

BSE SENSEX 72,623 **S&P CNX** 22,055

CMP: INR5,410 TP: INR5,160 (-5%) Neutral



Stock Info

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USD\$)	647.5 / 7.8
52-Week Range (INR)	5520 / 2835
1, 6, 12 Rel. Per (%)	9/28/43
12M Avg Val (INR M)	871
Free float (%)	43.3

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	128.7	144.8	161.2
EBITDA	23.7	27.1	30.6
Adj. PAT	19.6	21.6	23.4
EBIT Margin (%)	16.2	16.5	16.9
Cons. Adj. EPS (INR)	164.0	180.9	196.0
EPS Gr. (%)	54.6	10.3	8.4
BV/Sh. (INR)	877.1	1,017.3	1,169.2

Ratios

Net D:E	-0.2	-0.2	-0.3
RoE (%)	20.1	19.1	17.9
RoCE (%)	18.6	17.9	16.9
Payout (%)	22.5	22.5	22.5

Valuations

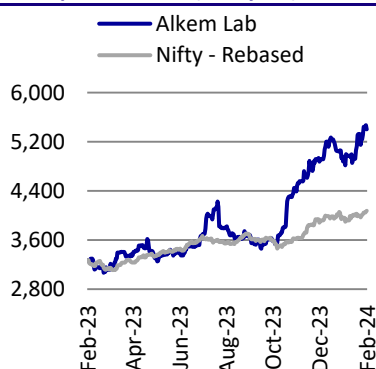
P/E (x)	33.0	29.9	27.6
EV/EBITDA (x)	26.5	22.8	19.9
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	1.7	2.0	1.7
EV/Sales (x)	4.9	4.3	3.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	56.7	56.7	57.2
DII	15.9	17.6	16.4
FII	8.5	6.0	4.4
Others	18.9	20.9	22.0

FII Includes depository receipts

Stock performance (one-year)



Focus remains on DF/US; valuations priced in

- ALKEM is one of the pharmaceutical companies with the highest proportion of (66% of total sales 9MFY24) sales from the domestic formulation (DF) segment.
- While it continues to outperform the industry in the DF segment, the outlook is dependent on the variability of season and acute infections as it derives 82% of DF sales from acute therapies.
- After muted performance in the US generics business (23% of sales) over FY18-23, there has been some recovery in 9MFY24. The sound compliance track-record and a healthy product pipeline would enable 6% sales CAGR in CC terms to USD394m over FY24-26.
- Further, ALKEM is focusing on the biosimilar and CDMO business through Enzene biosciences and expects to reach breakeven in FY25.
- Over FY18-23, ALKEM has delivered 13%/10%/12% Revenue/EBITDA/PAT CAGR. However, ROE decreased from 15% in FY18 to 14% in FY23.
- Considering 9% earnings CAGR and return ratio stabilizing at ~18% over FY24-26, we value ALKEM at 25x 12M (in line with its 10-yr average and 17% discount to sector average) forward earnings to arrive at a target price of INR5160. We believe the current valuation and ~65% stock appreciation over the past one year adequately factor the upside in earnings. We reiterate our Neutral stance on the stock.

DF: Slowdown in acute therapies affects DF sales growth

- Given the highest share of acute therapies in the domestic formulation segment (~82% of DF sales), the growth prospects continue to remain hinged on variability of season and acute infections.
- The company is emphasizing on strengthening its position in the Chronic therapies and biosimilars.
- ALKEM's acute therapies (82% of DF sales) exhibited 15.5% CAGR and chronic therapies (18% of DF sales) exhibited 18.3% CAGR over MAT Dec'20-23. However, in 9MFY24, acute therapies showcased modest growth, while chronic therapies strong YoY growth.
- Additionally, ALKEM is focusing on improving MR productivity, which would boost the DF revenue and improve profitability.
- We expect a 13% sales CAGR in the DF segment over FY24-26.

Exports: US business picks up; healthy growth momentum in Non-US business

- US sales has declined on compounded basis in CC terms by 3% over FY21-23 due to intense price erosion in the base portfolio. However, in 9MFY24, US sales registered 6% YoY (CC terms) growth, partly due to reduced intensity of price erosion and partly due to low base of past year.
- We expect ALKEM to register a 7% CAGR over FY24-26 in CC terms on the back of the healthy approval pace, sound track record on compliance front, and focus on biosimilars.

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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.

- Non-US exports (9% of total exports) continue to exhibit healthy growth, driven by improved traction in existing products, successful new launches, and an expanding market reach (43% YoY growth in 9MFY24). We expect 21% sales CAGR in exports over FY24-26 to INR18b.

Enzene: the additional growth lever

- ALKEM has entered into developing/manufacturing biosimilar products and provides CDMO services through its subsidiary Enzene Biosciences.
- Seven biosimilars are commercialized in India and seven more products are under various stages of development (three biosimilars and four Synthetic peptide). Further to enhance CDMO offerings, the company plans to open a CDMO facility at Princeton, New Jersey, to reduce turnaround time.
- Additionally, the company plans to invest around ~INR600m in R&D to further support the future growth. Enzene is expected to reach breakeven by FY25, supported by new launches, improved CDMO services, and an expanded presence in emerging markets.

Valuation and view

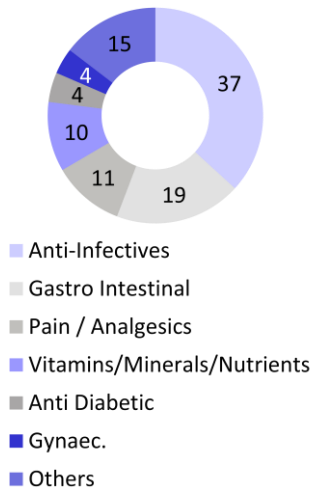
- The positive factors for ALKEM include a) its position as a domestic player with a strong brand franchise, and b) a consistent record of compliance with USFDA regulations. However, factors that may impact the valuation multiple are a) a very high share of acute therapies in the DF segment, b) increased volatility in DF growth, led by seasonality and infection rates, and c) lower profitability in the US generics business. Accordingly, ALKEM's long-term average valuation has been 24x, and it is currently trading at +1SD (30x 12M forward earnings).
- We value ALKEM at 25x 12M forward earnings to arrive at a price target of INR5,160. Considering 9% earnings CAGR over FY24-26, we believe the current valuation adequately factors the upside in earnings. We reiterate our Neutral stance on the stock.

Exhibit 1: Valuation snapshot

Company	Reco	MCap (USD B)	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
			FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
Ajanta Pharma	Buy	3.3	61.1	74.4	89.5	21.7	20.3	28.9	24.1	21.9	16.1	21.1	21.9	22.3
Alembic Pharma	Neutral	1.8	28.6	33.8	38.0	18.2	12.3	23.7	21.1	14.8	15.7	12.1	12.9	13.0
Alkem Lab	Neutral	7.5	149.2	173.0	183.7	15.9	6.2	29.9	27.6	22.8	19.9	18.4	18.5	17.1
Aurobindo Pharma	Neutral	7.9	51.2	58.7	67.5	14.6	15.1	19.1	16.6	10.1	9.9	10.6	11.0	11.4
Biocon	Neutral	4.0	7.2	13.1	16.9	82.5	29.1	21.5	16.7	13.9	12.2	4.7	8.3	10.0
Cipla	Buy	12.3	47.4	53.4	57.5	12.5	7.8	24.2	22.4	14.2	13.1	14.6	14.3	13.6
Divi's Lab.	Neutral	12.6	60.9	81.1	97.4	33.2	20.1	49.1	40.9	35.5	30.3	12.1	14.7	15.9
Dr Reddy's Labs	Neutral	11.5	296.7	308.8	324.9	4.1	5.2	18.6	17.7	10.5	9.9	19.5	17.2	15.5
Eris Lifescience	Neutral	1.5	33.0	33.5	40.7	1.6	21.5	27.3	22.5	14.4	12.4	19.1	17.0	17.6
Gland Pharma	Buy	3.8	54.4	65.7	74.5	21.0	13.3	29.5	26.1	17.9	15.7	10.6	11.5	11.6
Glenmark Pharma	Neutral	3.0	24.1	39.3	48.0	63.2	22.2	22.6	18.5	9.9	8.5	6.8	10.1	11.2
Glaxosmit Pharma	Neutral	4.3	38.1	42.1	46.4	10.5	10.1	49.6	45.0	35.8	31.6	30.8	30.4	29.5
Granules India	Buy	1.1	19.4	27.1	34.9	40.0	28.6	15.1	11.8	8.7	6.6	15.3	18.1	19.4
Ipca Labs.	Neutral	3.3	24.5	36.9	49.0	50.8	32.8	29.9	22.5	16.4	13.0	10.2	13.9	16.2
Laurus Labs	Buy	2.7	9.1	16.9	19.0	84.5	12.7	25.2	22.4	13.8	12.9	11.6	18.7	18.1
Lupin	Sell	7.5	36.0	40.7	48.3	13.0	18.7	34.3	28.9	17.3	15.1	12.3	12.3	13.0
Piramal Pharma	Buy	2.3	1.4	3.0	4.6	112.1	52.7	47.4	30.8	17.4	14.6	2.5	4.9	7.1
Sun Pharma.Inds.	Buy	37.7	39.5	45.6	53.7	15.5	17.7	29.0	24.7	20.6	17.8	15.9	16.0	16.4
Torrent Pharma.	Neutral	9.5	50.1	66.3	79.5	32.4	19.9	35.3	29.4	20.1	17.4	23.3	26.9	32.3
Zydus LifeScience	Neutral	8.8	32.6	33.7	36.1	3.5	7.1	21.1	19.8	13.3	12.2	17.3	15.4	14.6

Source: MOFSL, Company

Anti-Infective is ALKEM's biggest therapy, contributing 37% to DF sales



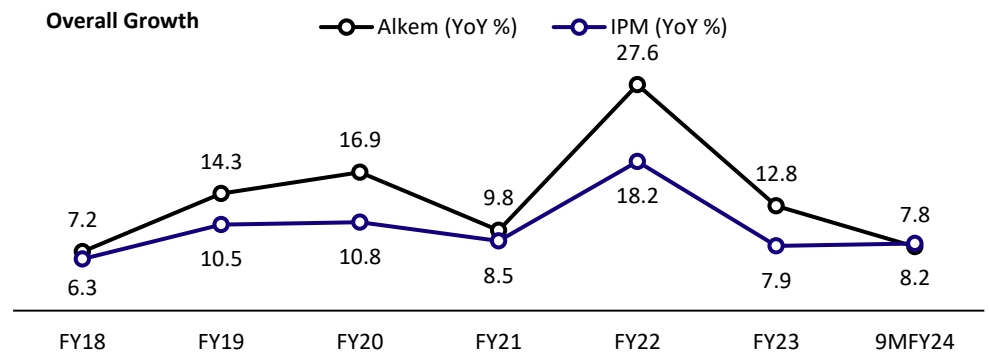
Slowdown in acute therapies affects DF sales growth

- ALKEM has registered a CAGR of 12.2% over FY18-23, outperforming the IPM due to growth in key acute therapies such as Anti-infective, VNM, Pain, and gastrointestinal segments.
- However, in 9MFY24, ALKEM faced challenges stemming from a muted acute season and the inclusion of a product under the NLEM. However, this was mitigated by strong growth in chronic therapy and a price hike linked to the WPI.
- Given the higher share of acute therapies in the DF segment, ALKEM's growth prospect is subject to variability of season and acute infections. ALKEM remains committed to building its chronic franchise to mitigate the impact of these challenges.
- Further, the company expects to increase the MR productivity and build strong chronic brand franchise, which would boost the domestic sales and profitability.
- We expect 13% sales CAGR in the DF segment over FY24-26.

With a 15% CAGR, well-positioned to exceed IPM

- Despite 30% of the portfolio falling under the NLEM, ALKEM has been able to sustain its growth momentum and largely outperform IPM. This can be attributed to strong brand recall, effective management of seasonality, volume increases, decluttering the MRs for enhanced brand focus, and improved productivity.
- ALKEM has registered a CAGR of 12.2% over FY18-23, outperforming IPM by ~180bp over the same period. ALKEM outperformed IPM in VMN/Cardiac/Anti-infective/Gastro-Intestinal by 10.2%/7.4%/1.4%/1% over the same period.
- Over FY18-20, ALKEM registered a robust high single-digit to double-digit growth due to superior traction across all the top therapies. However, the growth was offset by GST-related issue and ban on some FDC products.

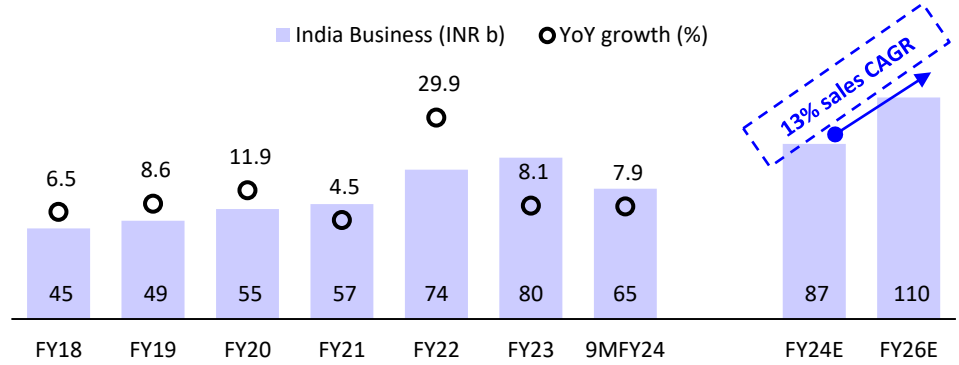
Exhibit 2: Alkem consistently outperforming the IPM



Source: MOFSL, Company, IQVIA

- In FY21, although ALKEM outperformed IPM, the DF growth declined on a YoY basis to 9.8%, due to the adverse impact of the Covid lockdown, leading to temporary disturbances in the supply chain. However, in FY22, the company registered a phenomenon growth of 27.6% YoY, due to rising demand on account of Covid-19, higher growth in respiratory division, and a low base of FY21.
- In FY23, although ALKEM outperformed IPM, the YoY growth declined due to the high base of Covid and moderate growth in key therapies such as Anti-infective, Cardiac, and VMN.

Exhibit 3: DF business to register a CAGR of 13% over FY24-26



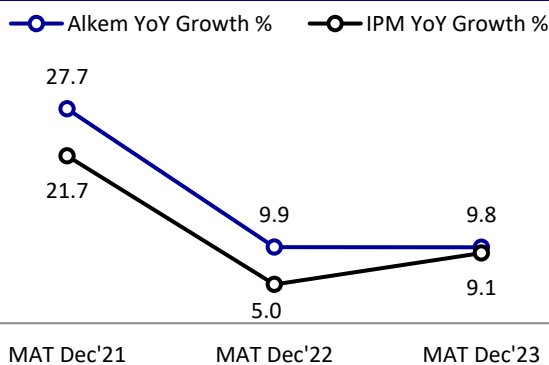
Source: MOFSL, Company

- During 9MFY24, ALKEM growth was in line with IPM due to strong growth in Chronic therapies, and this was offset by muted performance in acute therapies due to delayed monsoon.
- ALKEM is focusing on building a strong brand franchise in chronic therapies, expanding into newer therapies, and foraying into biosimilar business in India.
- Accordingly, we expect DF sales to register a CAGR of 13% over FY24-26 to INR110b.

Acute therapies growth moderated; chronic therapy to be next growth driver.

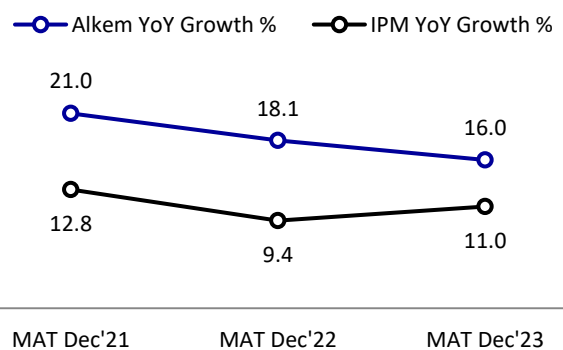
- ALKEM’s acute therapies (82% of DF sales) exhibited 15.5% CAGR and chronic therapies (18% of DF sales) exhibited 18.3% CAGR over MAT Dec’20-23. Particularly, in 9MFY24, acute therapies showcased modest growth, while chronic therapies witnessed 11.7% YoY growth.
- In FY22, both anti-infective and VNM have demonstrated significant growth, surpassing IPM with growth rates of 33.8% and 30.1%, respectively, on the back of an increase in volumes, driven by the impact of Covid-19.
- However, we can see a strong decline in growth rate of Anti-infective and VNM therapy during FY23 and 9MFY24 due to the impact of seasonality and the high base edffect of Covid-19.

Exhibit 4: Acute therapy growth has moderated....



Source: MOFSL, IQVIA

Exhibit 5: ...while chronic therapies are growing at a faster pace

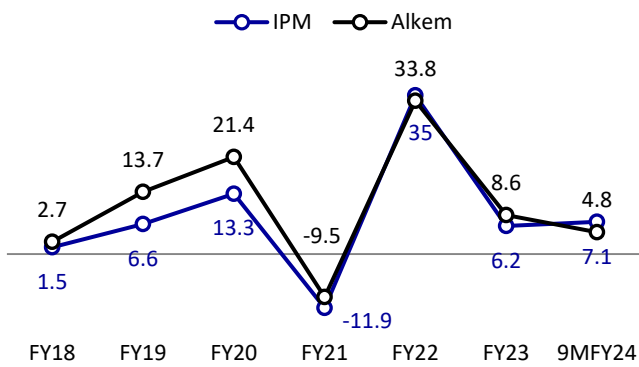


Source: MOFSL, IQVIA

- During FY23, the Gastro intestinal therapy has outperformed IPM by 670bp on the back of strong growth in PAN-D and uprise-D3 brand.

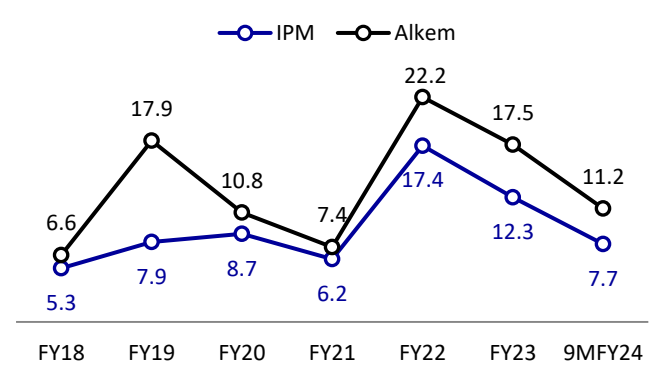
- The cardiac therapy has shown a high single-digit growth in the last nine months against the IPM. Alkem’s strategic focus on niche products such as Dabigatrans, characterized by lower volumes contributed to this growth. Nevertheless, there has been a shift in management strategy toward mass molecules with larger volumes to enhance the performance of cardiac therapy.
- Anti-diabetic therapy has been registering a superior growth of about 26% each year over FY18-23. Also, during 9MFY24, Anti-Diabetic therapy recorded a substantial growth of 23%, due to the strong pickup in new launches, including sitagliitin, and the increased market share in existing launches.
- With enhanced efforts to build its Chronic therapy franchise and strong execution in Acute therapy, Alkem is well-positioned to benefit going forward.

Exhibit 6: ALKEM/IPM sees a sharp decline in Anti-Infective therapy with seasonality



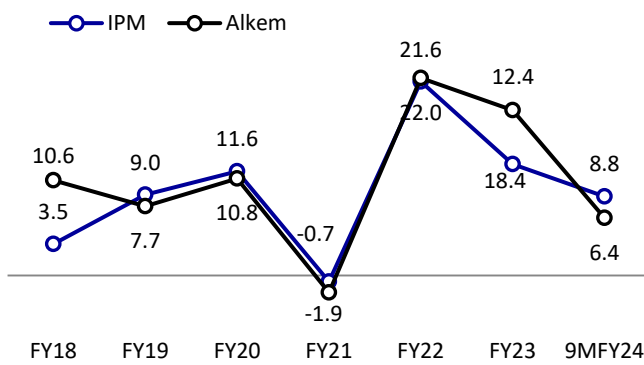
Source: MOFSL, Company, IQVIA

Exhibit 7: Consistently outperforms IPM in Gastrointestinal therapy



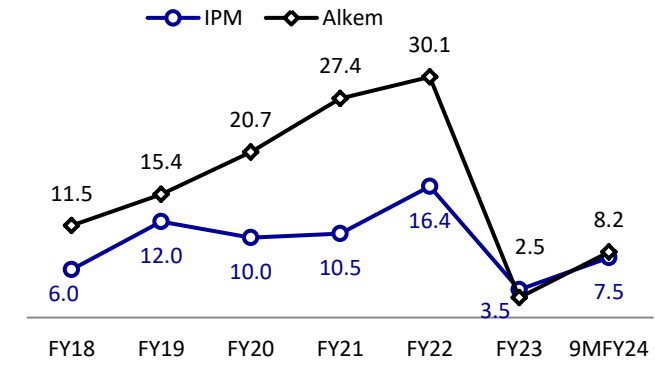
Source: MOFSL, Company, IQVIA

Exhibit 8: Strong outperformance in pain therapy compared to IPM



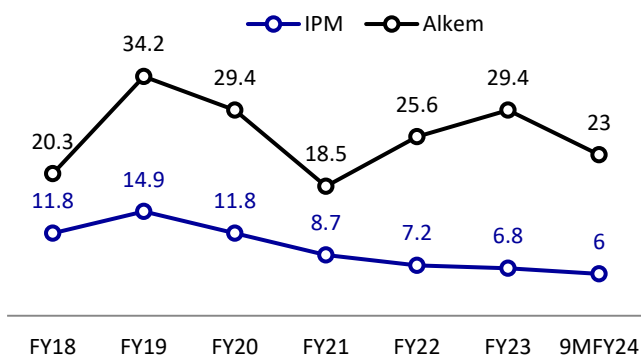
Source: MOFSL, Company, IQVIA

Exhibit 9: Inline performance to IPM in the VMN category



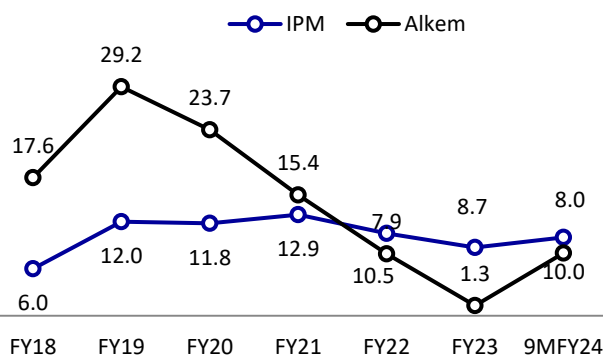
Source: MOFSL, Company, IQVIA

Exhibit 10: Superior growth in Anti-diabetic therapy



Source: MOFSL, Company, IQVIA

Exhibit 11: Cardiac therapy underperformed IPM from FY21 onwards



Source: MOFSL, Company, IQVIA

Top brands growing faster than the IPM.

- PAN-D, a stomach acid relief medication with a market share of 32%, demonstrated a decent growth of 13.4% during MAT Dec’23. Over the last three months, the brand exhibited further growth of 17.4%.
- Uprise-D3 is in the top10 brands of Alkem. It is used in the treatment of vitamin D deficiency and osteoporosis. It is growing faster than the IPM with a growth of 32.2% during MAT Dec’23. Over the last three months, the drug has shown a phenomenal growth of 37.3%.
- Pipzo which has a market share of 22.2% has shown a decent growth of 30.8% on MAT Dec’23 bases. The drug is used to treat various types of bacterial infections. However, even during the unfavorable seasonality, the brand has shown a robust growth of 35.6% over the last three months.

Exhibit 12: Calvam and Pan-D are the top brands driving the growth

Drug	Therapy	MAT Dec'23			Growth (%)	
		Value (INR m)	Growth (%)	Market share (%)	Last 3M	Dec'23
Total		86,558	10.8	100	8.5	5.7
Pan	Gastro Intestinal	6,047	12.7	44.0	14.5	11.0
Clavam	Anti-Infectives	6,032	10.2	14.2	-4.6	-6.1
Pan-D	Gastro Intestinal	5,151	13.4	32.0	17.4	16.5
Taxim-O	Anti-Infectives	3,146	2.0	18.2	6.9	15.5
Xone	Anti-Infectives	2,760	8.6	16.8	19.1	8.9
A To Z Ns	VMN	2,744	-4.3	12.2	9.4	17.5
Pipzo	Anti-Infectives	1,898	30.8	22.2	35.6	35.9
Taxim	Anti-Infectives	1,834	3.9	80.9	5.4	4.2
Gemcal	VMN	1,807	-1.1	19.0	0.7	2.0
Uprise-D3	VMN	1,679	32.2	16.3	37.3	38.8

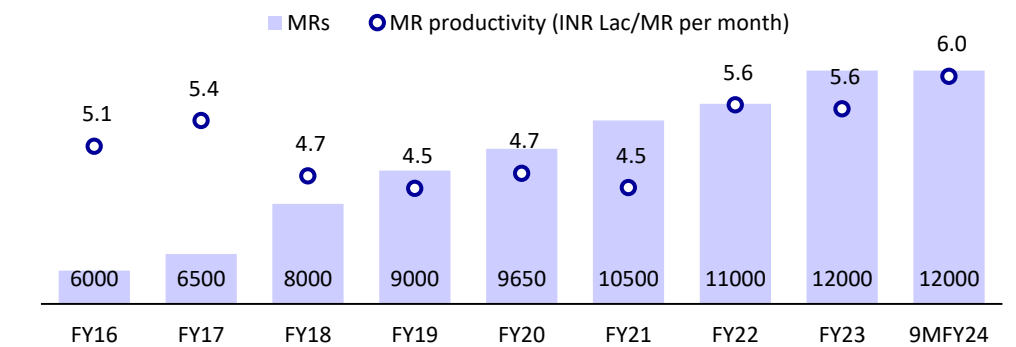
Source: MOFSL, IQVIA

- However, key brands such as Clavam, Taxim-o, Gemcal, and PAN have shown a decline in growth by 15.6%/13.1%/11.3%/8% from MAT Mar’23 to MAT Dec’23, due to the effect of seasonality and high base.

Newly added MRs to start yielding results in the coming years

- ALKEM added ~1,000 MRs in FY23 on the chronic side so as to increase the penetration of the chronic business and to offset the attrition.
- Management expects that the newly added 1000 MRs in the past 12 months would start yielding results within the next three years.
- It's MR strength has almost doubled from FY16 to FY23, and the benefit is yet to be fully realized as the performance of the overall productivity is currently being impacted by the chronic division.

Exhibit 13: MR productivity to rise with increase in output from Chronic therapy



Source: MOFSL, Company

- Further, the management expects the productivity from the chronic therapy to increase the overall productivity in the medium term.

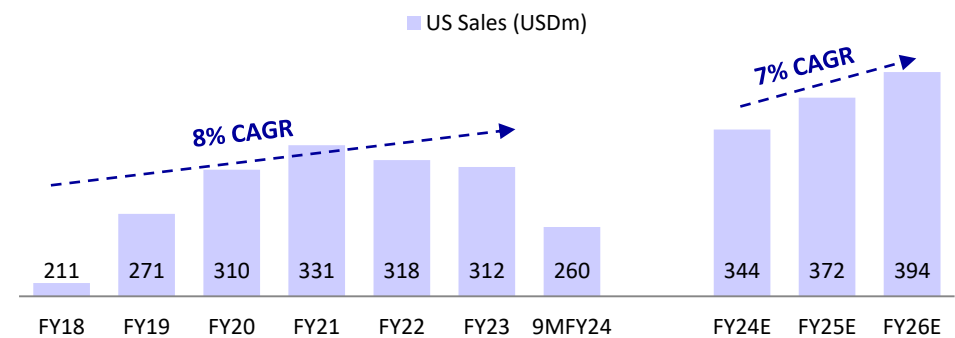
US business picks up; healthy growth momentum in Non-US business

- After achieving a robust 16% sales CAGR in US generics to USD331m over FY18-21, the growth momentum took a pause, with stable sales over FY21-23.
- Notably, there has been a pick-up in US sales in 9MFY24 with 6% YoY growth in USD terms, led by reduction in intensity of price erosion and market share gain in existing products.
- Further, healthy pace of approvals is expected to support growth momentum in the US business.
- Other international markets witnessed a 15% sales CAGR over FY18-23 and 43% YoY growth in 9MFY24. Increased penetration in the existing markets and new launches in key markets is expected to drive growth in the emerging markets going forward.
- We expect 7%/21% sales CAGR to USD394m/INR18b in US/emerging markets over FY24-26.

Growth picks up in 9MFY24, after two years of slowdown in US business

- ALKEM has delivered 8% sales CAGR in the US (75% of exports) over FY18-23 to USD312m. This is largely on the back of a robust pace of approvals (~84 during FY18-23).
- In FY22 and FY23, the US sales had declined 4% and 2%, respectively, due to the reduced number of approvals, significant pricing pressure, and muted prescription growth. However, this decline was offset to some extent due to currency benefit.
- However, during 9MFY24, the US sales grew 12% YoY to INR21b (in cc terms up 6% to USD260m) due to reduced intensity of price erosion and market share gains in the existing products.

Exhibit 14: US sales to register a CAGR of 7% over FY24-26

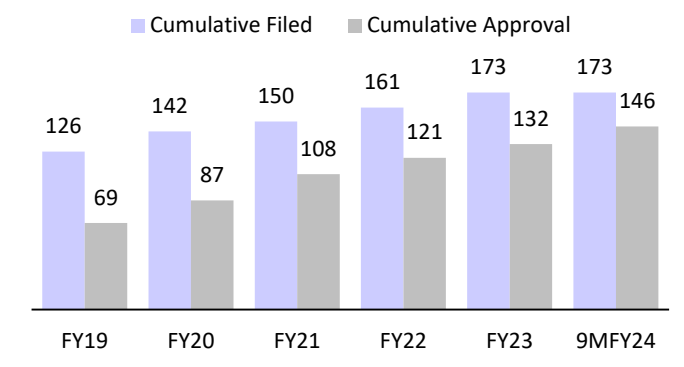


Source: MOFSL, Company

- As of 9MFY24, it had 146 approved ANDAs in the US, including 14 tentative approvals and 34 ANDAs under approval. For 9MFY24, the company has filed 4 products, while it has received approval for 17 products.
- However, the company has guided for 8-9 filings in the US in FY24. Additionally, ALKEM is allocating capital to niche products only.
- We expect that in constant currency terms, the US business is expected to grow at 6% over FY24-26. We may also expect some growth due to rupee depreciation.

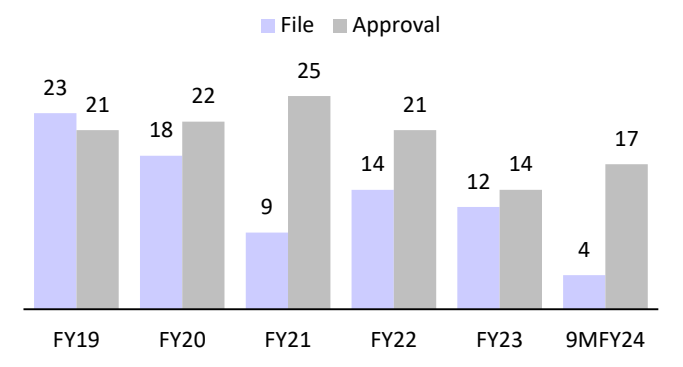
- Further, ALKEM strategizes to increase the profitability of the US business by rationalization of the R&D cost and cooling off API prices.
- Further, ALKEM is focusing on biosimilar in the US through its subsidiary, Enzene Biosciences, as there is a growing demand for affordable biosimilar.

Exhibit 15: Filings stable; approvals on an uptrend



Source: MOFSL, Company

Exhibit 16: 4/17 ANDA filed/approved in 9MFY24



Source: MOFSL, Company

- On the compliance front, ALKEM has a good record of accomplishments, with nearly all its facilities attaining the EIR status. However, we anticipate upcoming inspections for several other plants, given that some of them have not been inspected for 3-5 years.
- Given its ANDA pipeline, launches of the new products and a good record of accomplishment on the compliance front, we expect ALKEM to deliver 6% sales CAGR over FY24-26 to INR32b.

Exhibit 17: Successful compliance track record

Facility	Scope	Inspection Date	Update
Mandva	API	Dec-23	Received Form 483 with three (3) observations
Ankleshwar (India)	API	Apr-23	Inspection is closed. EIR received in July 2023
St. Louis (US)	Formulations	Nov-22	Inspection is closed. EIR received in December 2022
Taloja	Bioequivalence Centre	Oct-22	Successfully closed inspection without any observations
Indore	Formulations	Jul-22	Inspection is closed. EIR received in February 2023
Baddi	Formulations	Feb-20	Inspection is closed. EIR received in March 2020
Daman	Formulations	Aug-19	Inspection is closed. EIR received in October 2019
California	API	Aug-18	Inspection is closed. EIR received in October 2018

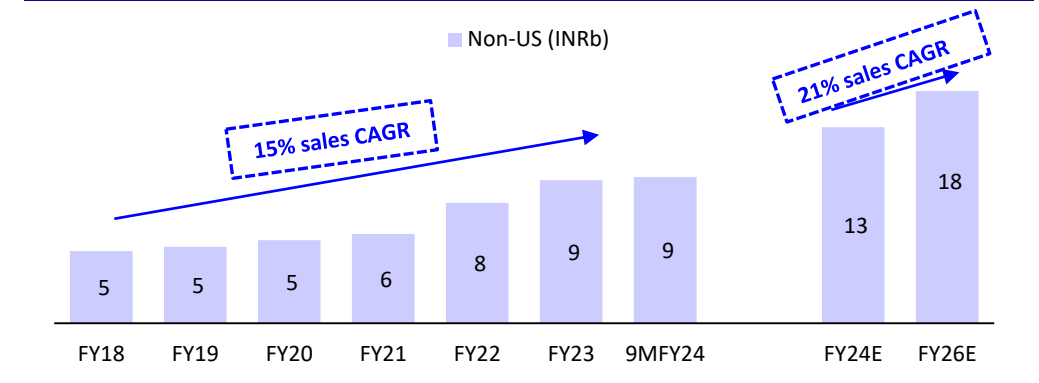
Source: MOFSL, Company

Enhanced reach and new launches to drive growth in Ex-US international markets

- Excluding US sales, ALKEM clocked 14.7% sales CAGR over FY18-23. This growth can be attributed to the strategic focus on specific geographies, strengthening local presence, and delivering differentiated products through partnerships.
- During 9MFY24, the sales grew 43% YoY due to strong traction in Chile, Europe, and Kazakhstan, and even in the Philippines.
- ALKEM has its presence in Australia, Europe, South East Asia, Latin America, Africa, and the CIS.

- ALEKM is looking forward to introduce new products tailored to local needs, optimize costs to mitigate risks, expand its reach in selected geographies, and explore partnership opportunities with local players. Accordingly, we have built in a 21% sales CAGR to INR18b over FY24-26.

Exhibit 18: Exports to register a CAGR of 21% over FY24-26



Source: MOFSL, Company

Enzene: the additional growth lever

- ALKEM has forayed into the development/manufacturing biosimilars and CDMO activities.
- It has launched 7 biosimilars in India and plans to expand its presence in other geographies. Further, it has 3 biosimilars and 4 synthetic peptides under various stages of development.
- The new CDMO facility coming up in the US is expected to boost the CDMO sales.
- With strong traction in new and existing launches and strong growth in the CDMO division, ALKEM expects breakeven in FY25.

Foray into biologics progressing well

- Enzene is the biotech subsidiary of the company engaged in the development and manufacturing of biosimilars, novel biologics, synthetic peptides and phyto-pharmaceuticals.
- It also provides CDMO and CMO services, with manufacturing capacities ranging from 20 liters to 2,000 liters.
- With strong R&D capabilities, Enzene has launched seven biosimilars in India in the last 16-18 months and intends to expand its presence in other geographies as well. Enzene to leverage ALKEM's network in India to grow the business.
- The company has three biosimilars under various phases of clinical trials with a huge market potential. Additionally, it has four synthetic peptides under development. Further, it plans to launch two more biosimilars in FY24.

Exhibit 19: Biosimilar product pipeline

Molecule	Market Indication	Stage	Date
Teriparatide	Osteoporosis	Launched*	Dec'12
Denosumab	Postmenopausal Osteoporosis Giant cell tumor of bone	Launched*	Aug'21
Romiplostim	Immune thrombocytopenic purpura	Launched*	May'22
Adalimumab	Rheumatoid arthritis	Launched*	Apr'18
Cetuximab	Squamous cell cancer of the head and neck	Launched*	May'23
Bevacizumab	Metastatic colorectal cancer	Launched*	Apr'23
Ranibizumab	Neovascular age related macular degeneration	Launched*	Sept'23
Liraglutide	Type II diabetes Mellitus	Clinical	
Pertuzumab	HER2-positive metastatic breast cancer	Pre-Clinical	
Tocilizumab	Rheumatoid arthritis	Development	

*Note: All the drugs are launched in Indian Market, Source: MOFSL, Company

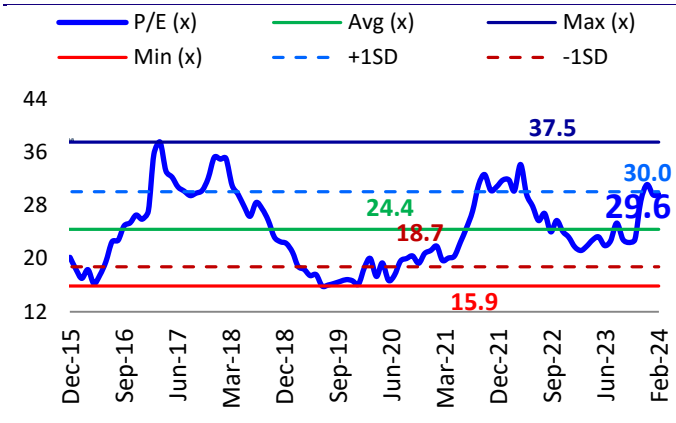
- Currently, the CDMO business contributes around 42% of the revenue of the Enzene's business.
- Further, to boost the growth, the company plans to open a new manufacturing facility at a cost of USD50m (INR315m) in Princeton, New Jersey. This is to be funded through a mix of debt and the available cash balance.
- The plant to start commercial manufacturing from Jun'24 onwards. This facility will allow Enzene to serve clients in North America with a streamlined supply chain and quicker turnaround times.
- In FY23, Enzene recorded a revenue of INR1.4b, registering a 65% YoY growth. Also, in 1HFY24, the company registered a revenue of INR800m.

- Currently, the company has high R&D expenditure of INR600m and expects to maintain this at this levels as it intends to develop more complex drugs. Further, it plans to fund this R&D expense through internal accruals.
- With high R&D and expansion plans, the company expects the Enzene to reach breakeven in FY25, supported by higher growth in revenue from both the biosimilar and CDMO divisions.
- Also, with the commercialization of new biosimilars, the revenue is expected to increase at a higher rate over the medium term.

Valuation and View

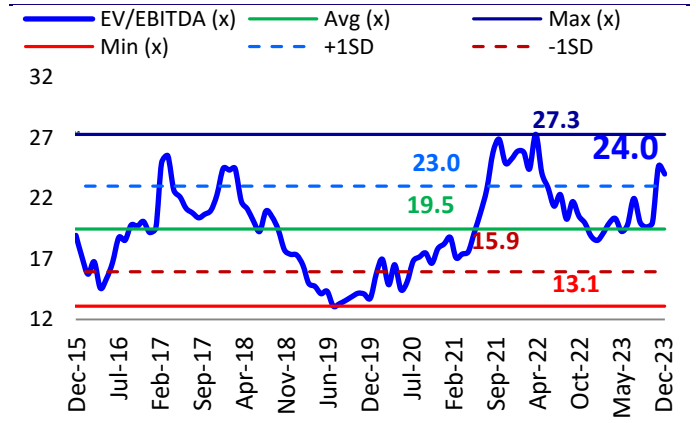
- Currently, the healthcare sector is trading at a PE of 31x, which is above its 10-year average and the 1 Standard Deviation up (+1SD is 31x), while the 1 Standard Deviation down (-1SD) is 23x.
- The positive factors for ALKEM include a) being a domestic player with a robust brand franchise, and b) maintaining consistent USFDA compliance. Factors that could negatively impact the valuation multiple include a) a higher share of acute therapies in DF, b) increased volatility in DF growth, led by seasonality and infection rate, and c) lower profitability in the US generics business. Accordingly, ALKEM’s long-term average has been 24x and it is currently trading at +1SD (30x 12M forward earnings).
- We value ALKEM at 25x 12M forward earnings to arrive at a price target of INR5,160. Considering 9% earnings CAGR over FY24-26 and the stock currently trading at +1SD of its long-term average, we believe the current valuation adequately factors the upside in earnings. We reiterate our Neutral stance on the stock.

Exhibit 20: ALKEM PE Chart



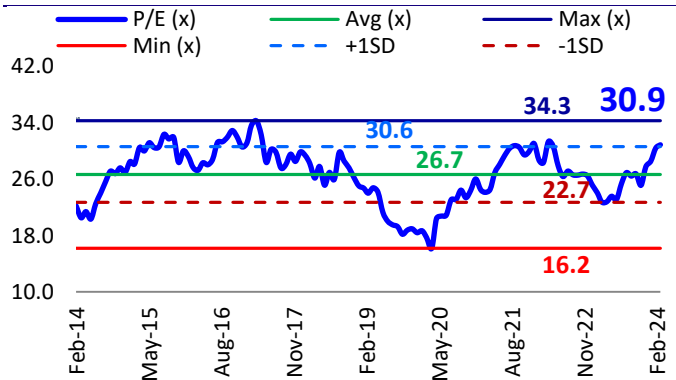
Source: MOFSL, Company

Exhibit 21: ALKEM EV/EBITDA Chart



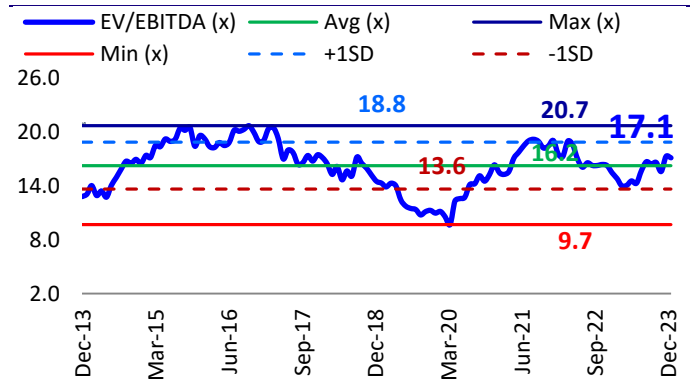
Source: MOFSL, Company

Exhibit 22: Healthcare PE Chart



Source: MOFSL, Company

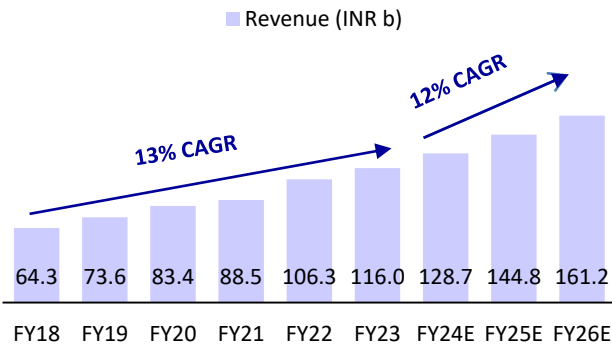
Exhibit 23: Healthcare EV/EBITDA Chart



Source: MOFSL, Company

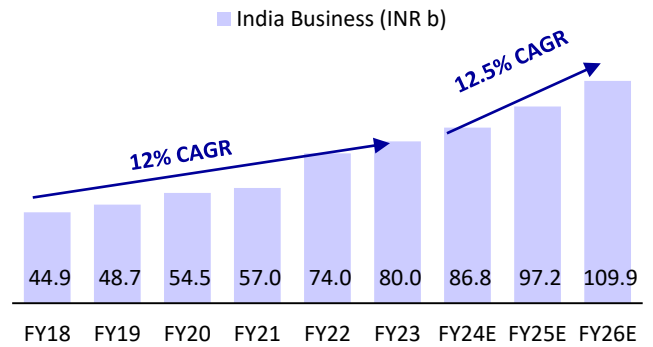
Story in charts

Exhibit 24: Expect 12% revenue CAGR over FY24-26



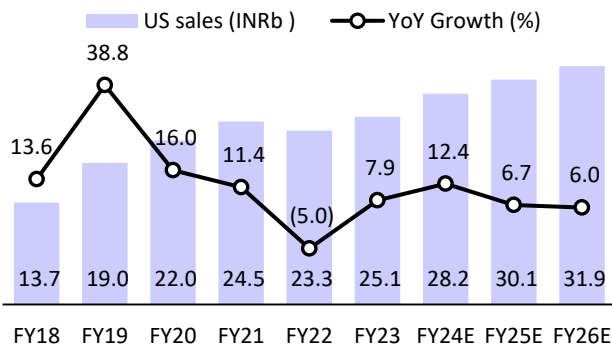
Source: Company, MOFSL

Exhibit 25: Expect India sales CAGR of 13% over FY24-26



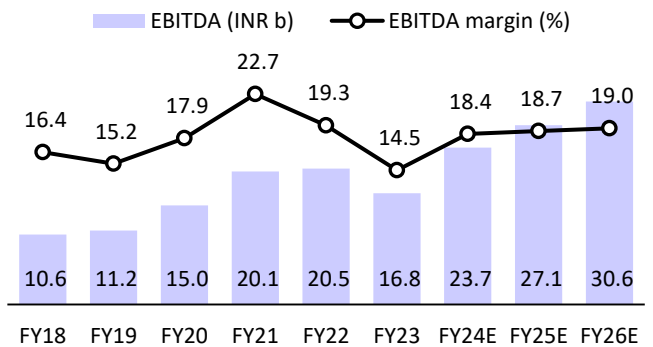
Source: Company, MOFSL

Exhibit 26: Expect 6% US sales CAGR over FY24-26



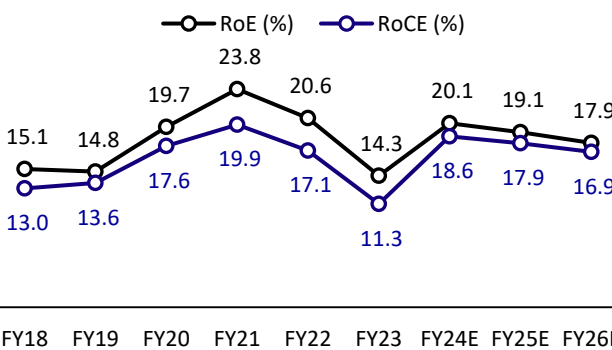
Source: Company, MOFSL

Exhibit 27: Expect margin to remain stable over FY24-26



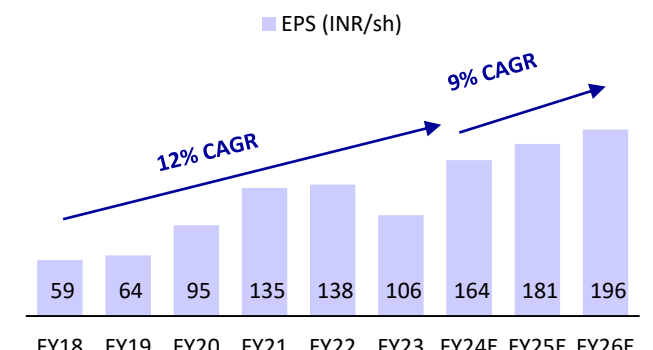
Source: Company, MOFSL

Exhibit 28: ROCE/ROE to decline slightly in FY26



Source: Company, MOFSL

Exhibit 29: Expect 9% earnings CAGR over FY24-26



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	73,572	83,444	88,505	1,06,342	1,15,993	1,28,690	1,44,800	1,61,227
Change (%)	14.4	13.4	6.1	20.2	9.1	10.9	12.5	11.3
Total Expenditure	62,401	68,484	68,426	85,813	99,198	1,05,011	1,17,723	1,30,594
% of Sales	84.8	82.1	77.3	80.7	85.5	81.6	81.3	81.0
EBITDA	11,171	14,960	20,079	20,529	16,795	23,679	27,078	30,633
Margin (%)	15.2	17.9	22.7	19.3	14.5	18.4	18.7	19.0
Depreciation	1,932	2,348	2,746	3,040	3,104	2,881	3,169	3,433
EBIT	9,239	12,612	17,333	17,490	13,690	20,798	23,909	27,201
Int. and Finance Charges	546	651	589	524	1,074	1,102	964	895
Other Income	877	1,042	1,867	1,627	2,161	2,816	3,143	3,400
PBT bef. EO Exp.	9,570	13,004	18,611	18,592	14,778	22,513	26,087	29,705
EO Items	-23	-406	-190	-150	-1,730	-1,090	0	0
PBT after EO Exp.	9,547	12,598	18,421	18,443	13,048	21,423	26,087	29,705
Current Tax	1,810	1,105	2,243	1,640	2,980	2,571	4,174	5,941
Tax Rate (%)	19.0	8.8	12.2	8.9	22.8	12.0	16.0	20.0
Less: Mionrity Interest	131	222	328	300	226	256	289	327
Reported PAT	7,606	11,271	15,850	16,503	9,842	18,596	21,624	23,438
Adjusted PAT	7,629	11,407	16,100	16,516	12,678	19,600	21,624	23,438
Change (%)	8.4	49.5	41.1	2.6	-23.2	54.6	10.3	8.4
Margin (%)	10.4	13.7	18.2	15.5	10.9	15.2	14.9	14.5

Consolidated - Balance Sheet								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	239	239	239	239	239	239	239	239
Total Reserves	54,154	61,368	73,528	86,140	90,214	1,04,623	1,21,379	1,39,539
Net Worth	54,393	61,607	73,767	86,379	90,453	1,04,862	1,21,618	1,39,779
Minority Interest	1,326	1,483	1,813	2,094	3,897	3,897	3,897	3,897
Deferred Tax Liabilities	3	0	0	0	0	0	0	0
Total Loans	9,026	16,628	17,336	26,466	13,775	13,775	13,775	13,775
Capital Employed	64,748	79,717	92,916	1,14,939	1,08,125	1,22,534	1,39,290	1,57,450
Gross Block	26,000	30,354	32,376	35,948	36,835	41,017	44,624	48,147
Less: Accum. Deprn.	4,944	7,291	10,037	13,077	16,181	19,061	22,230	25,662
Net Fixed Assets	21,056	23,063	22,339	22,871	20,654	21,956	22,394	22,485
Goodwill on Consolidation	4,248	6,017	5,591	6,146	4,796	4,796	4,796	4,796
Capital WIP	4,930	3,630	3,933	3,395	3,103	2,321	2,215	2,194
Total Investments	3,236	2,614	3,328	3,710	6,218	6,218	6,218	6,218
Curr. Assets, Loans&Adv.	41,535	54,784	68,923	91,477	89,770	1,05,574	1,26,277	1,48,159
Inventory	14,999	18,188	23,124	30,055	26,075	28,770	33,220	36,852
Account Receivables	12,484	16,494	16,072	18,846	21,322	24,328	28,563	36,663
Cash and Bank Balance	6,616	10,922	19,905	25,786	25,786	34,073	43,786	51,588
Loans and Advances	7,437	9,180	9,822	16,790	16,587	18,403	20,707	23,056
Curr. Liability & Prov.	17,334	19,716	22,277	25,753	29,442	31,355	35,635	39,426
Account Payables	9,623	9,541	10,694	11,734	11,650	13,234	15,159	16,816
Other Current Liabilities	4,436	6,108	6,709	7,955	10,370	11,506	12,946	14,414
Provisions	3,275	4,067	4,874	6,064	7,421	6,616	7,531	8,196
Net Current Assets	24,202	35,068	46,647	65,725	60,329	74,219	90,641	1,08,732
Deferred Tax assets	7,076	9,326	11,079	13,093	13,025	13,025	13,025	13,025
Appl. of Funds	64,748	79,717	92,916	1,14,939	1,08,125	1,22,534	1,39,290	1,57,450

E: MOSL Estimates

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	63.8	95.4	134.7	138.1	106.0	164.0	180.9	196.0
Cash EPS	80.0	115.1	157.6	163.6	132.0	188.0	207.4	224.8
BV/Share	455	515	617	723	757	877	1,017	1,169
DPS	15.0	17.9	27.8	27.6	16.5	29.6	34.4	37.2
Payout (%)	28.5	22.5	24.9	23.7	23.7	22.5	22.5	22.5
Valuation (x)								
P/E	84.8	56.7	40.2	39.2	51.0	33.0	29.9	27.6
Cash P/E	67.6	47.0	34.3	33.1	41.0	28.8	26.1	24.1
P/BV	11.9	10.5	8.8	7.5	7.2	6.2	5.3	4.6
EV/Sales	8.8	7.8	7.3	6.1	5.5	4.9	4.3	3.8
EV/EBITDA	58.1	43.6	32.1	31.5	37.8	26.5	22.8	19.9
Dividend Yield (%)	0.3	0.3	0.5	0.5	0.3	0.5	0.6	0.7
FCF per share	21.1	19.9	90.4	65.5	152.5	92.1	106.2	91.2
Return Ratios (%)								
RoE	14.8	19.7	23.8	20.6	14.3	20.1	19.1	17.9
RoCE	13.6	17.6	19.9	17.1	11.3	18.6	17.9	16.9
RoIC	15.8	20.5	23.7	21.6	13.6	23.9	24.1	23.6
Working Capital Ratios								
Fixed Asset Turnover (x)	2.8	2.7	2.7	3.0	3.1	3.1	3.2	3.3
Asset Turnover (x)	1.1	1.0	1.0	0.9	1.1	1.1	1.0	1.0
Inventory (Days)	74	80	95	103	82	82	84	83
Debtor (Days)	62	72	66	65	67	69	72	83
Creditor (Days)	48	42	44	40	37	38	38	38
Working Cap. Turnover (Days)	87	106	110	137	109	114	118	129
Leverage Ratio (x)								
Current Ratio	2.4	2.8	3.1	3.6	3.0	3.4	3.5	3.8
Interest Cover Ratio	16.9	19.4	29.4	33.4	12.8	18.9	24.8	30.4
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	-0.2	-0.2	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	9,547	12,598	18,421	18,443	14,778	22,513	26,087	29,705
Depreciation	1,932	2,528	2,746	3,040	3,104	2,881	3,169	3,433
Interest & Finance Charges	134	19	-312	-703	-1,087	-1,714	-2,178	-2,505
Direct Taxes Paid	-2,511	-2,834	-4,007	-3,969	-2,980	-2,571	-4,174	-5,941
(Inc)/Dec in WC	-1,403	-6,472	-3,412	-5,450	3,666	-6,693	-6,710	-10,289
CF from Operations	7,698	5,839	13,436	11,361	17,481	14,415	16,194	14,403
Others	98	12	-787	-250	0	0	0	0
CF from Operating incl EO	7,797	5,851	12,649	11,110	17,481	14,415	16,194	14,403
(Inc)/Dec in FA	-5,269	-3,477	-1,845	-3,280	755	-3,400	-3,502	-3,502
Free Cash Flow	2,527	2,374	10,805	7,830	18,237	11,015	12,692	10,901
(Pur)/Sale of Investments	1,235	458	3	-12,051	-2,508	0	0	0
Others	871	-4,395	-8,144	980	2,161	2,816	3,143	3,400
CF from Investments	-3,164	-7,414	-9,985	-14,351	408	-584	-359	-102
Inc/(Dec) in Debt	-1,057	6,031	1,397	8,628	-12,691	0	0	0
Interest Paid	-546	-651	-536	-401	-1,074	-1,102	-964	-895
Dividend Paid	-2,186	-4,396	-3,348	-4,219	-2,332	-4,187	-4,869	-5,277
CF from Fin. Activity	-3,789	791	-2,718	3,796	-16,324	-5,545	-6,122	-6,499
Inc/Dec of Cash	843	-771	-54	555	1,565	8,287	9,713	7,802
Opening Balance	1,667	2,490	1,759	1,705	2,297	3,862	12,149	21,862
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	12,149	21,862	29,664
Bank Balances	4,126	9,163	18,199	23,489	21,924	21,924	21,924	21,924
Total Cash and Cash Eq.	6,616	10,922	19,905	25,786	25,786	34,073	43,786	51,588

INRm

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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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