

Alkem Laboratories

Estimate change 

TP change 

Rating change 

CMP: INR4,027

TP: INR3,920 (-3%)

Neutral

Strong operating leverage drives profitability

ANDA filings to accelerate in 2HFY24

- Alkem Laboratories (ALKEM) delivered a strong beat on 2QFY24 earnings. An improved performance in the US generics and moderating raw material costs led the sharp improvement in operating margins for the quarter. Given the surplus cash, ALKEM is looking for inorganic opportunities in chronic therapies and the consumer healthcare space.
- We raise our earnings estimates by 21%/11% for FY24/FY25 factoring in: 1) increased share of relatively high-margin products in the US generics segment, 2) benefits from reduced raw material costs, and 3) reduction in effective tax rate. We value ALKEM at 22x 12M forward earnings to arrive at our TP of INR3,920.
- We expect 28% earnings CAGR over FY23-25 on the back of 11%/10% sales CAGR in the US generics/DF segments and 350bp margin expansion. Even the P/E multiple assigned is largely in-line with its five-year average. Considering these factors, we believe the current valuation adequately factors in the earnings upside. **Reiterate Neutral.**

	ALKEM IN
Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	481.5 / 5.8
52-Week Range (INR)	4271 / 2835
1, 6, 12 Rel. Per (%)	16/9/18
12M Avg Val (INR M)	531

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	116.0	127.9	143.2
EBITDA	16.8	22.0	25.8
Adj. PAT	12.7	17.8	20.7
EBIT Margin (%)	11.8	15.0	15.8
Cons. Adj. EPS (INR)	106.0	149.2	173.0
EPS Gr. (%)	-23.2	40.7	15.9
BV/Sh. (INR)	756.6	868.7	1,002.7

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	14.3	18.4	18.5
RoCE (%)	11.3	17.1	17.2
Payout (%)	23.7	22.5	22.5

Valuations

P/E (x)	37.9	27.0	23.3
EV/EBITDA (x)	27.9	21.0	17.6
Div. Yield (%)	0.4	0.7	0.8
FCF Yield (%)	3.8	2.0	2.5
EV/Sales (x)	4.0	3.6	3.2

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	56.7	57.2	57.2
DII	17.6	16.3	15.7
FII	6.0	5.6	4.5
Others	19.6	20.9	22.7

FII Includes depository receipts

Lower RM costs and stable opex drive margin on YoY/QoQ basis

- ALKEM's 2QFY24 revenue grew 12% YoY to INR34b (in line). Domestic business rose 5% YoY to INR23b (68% of sales). International business grew 27% YoY to INR10.5b. Within international business, the US sales jumped 27% YoY to INR7.6b (22% of sales). Other international sales grew 27% YoY to INR2.9b (8% of sales) during the quarter.
- Gross margin expanded 390bp YoY to 61.4% due to lower raw material prices.
- EBITDA margin expanded 700bp YoY to 21.7% (our est: 16%) due to higher GM and lower R&D costs/employee expenses (-90bp/-240bp YoY as a % of sales).
- Accordingly, EBITDA jumped 64.5% YoY to INR7.5b (v/s est. of INR5.3b).
- Adj PAT doubled YoY to INR6.7b (our est: INR4b) due to lower taxes.
- For 1HFY24, revenue/EBITDA/PAT grew 13%/56%/85% YoY to INR64b/INR11b/INR10b.

Highlights from the management commentary

- ALKEM raised its EBITDA margin guidance to 16.5% from 16.0% for FY24.
- Moderation in RM costs and reconfiguration of the US generics portfolio enabled better margins for the quarter.
- ALKEM is now open to M&A opportunities in the DF segment (had surplus cash of INR29b at end-2QFY24). It would look at chronic portfolio/consumer healthcare segments for inorganic growth opportunities.
- Given that there was a small element of seasonality in the US generics, the scope of sustainability is higher in sales going forward.
- The pricing deflation remained in mid-single digit in the US generics.

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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	2QE	Vaq %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Revenues	25.8	30.8	30.4	29.0	29.7	34.4	32.4	31.4	116.0	127.9	33.3	3.5
YoY Change (%)	-5.7	10.0	16.1	16.9	15.2	11.7	6.6	8.1	9.1	10.2	8.0	
Total Expenditure	23.0	26.3	24.4	25.5	25.8	26.9	26.5	26.6	64.4	65.7	27.9	
EBITDA	2.7	4.5	6.0	3.5	3.9	7.5	5.9	4.7	16.8	22.0	5.3	40.4
YoY Change (%)	-53.9	-27.3	20.2	4.8	42.4	64.5	-1.5	34.0	-18.2	31.0	17.2	
Margins (%)	10.6	14.7	19.7	12.2	13.1	21.7	18.2	15.1	14.5	17.2	16.0	
Depreciation	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.6	3.1	2.8	0.7	
EBIT	2.0	3.8	5.2	2.7	3.2	6.7	5.2	4.1	13.7	19.2	4.6	
YoY Change (%)	-62.3	-31.7	23.7	8.2	60.8	78.7	-0.9	50.4	-21.0	9.7	21.9	
Margins (%)	7.6	12.2	17.1	9.5	10.7	19.6	15.9	13.2	11.8	15.0	13.8	
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	0.6	0.7	0.7	2.2	2.7	0.7	
PBT before EO Exp	2.2	4.0	5.4	3.1	3.5	7.1	5.5	4.6	14.8	20.7	5.0	41.4
EO Exp/(Inc)	0.7	0.0	0.0	1.0	0.0	0.6	0.0	0.0	1.7	0.6	-	
PBT after EO Exp	1.5	4.0	5.4	2.1	3.5	6.5	5.5	4.6	13.0	20.2	5.0	
Tax	0.2	0.5	0.8	1.4	0.7	0.3	0.9	0.8	3.0	2.6	1.0	
Rate (%)	13.5	13.6	14.6	68.0	18.4	5.1	16.0	16.3	20.2	12.6	20.0	
PAT (pre Minority Interest)	1.3	3.5	4.6	0.7	2.9	6.1	4.6	3.9	10.1	17.5	4.0	
Minority Interest	0.0	0.2	0.1	0.0	0.0	-0.1	0.1	0.2	0.2	0.3	0.0	
Reported PAT	1.3	3.3	4.5	0.7	2.9	6.2	4.5	3.7	9.8	17.3	4.0	56.5
Adj Net Profit	1.9	3.3	4.5	2.9	2.9	6.8	4.5	3.7	12.7	17.8	4.0	70.3
YoY Change (%)	-59.8	-39.7	12.2	28.2	52.3	104.1	-0.6	25.8	-23.2	40.7	19.8	

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
INRm											
India formulations	17,815	22,161	19,922	20,113	19,007	23,278	22,113	22,013	80,011	86,412	23,491
YoY Change (%)	(6.7)	13.0	9.7	17.0	6.7	5.0	11.0	9.4	8.1	8.0	6.0
US generics	5,565	6,040	7,612	5,916	6,955	7,675	7,460	6,662	25,134	28,752	6,946
YoY Change (%)	(7.9)	(0.9)	32.8	9.2	25.0	27.1	(2.0)	12.6	7.9	14.4	15.0
International (Ex-US)	2,039	2,251	2,316	2,654	3,191	2,866	2,849	2,853	9,259	11,759	2,814
YoY Change (%)	9.6	15.2	17.1	33.3	56.5	27.3	23.0	7.5	18.9	27.0	25.0
Cost Break-up											
RM Cost (% of Sales)	42.5	42.4	41.1	43.3	40.4	38.6	39.0	40.2	42.3	39.5	40.5
Staff Cost (% of Sales)	20.7	18.5	17.3	17.3	19.1	16.1	17.4	18.4	18.4	17.7	17.0
R&D Expenses(% of Sales)	5.1	4.2	4.3	5.1	4.1	3.4	4.2	4.8	4.7	4.0	4.1
Other Cost (% of Sales)	21.1	20.0	17.7	22.2	23.3	20.2	21.2	23.7	20.2	21.6	22.4
Gross Margins (%)	57.5	57.6	58.9	56.7	59.6	61.4	61.0	59.8	57.7	60.5	59.5
EBITDA Margins (%)	10.6	14.7	19.7	12.2	13.1	21.7	18.2	15.1	14.5	17.2	16.0
EBIT Margins (%)	7.6	12.2	17.1	9.5	10.7	19.6	15.9	13.2	11.8	15.0	13.8

E: MOFSL Estimates

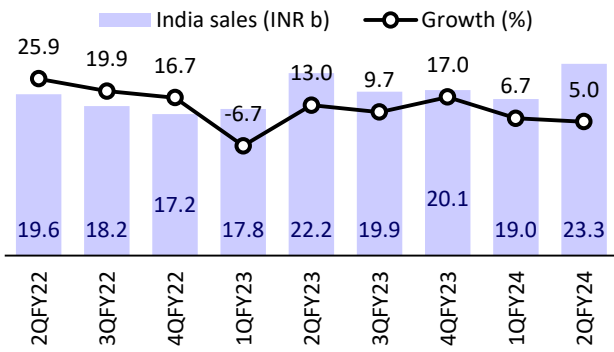


Management call highlights

- During the quarter, it received four ANDA approvals including one tentative approval. It intends to file 8-9 ANDAs vs. 1 filed in 1HFY24.
- The DF segment growth was muted by the sporadic and delayed monsoon. The performance is expected to be better in the coming quarters.
- The expansion in field force to 12k is largely done in the DF segment. Focus is now on improving the productivity.
- ALKEM reduced the ETR guidance from 18% to 12-15% for FY24. The Sikkim site benefit is expected to continue until Mar'26.

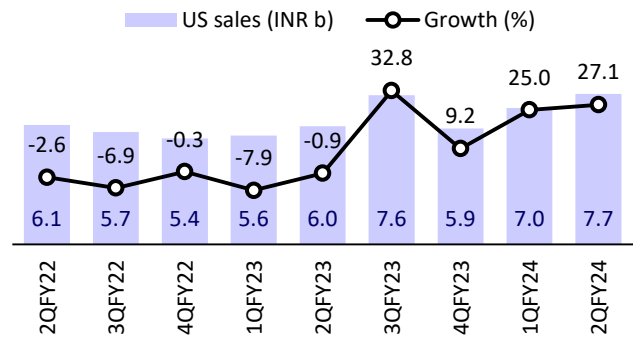
Key exhibits

Exhibit 1: DF revenue grew 5% YoY in 2QFY24



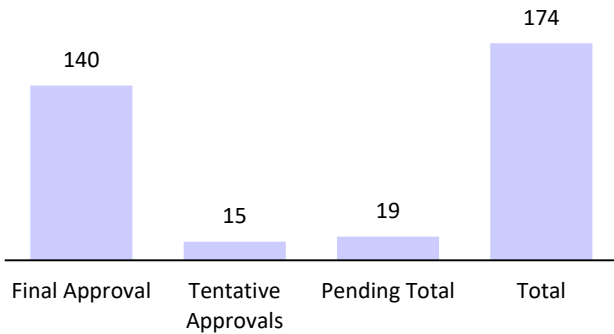
Source: MOFSL, Company

Exhibit 2: The US sales increased 27% YoY in 2QFY24



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOFSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	174
ANDAs filed in 2QFY24	0
NDA	4

Source: MOFSL, Company

Focus on niche products in the US/superior execution in chronic therapy driving the growth

DF: New launches/superior performance in chronic therapy to drive growth

- ALKEM’s DF business grew 5.8% YoY to INR42.3b in 1HFY24 due to strong growth across chronic therapies.
- However, on an overall basis, ALKEM has underperformed IPM growth due to muted performance in acute therapy because of the delayed monsoon. However, during Sep’23, the acute portfolio gained momentum due to an increase in infection cases.
- In 1HFY24, ALKEM delivered phenomenal growth in chronic segment with anti-diabetic/Derma/Neuro segment growing at 26.5%/12.3%/10.6% YoY vs. 5.9%/6.9%/8.5% YoY for IPM.
- However, ALKEM’s anti-infective therapy has underperformed IPM by 200bp in 1HFY24.
- Besides this, ALKEM is also focusing on improving its MR productivity that would enhance the growth in DF business.
- Further, the company has launched its 7th biosimilar product, Ranibizumab, through Enzene, enhancing the company’s presence in the biosimilar market.
- Accordingly, we expect ALKEM to register 11% sales CAGR in DF to INR99b over FY23-25.

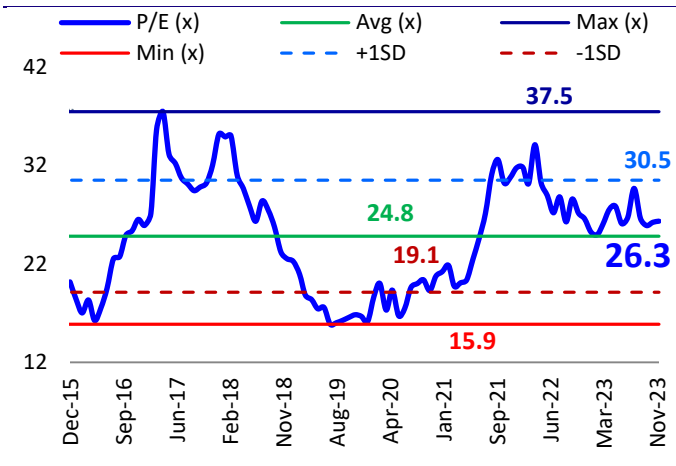
The US: focus on niche products/market share gain to fuel growth

- In 1HFY24, the US sales grew 26% YoY to INR14.6b (in cc terms up 18% to USD178m) due to reduced intensity of price erosion and market share gains in the existing products.
- ALKEM is focusing on biosimilar in the US through its subsidiary, Enzene Biosciences, as there is a growing demand for affordable biosimilar.
- In 1HFY24, the company filed two ANDAs and received 11 final approvals. It has 174 ANDAs filed and has 140 final approvals to date.
- Overall, we expect ALKEM to deliver 9.4% sales CAGR in the US to reach ~USD372m over FY23-25.

Maintain Neutral

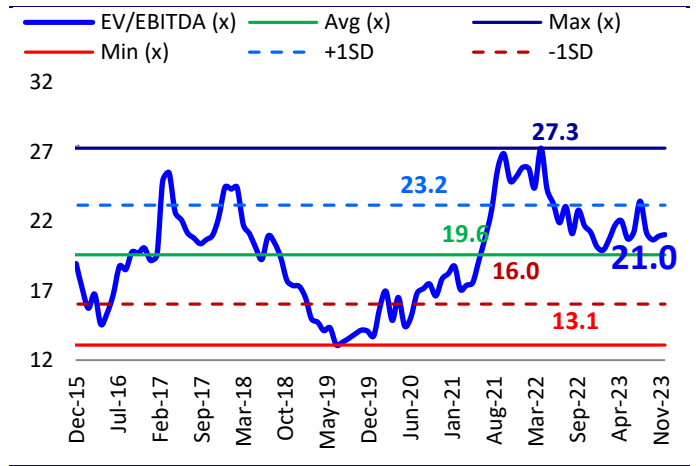
- We raise our earnings estimates by 21%/11% for FY24/FY25 factoring in: 1) increased share of relatively high-margin products in the US generics segment, 2) benefits from reduced raw material costs, and 3) reduction in effective tax rate. We value ALKEM at 22x 12M forward earnings to arrive at our TP of INR3,920.
- We expect 28% earnings CAGR over FY23-25 on the back of 11%/10% sales CAGR in the US generics/DF segments and 350bp margin expansion. Even the P/E multiple assigned is largely in-line with its five-year average. Considering these factors, we believe the current valuation adequately factors in the earnings upside. **Reiterate Neutral.**

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

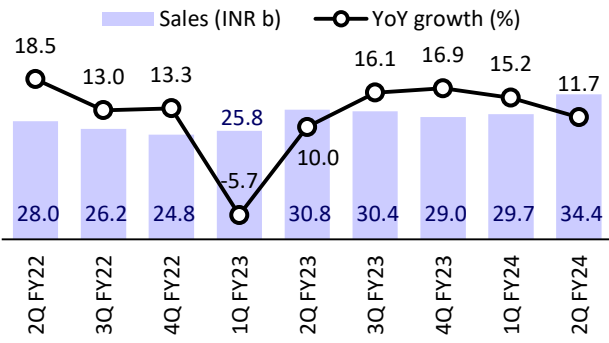
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

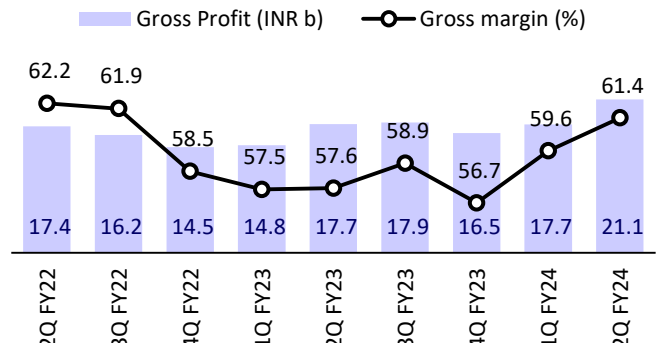
Story in charts

Exhibit 7: Total sales grew 11.7% YoY in 2QFY24



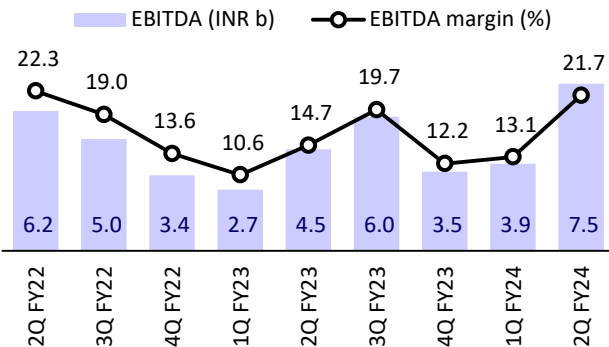
Source: Company, MOFSL

Exhibit 8: Gross margin expanded 390bp YoY in 2QFY24



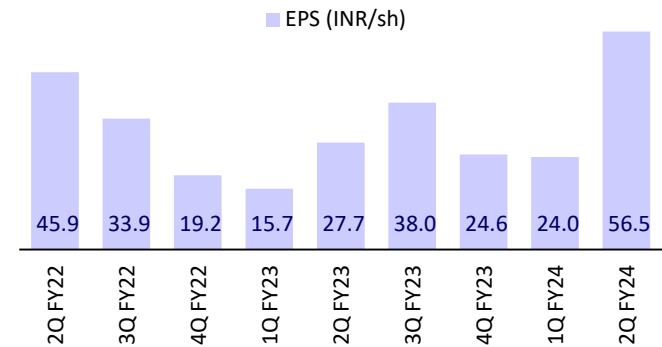
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded 700bp YoY



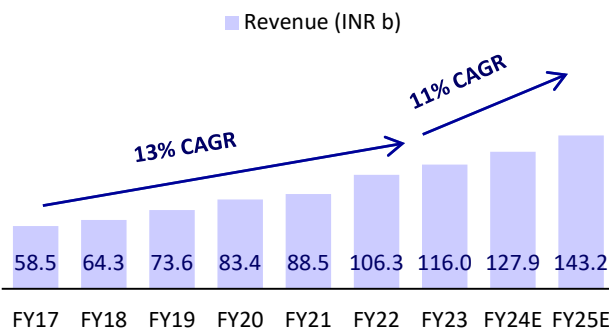
Source: Company, MOFSL

Exhibit 10: EPS increased 2x YoY to ~INR57 in 2QFY24



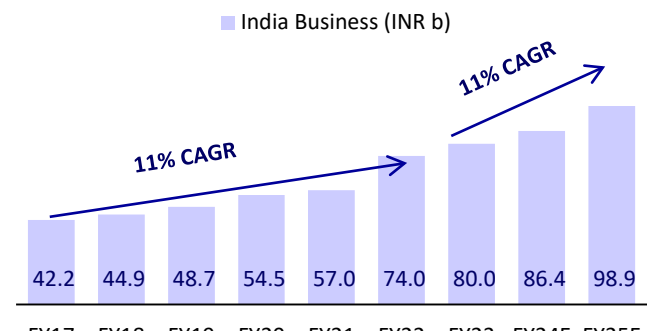
Source: Company, MOFSL

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



Source: Company, MOFSL

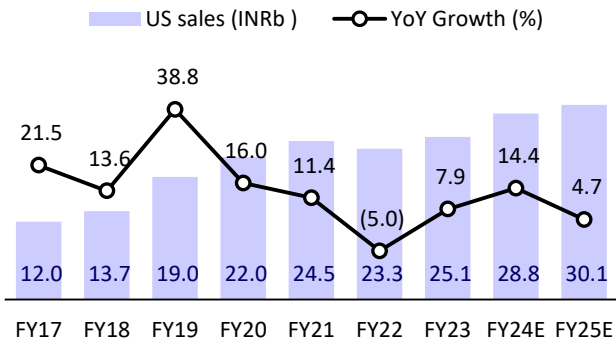
Exhibit 12: Expect India sales CAGR of 11% over FY23-25



Source: Company, MOFSL

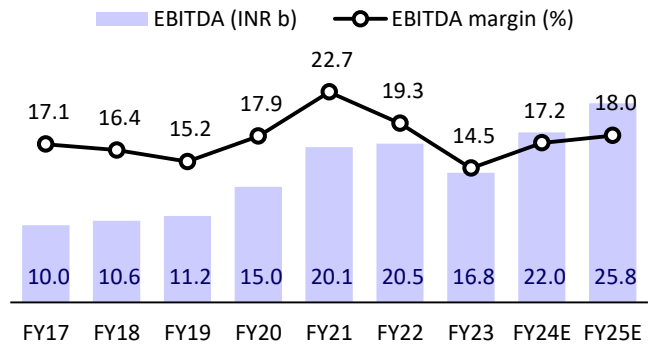
Story in charts

Exhibit 13: Expect 9.4% sales CAGR in the US over FY23-25



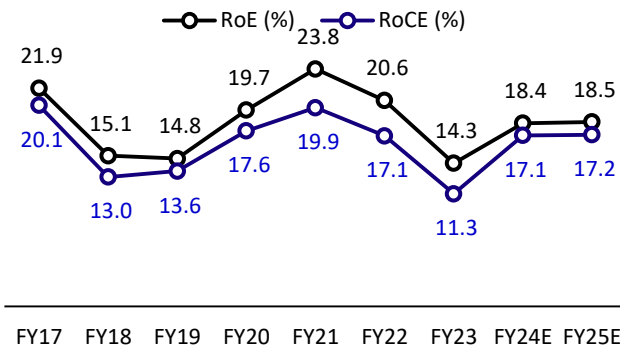
Source: Company, MOFSL

Exhibit 14: EBITDA margin to expand 350bp over FY23-25E



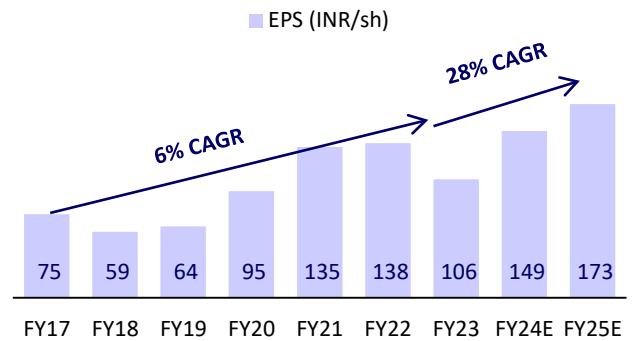
Source: Company, MOFSL

Exhibit 15: Return ratios to increase going forward



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 28% over FY23-25



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement							INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	73,572	83,444	88,505	1,06,342	1,15,993	1,27,873	1,43,167
Change (%)	14.4	13.4	6.1	20.2	9.1	10.2	12.0
Total Expenditure	62,401	68,484	68,426	85,813	99,198	1,05,879	1,17,397
EBITDA	11,171	14,960	20,079	20,529	16,795	21,994	25,770
Margin (%)	15.2	17.9	22.7	19.3	14.5	17.2	18.0
Depreciation	1,932	2,348	2,746	3,040	3,104	2,803	3,169
EBIT	9,239	12,612	17,333	17,490	13,690	19,191	22,601
Int. and Finance Charges	546	651	589	524	1,074	1,102	758
Other Income	877	1,042	1,867	1,627	2,161	2,656	3,118
PBT bef. EO Exp.	9,570	13,004	18,611	18,592	14,778	20,746	24,962
EO Items	-23	-406	-190	-150	-1,730	-577	0
PBT after EO Exp.	9,547	12,598	18,421	18,443	13,048	20,169	24,962
Current Tax	1,810	1,105	2,243	1,640	2,980	2,622	3,994
Tax Rate (%)	19.0	8.8	12.2	8.9	22.8	13.0	16.0
Less: Minority Interest	131	222	328	300	226	256	289
Reported PAT	7,606	11,271	15,850	16,503	9,842	17,291	20,679
Adjusted PAT	7,629	11,407	16,100	16,516	12,678	17,838	20,679
Change (%)	8.4	49.5	41.1	2.6	-23.2	40.7	15.9
Margin (%)	10.4	13.7	18.2	15.5	10.9	13.9	14.4

Consolidated - Balance Sheet							INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	239	239	239	239	239	239	239
Total Reserves	54,154	61,368	73,528	86,140	90,214	1,03,612	1,19,635
Net Worth	54,393	61,607	73,767	86,379	90,453	1,03,851	1,19,874
Minority Interest	1,326	1,483	1,813	2,094	3,897	3,897	3,897
Deferred Tax Liabilities	3	0	0	0	0	0	0
Total Loans	9,026	16,628	17,336	26,466	13,775	13,775	13,775
Capital Employed	64,748	79,717	92,916	1,14,939	1,08,125	1,21,523	1,37,546
Net Fixed Assets	21,056	23,063	22,339	22,871	20,654	22,034	22,472
Goodwill on Consolidation	4,248	6,017	5,591	6,146	4,796	4,796	4,796
Capital WIP	4,930	3,630	3,933	3,395	3,103	2,321	2,215
Total Investments	3,236	2,614	3,328	3,710	6,218	6,218	6,218
Curr. Assets, Loans&Adv.	41,535	54,784	68,923	91,477	89,770	1,04,227	1,24,054
Inventory	14,999	18,188	23,124	30,055	26,075	29,008	33,128
Account Receivables	12,484	16,494	16,072	18,846	21,322	24,173	28,241
Cash and Bank Balance	6,616	10,922	19,905	25,786	25,786	32,760	42,211
Loans and Advances	7,437	9,180	9,822	16,790	16,587	18,286	20,473
Curr. Liability & Prov.	17,334	19,716	22,277	25,753	29,442	31,098	35,235
Account Payables	9,623	9,541	10,694	11,734	11,650	13,344	15,117
Other Current Liabilities	4,436	6,108	6,709	7,955	10,370	11,432	12,800
Provisions	3,275	4,067	4,874	6,064	7,421	6,322	7,318
Net Current Assets	24,202	35,068	46,647	65,725	60,329	73,130	88,819
Deferred Tax assets	7,076	9,326	11,079	13,093	13,025	13,025	13,025
Appl. of Funds	64,748	79,717	92,916	1,14,939	1,08,125	1,21,523	1,37,546

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	63.8	95.4	134.7	138.1	106.0	149.2	173.0
Cash EPS	80.0	115.1	157.6	163.6	132.0	172.7	199.5
BV/Share	455	515	617	723	757	869	1,003
DPS	15.0	17.9	27.8	27.6	16.5	27.5	32.9
Payout (%)	28.5	22.5	24.9	23.7	23.7	22.5	22.5
Valuation (x)							
P/E	63.0	42.2	29.9	29.1	37.9	27.0	23.3
Cash P/E	50.3	35.0	25.5	24.6	30.5	23.3	20.2
P/BV	8.8	7.8	6.5	5.6	5.3	4.6	4.0
EV/Sales	6.6	5.8	5.4	4.5	4.0	3.6	3.2
EV/EBITDA	43.3	32.5	23.8	23.5	27.9	21.0	17.6
Dividend Yield (%)	0.4	0.4	0.7	0.7	0.4	0.7	0.8
FCF per share	21.1	19.9	90.4	65.5	152.5	80.0	100.7
Return Ratios (%)							
RoE	14.8	19.7	23.8	20.6	14.3	18.4	18.5
RoCE	13.6	17.6	19.9	17.1	11.3	17.1	17.2
RoIC	15.8	20.5	23.7	21.6	13.6	21.8	22.7
Working Capital Ratios							
Fixed Asset Turnover (x)	2.8	2.7	2.7	3.0	3.1	3.1	3.2
Asset Turnover (x)	1.1	1.0	1.0	0.9	1.1	1.1	1.0
Inventory (Days)	74	80	95	103	82	83	84
Debtor (Days)	62	72	66	65	67	69	72
Creditor (Days)	48	42	44	40	37	38	39
Working Cap. Turnover (Days)	87	106	110	137	109	115	119
Leverage Ratio (x)							
Current Ratio	2.4	2.8	3.1	3.6	3.0	3.4	3.5
Interest Cover Ratio	16.9	19.4	29.4	33.4	12.8	17.4	29.8
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	-0.2	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
							INRm
OP/(Loss) before Tax	9,547	12,598	18,421	18,443	14,778	20,746	24,962
Depreciation	1,932	2,528	2,746	3,040	3,104	2,803	3,169
Interest & Finance Charges	134	19	-312	-703	-1,087	-1,554	-2,361
Direct Taxes Paid	-2,511	-2,834	-4,007	-3,969	-2,980	-2,622	-3,994
(Inc)/Dec in WC	-1,403	-6,472	-3,412	-5,450	3,666	-6,404	-6,239
CF from Operations	7,698	5,839	13,436	11,361	17,481	12,968	15,537
Others	98	12	-787	-250	0	0	0
CF from Operating incl EO	7,797	5,851	12,649	11,110	17,481	12,968	15,537
(Inc)/Dec in FA	-5,269	-3,477	-1,845	-3,280	755	-3,400	-3,502
Free Cash Flow	2,527	2,374	10,805	7,830	18,237	9,568	12,035
(Pur)/Sale of Investments	1,235	458	3	-12,051	-2,508	0	0
Others	871	-4,395	-8,144	980	2,161	2,656	3,118
CF from Investments	-3,164	-7,414	-9,985	-14,351	408	-744	-384
Inc/(Dec) in Debt	-1,057	6,031	1,397	8,628	-12,691	0	0
Interest Paid	-546	-651	-536	-401	-1,074	-1,102	-758
Dividend Paid	-2,186	-4,396	-3,348	-4,219	-2,332	-3,893	-4,656
CF from Fin. Activity	-3,789	791	-2,718	3,796	-16,324	-5,251	-5,703
Inc/Dec of Cash	843	-771	-54	555	1,565	6,974	9,451
Opening Balance	1,667	2,490	1,759	1,705	2,297	3,862	10,836
Add/(less) Forex diff in Cash and Cash eq	-20	40		37			
Closing Cash and Cash Eq.	2,490	1,759	1,705	2,297	3,862	10,836	20,287
Bank Balances	4,126	9,163	18,199	23,489	21,924	21,924	21,924
Total Cash and Cash Eq.	6,616	10,922	19,905	25,786	25,786	32,760	42,211

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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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