ALKEM has launched ophthalmic division in DF market as it intends to build its presence in ophthalmic therapy. Additionally, the NLEM-based price hike will aid growth in its base business.
- Further, the company is focusing on the biosimilar business with launch of two products through Enzene. To date it has six biosimilar products in India.
- Accordingly, we expect ALKEM to register 11% sales CAGR in DF to INR99b over FY23-25.

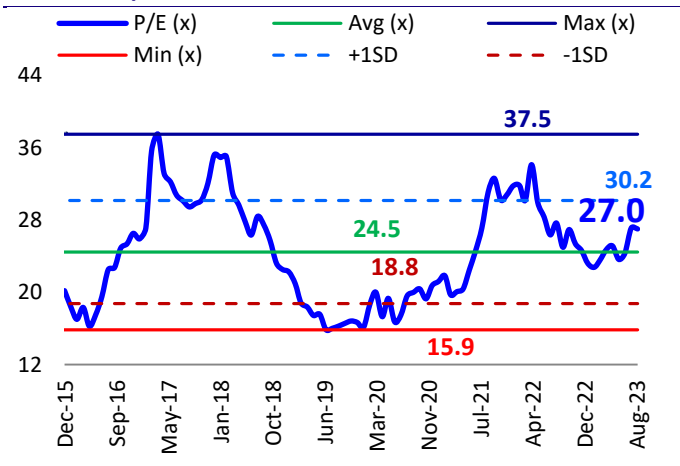
The US: new launches/moderating price erosion to aid better growth

- In 1QFY24, the US sales grew 25% YoY to INR6.9b (in cc terms up 17.4% to USD85m) due to reduced intensity of price erosion and market share gain in the existing product.
- Moreover, ALKEM continues to focus on eight new launches. In 1QFY24, the company filed one ANDA and received seven final approvals. It has 173 ANDAs filed and 2 NDAs and has 135 final approvals to date.
- Overall, we expect ALKEM to deliver 8% sales CAGR in the US to reach ~USD362m over FY23-25.

Maintain Neutral

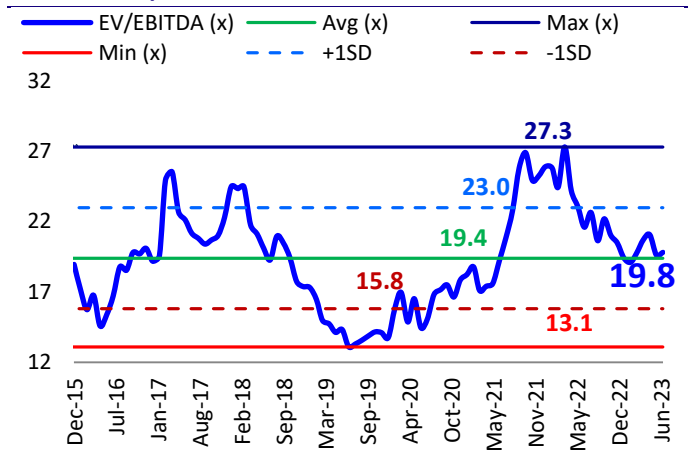
- We cut our earnings estimates by 7%/1% for FY24/FY25, factoring in: a) unfavorable seasonality effect in domestic formulation (DF) segment, b) increased tax rate, and c) better prospects in bioscience segment as well as in international markets. We value ALKEM at 21x 12M forward earnings to arrive at our TP of INR3,810.
- While ALKEM continues to progress well in chronic segment (17-19% of branded generics part of DF sales), the growth prospects of acute segment remain volatile due to seasonality factor. The exports (34% of 1QFY24 sales) have seen healthy uptick from existing products. However, we await new approvals for sustainable growth. Further, the valuation adequately factors in the upside in the earnings. **Maintain Neutral.**

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

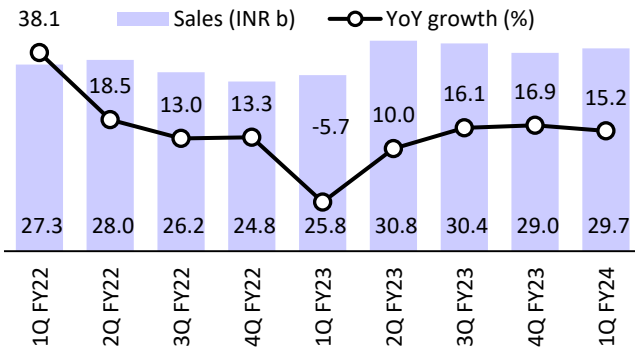
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

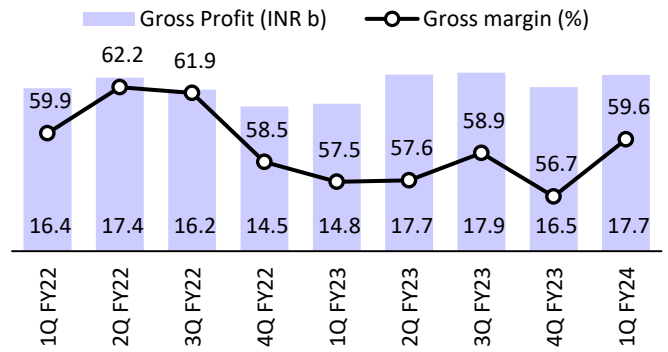
Story in charts

Exhibit 7: Total sales grew 15.2% YoY in 1QFY24



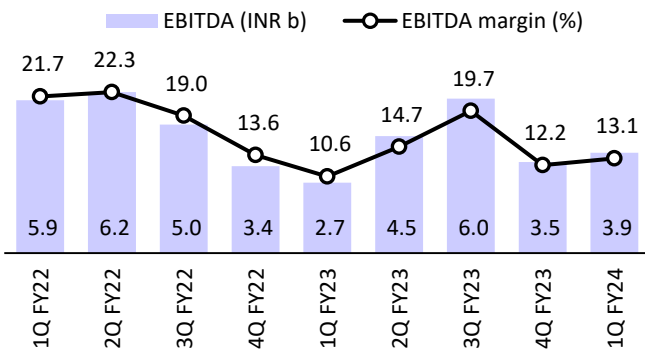
Source: Company, MOFSL

Exhibit 8: Gross margin expanded 210bp YoY in 1QFY24



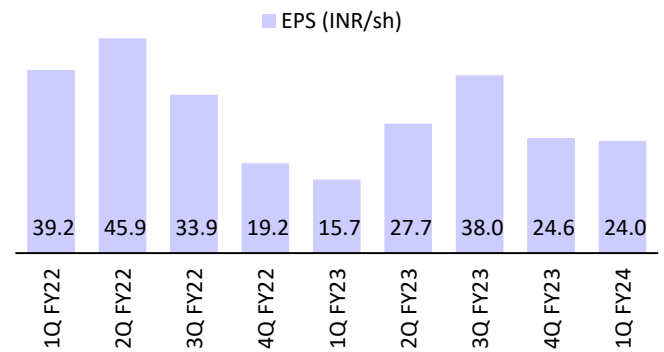
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded 250bp YoY



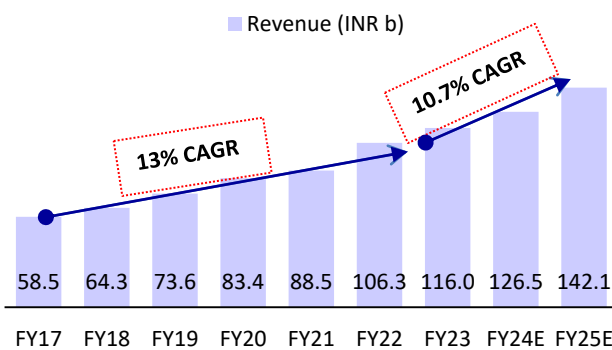
Source: Company, MOFSL

Exhibit 10: EPS increased 52.3% YoY to ~INR24 in 1QFY24



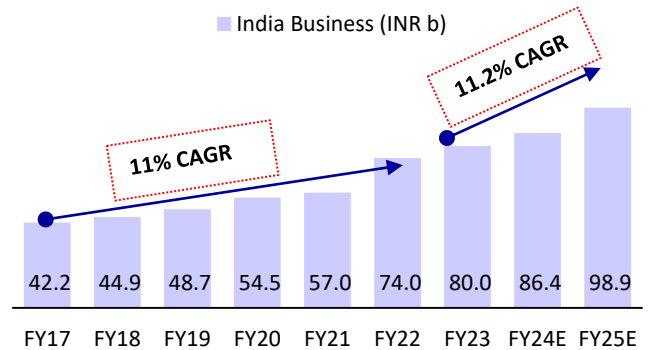
Source: Company, MOFSL

Exhibit 11: Expect revenue CAGR of 10.7% over FY23-25



Source: Company, MOFSL

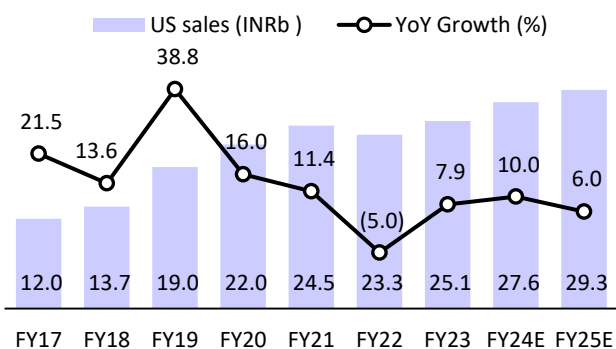
Exhibit 12: Expect India sales CAGR of 11.2% over FY23-25



Source: Company, MOFSL

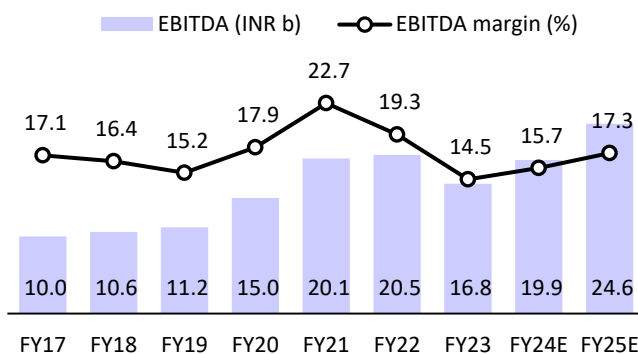
Story in charts

Exhibit 13: Expect 8% sales CAGR in the US over FY23-25



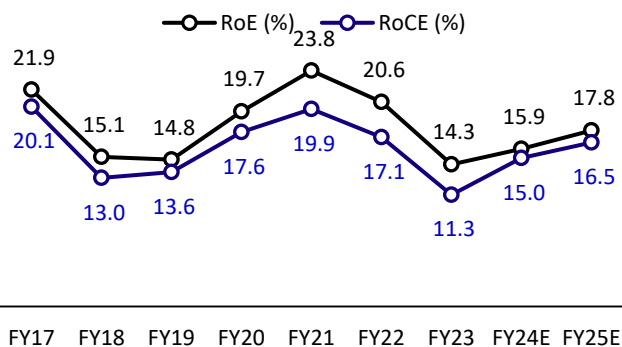
Source: Company, MOFSL

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



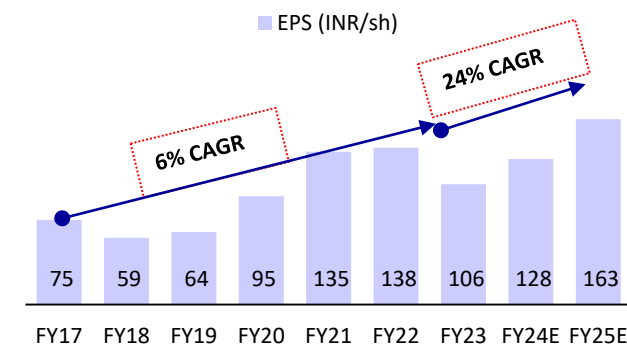
Source: Company, MOFSL

Exhibit 15: Return ratios to increase going forward



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 24% 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	1,06,342	1,15,993	1,26,490	1,42,057
Change (%)	15.9	9.9	14.4	13.4	6.1	20.2	9.1	9.1	12.3
Total Expenditure	48,536	54,028	62,401	68,484	68,426	85,813	99,198	1,06,631	1,17,481
EBITDA	9,990	10,566	11,171	14,960	20,079	20,529	16,795	19,859	24,576
Margin (%)	17.1	16.4	15.2	17.9	22.7	19.3	14.5	15.7	17.3
Depreciation	1,012	1,430	1,932	2,348	2,746	3,040	3,104	2,939	3,169
EBIT	8,978	9,136	9,239	12,612	17,333	17,490	13,690	16,920	21,407
Int. and Finance Charges	452	553	546	651	589	524	1,074	1,102	758
Other Income	1,120	960	877	1,042	1,867	1,627	2,161	2,720	2,379
PBT bef. EO Exp.	9,646	9,542	9,570	13,004	18,611	18,592	14,778	18,538	23,029
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	18,538	23,029
Current Tax	600	2,876	1,810	1,105	2,243	1,640	2,980	2,966	3,224
Tax Rate (%)	6.2	30.1	19.0	8.8	12.2	8.9	22.8	16.0	14.0
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	15,316	19,516
Adjusted PAT	8,920	7,040	7,629	11,407	16,100	16,516	12,678	15,316	19,516
Change (%)	6.0	-21.1	8.4	49.5	41.1	2.6	-23.2	20.8	27.4
Margin (%)	15.2	10.9	10.4	13.7	18.2	15.5	10.9	12.1	13.7

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	1,02,082	1,17,204
Net Worth	44,676	48,638	54,393	61,607	73,767	86,379	90,453	1,02,321	1,17,443
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	1,14,939	1,08,125	1,19,993	1,35,115
Net Fixed Assets	13,945	18,733	21,056	23,063	22,339	22,871	20,654	21,897	22,336
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	1,00,514	1,19,335
Inventory	12,060	14,422	14,999	18,188	23,124	30,055	26,075	29,214	33,152
Account Receivables	7,136	10,805	12,484	16,494	16,072	18,846	21,322	24,952	32,303
Cash and Bank Balance	3,993	5,768	6,616	10,922	19,905	25,786	25,786	26,377	31,451
Loans and Advances	9,036	8,017	7,437	9,180	9,822	16,790	16,587	19,972	22,429
Curr. Liability & Prov.	13,308	17,866	17,334	19,716	22,277	25,753	29,442	28,778	32,811
Account Payables	7,414	9,607	9,623	9,541	10,694	11,734	11,650	13,438	15,128
Other Current Liabilities	3,628	5,517	4,436	6,108	6,709	7,955	10,370	9,463	10,627
Provisions	2,266	2,742	3,275	4,067	4,874	6,064	7,421	5,877	7,056
Net Current Assets	18,917	21,145	24,202	35,068	46,647	65,725	60,329	71,736	86,524
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	1,14,939	1,08,125	1,19,993	1,35,115

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	128.1	163.2
Cash EPS	83.1	70.9	80.0	115.1	157.6	163.6	132.0	152.7	189.7
BV/Share	374	407	455	515	617	723	757	856	982
DPS	6.0	15.0	15.0	17.9	27.8	27.6	16.5	24.3	31.0
Payout (%)	9.7	34.3	28.5	22.5	24.9	23.7	23.7	22.5	22.5
Valuation (x)									
P/E	55.5	70.3	64.9	43.4	30.7	30.0	39.0	32.3	25.4
Cash P/E	49.8	58.4	51.8	36.0	26.3	25.3	31.4	27.1	21.8
P/BV	11.1	10.2	9.1	8.0	6.7	5.7	5.5	4.8	4.2
EV/Sales	8.5	7.7	6.8	6.0	5.6	4.7	4.2	3.8	3.4
EV/EBITDA	49.8	47.2	44.5	33.5	24.5	24.1	28.8	24.3	19.4
Dividend Yield (%)	0.1	0.4	0.4	0.4	0.7	0.7	0.4	0.6	0.7
FCF per share	-13.7	-34.4	21.1	19.9	90.4	65.5	152.5	22.4	68.0
Return Ratios (%)									
RoE	21.9	15.1	14.8	19.7	23.8	20.6	14.3	15.9	17.8
RoCE	20.1	13.0	13.6	17.6	19.9	17.1	11.3	15.0	16.5
RoIC	24.4	15.1	15.8	20.5	23.7	21.6	13.6	18.0	20.4
Working Capital Ratios									
Asset Turnover (x)	1.1	1.1	1.1	1.0	1.0	0.9	1.1	1.1	1.1
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	39	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
INR m									
OP/(Loss) before Tax	9,646	9,260	9,547	12,598	18,421	18,443	14,778	18,538	23,029
Depreciation	1,012	1,430	1,932	2,528	2,746	3,040	3,104	2,939	3,169
Interest & Finance Charges	-592	-234	134	19	-312	-703	-1,087	-1,618	-1,622
Direct Taxes Paid	-2,640	-2,032	-2,511	-2,834	-4,007	-3,969	-2,980	-2,966	-3,224
(Inc)/Dec in WC	-2,626	-5,732	-1,403	-6,472	-3,412	-5,450	3,666	-10,816	-9,715
CF from Operations	4,801	2,692	7,698	5,839	13,436	11,361	17,481	6,077	11,637
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	6,077	11,637
(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	2,677	8,135
(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	2,720	2,379
CF from Investments	-2,859	-3,572	-3,164	-7,414	-9,985	-14,351	408	-680	-1,123
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	-1,102	-758
Dividend Paid	-863	-2,176	-2,186	-4,396	-3,348	-4,219	-2,332	-3,449	-4,394
CF from Fin. Activity	-1,379	846	-3,789	791	-2,718	3,796	-16,324	-4,806	-5,441
Inc/Dec of Cash	473	-66	843	-771	-54	555	1,565	591	5,074
Opening Balance	1,270	1,666	1,667	2,490	1,759	1,705	2,297	3,862	4,453
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	4,453	9,527
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	26,377	31,451

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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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