

Alkem Laboratories

Estimate change	↑
TP change	↑
Rating change	↔

CMP: INR5,328 TP: INR5,160 (-3%) Neutral

India, international (ex-US) businesses outperforms

Steps up investments in biosimilar segment

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	637 / 7.7
52-Week Range (INR)	5420 / 2835
1, 6, 12 Rel. Per (%)	2/15/43
12M Avg Val (INR M)	846

Financials & Valuations (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)	32.6	29.5	27.2
EV/EBITDA (x)	26.1	22.5	19.6
Div. Yield (%)	0.6	0.6	0.7
FCF Yield (%)	1.7	2.0	1.7
EV/Sales (x)	4.8	4.2	3.7

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

- Alkem Lab (ALKEM) delivered better-than-expected 3QFY24 earnings. While sales were largely in line with estimates, margin came in above our estimate owing to controlled cost base. ALKEM continued to exhibit strong growth momentum in the international (Ex-US) business.
- We raise our earnings estimates by 10%/5%/6% for FY24/FY25/FY26 to factor in reduced operating costs/better productivity, a robust show in international business, and an improved outlook for the biosimilar segment. We value ALKEM at 25x 12M forward earnings to arrive at a TP of INR5,160.
- We expect 12%/14%/9% YoY growth in revenue/EBITDA/PAT over FY24-26, driven by a 13%/21%/7% sales CAGR in domestic formulation (DF), international (ex-US), and the US segments. We also expect a 60bp margin improvement. While growth prospects remain better in key segments, we maintain our Neutral rating on the stock as the current valuation adequately factors in the upside in earnings.

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

- 3QFY24 revenue grew 9% YoY to INR33b (in line). Domestic business grew 12% YoY to INR22b (69% of sales). International business grew 3% YoY to INR10.2b. Within international business, Other International sales grew 47% YoY to INR3.4b (10% of sales). US sales declined 10% YoY to INR6.8b (21% of sales).
- Gross margin expanded by 180bp YoY to 60.8% due to low raw material prices.
- EBITDA margin expanded by 160bp YoY to 21.3% (our est: 18.2%) due to higher GM and lower R&D/employee costs (-90bp/-10bp YoY as % of sales), offset by higher other expenses (+120bp YoY as % of sales).
- Accordingly, EBITDA increased by 18% YoY to INR7.1b (vs. est. of INR5.9b).
- Adj. PAT grew 41% YoY to INR6.4b (our est: INR4.5b) due to higher other income (>2x YoY) and a lower tax rate of 7.7% (vs. 14.6% in 3QFY23).
- For 9MFY24, revenue/EBITDA/PAT grew 12%/39%/65% YoY to INR97b/INR18b/INR16b.

Highlights from the management commentary

- ALKEM expects 17% EBITDA margin in FY24 and is making efforts to improve margins from these levels going forward.
- Other expenses fell QoQ due to lower distribution expenses related to freight.
- The company plans to invest INR2.5b to build a manufacturing facility in the US for the biosimilar segment.
- With improved traction in biosimilar products (7 launched in India), the company would introduce these products in other geographies as well.
- ALKEM expects Pen-G prices to remain high.

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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	Var	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Revenues	25.8	30.8	30.4	29.0	29.7	34.4	33.2	31.4	116.0	128.7	32.4	2.5
YoY Change (%)	-5.7	10.0	16.1	16.9	15.2	11.7	9.3	8.1	9.1	10.9	6.6	
Total Expenditure	23.0	26.3	24.4	25.5	25.8	26.9	26.2	26.1	64.4	65.7	26.2	
EBITDA	2.7	4.5	6.0	3.5	3.9	7.5	7.1	5.2	16.8	23.7	5.9	19.9
YoY Change (%)	-53.9	-27.3	20.2	4.8	42.4	64.5	18.1	48.4	-18.2	41.0	(1.5)	
Margins (%)	10.6	14.7	19.7	12.2	13.1	21.7	21.3	16.7	14.5	18.4	18.2	
Depreciation	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	3.1	2.9	0.7	
EBIT	2.0	3.8	5.2	2.7	3.2	6.7	6.4	4.5	13.7	20.8	5.2	
YoY Change (%)	-62.3	-31.7	23.7	8.2	60.8	78.7	22.6	64.5	-21.0	18.9	(0.9)	
Margins (%)	7.6	12.2	17.1	9.5	10.7	19.6	19.2	14.4	11.8	16.2	15.9	
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	0.9	0.6	2.2	2.8	0.7	
PBT before EO Exp	2.2	4.0	5.4	3.1	3.5	7.1	7.1	4.9	14.8	22.5	5.5	27.8
EO Exp/(Inc)	0.7	0.0	0.0	1.0	0.0	0.6	0.5	0.0	1.7	1.1	-	
PBT after EO Exp	1.5	4.0	5.4	2.1	3.5	6.5	6.5	4.9	13.0	21.4	5.5	
Tax	0.2	0.5	0.8	1.4	0.7	0.3	0.5	1.1	3.0	2.6	0.9	
Rate (%)	13.5	13.6	14.6	68.0	18.4	5.1	7.7	22.3	20.2	11.4	16.0	
PAT (pre Minority Interest)	1.3	3.5	4.6	0.7	2.9	6.1	6.0	3.8	10.1	18.9	4.6	
Minority Interest	0.0	0.2	0.1	0.0	0.0	-0.1	0.1	0.2	0.2	0.3	0.1	
Reported PAT	1.3	3.3	4.5	0.7	2.9	6.2	5.9	3.6	9.8	18.6	4.5	31.6
Adj Net Profit	1.9	3.3	4.5	2.9	2.9	6.8	6.4	3.6	12.7	19.6	4.5	42.0
YoY Change (%)	-59.8	-39.7	12.2	28.2	52.3	104.1	41.3	21.6	-23.2	54.6	-0.6	

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
INRm										
India formulations	17.8	22.2	19.9	20.1	19.0	23.3	22.3	22.2	80.0	86.8
YoY Change (%)	(6.7)	13.0	9.7	17.0	6.7	5.0	12.1	10.4	8.1	8.5
US generics	5.6	6.0	7.6	5.9	7.0	7.7	6.8	6.8	25.1	28.2
YoY Change (%)	(7.9)	(0.9)	32.8	9.2	25.0	27.1	(10.2)	14.5	7.9	12.4
International (Ex-US)	2.0	2.3	2.3	2.7	3.2	2.9	3.4	3.2	9.3	12.7
YoY Change (%)	9.6	15.2	17.1	33.3	56.5	27.3	46.9	21.5	18.9	37.0
Cost Break-up										
RM Cost (% of Sales)	42.5	42.4	41.1	43.3	40.4	38.6	39.2	39.9	42.3	39.5
Staff Cost (% of Sales)	20.7	18.5	17.3	17.3	19.1	16.1	17.2	18.6	18.4	17.7
R&D Expenses(% of Sales)	5.1	4.2	4.3	5.1	4.1	3.4	3.3	4.0	4.7	3.6
Other Cost (% of Sales)	21.1	20.0	17.7	22.2	23.3	20.2	18.9	22.8	20.2	20.8
Gross Margins(%)	57.5	57.6	58.9	56.7	59.6	61.4	60.8	60.1	57.7	60.5
EBITDA Margins(%)	10.6	14.7	19.7	12.2	13.1	21.7	21.3	16.7	14.5	18.4
EBIT Margins(%)	7.6	12.2	17.1	9.5	10.7	19.6	19.2	14.4	11.8	16.2

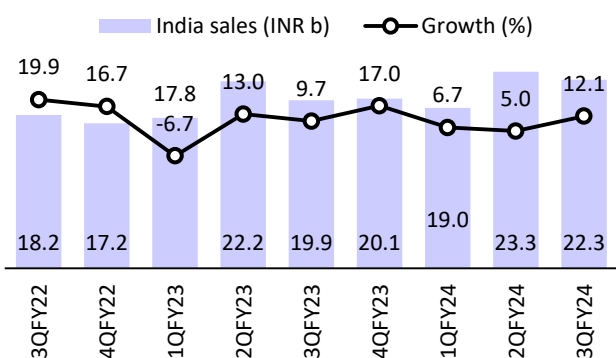


Management call highlights

- ALKEM witnessed low single-digit price erosion in US generics base business.
- The company outperformed the industry in GI as well as anti-diabetic segment in the DF segment.
- It has no plans to add MRs over the medium term in the DF segment.
- Chronic therapies formed 17% of DF segment for the quarter.
- NLEM portfolio is about 32% of DF segment.

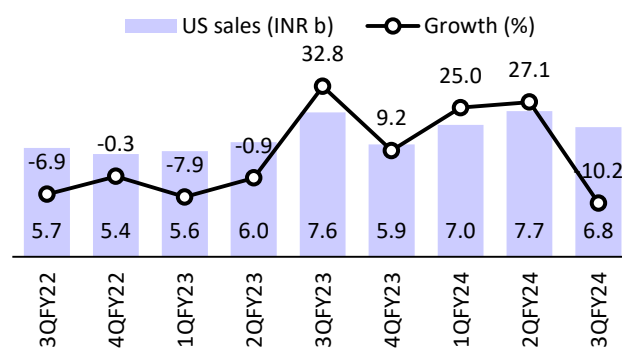
Key exhibits

Exhibit 1: DF revenue grew 12% YoY in 3QFY24



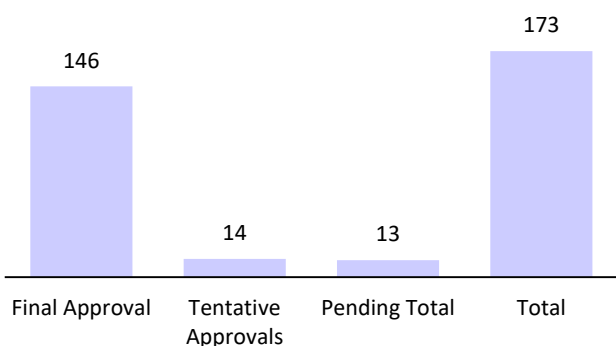
Source: MOFSL, Company

Exhibit 2: US sales increased 10% YoY in 3QFY24



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 3QFY24	0
NDA	0

Source: MOFSL, Company

Building growth levers in addition to DF/exports

DF: Robust performance in chronic therapies; maintain leading position in anti-infective segment

- In 9MFY24, ALKEM’s DF business grew 8% YoY to INR65b due to strong growth across chronic therapies.
- During 9MFY24, the chronic portfolio outperformed IPM. However, on an overall basis, ALKEM has underperformed IPM growth due to muted performance in acute therapy because of the delayed monsoon.
- In 9MFY24, ALKEM delivered strong growth in the chronic segment, with anti-diabetic/GI/Derma segments growing 22.9%/11.2%/9.4% YoY vs. 5.6%/7.7%/5.7% YoY for IPM. The neuro segment grew in line with IPM in 9MFY24.
- Accordingly, we expect ALKEM to register a 12.5% sales CAGR in DF to INR110b over FY24-26.

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

- In 9MY24, US sales grew 12% YoY to INR21b (up 6% at USD260m in cc terms) due to market share gains in the existing products and reduced intensity of price erosion.

- In 9MFY24, the company filed four ANDAs and received 17 final approvals. It has 173 ANDAs filed and has 146 final approvals to date.
- Overall, we expect ALKEM to deliver a 6.3% sales CAGR in the US to reach ~USD394m over FY24-26.

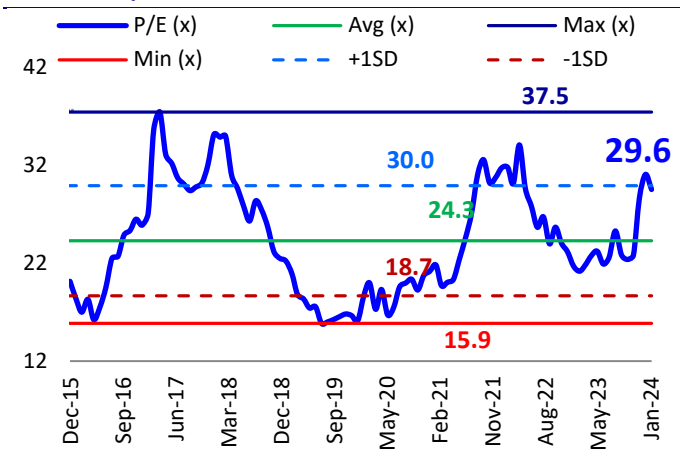
Building blocks in biosimilar segment

- ALKEM has not only developed products in the biosimilar segment, but also commercialized a few products in India.
- Further, it plans to invest INR2.5b in building the manufacturing facility in the US for commercial production of biosimilar products.
- Overall, ALKEM is expected to achieve break-even in FY24 and expects profitability-led growth in this segment in coming years.

Maintain Neutral

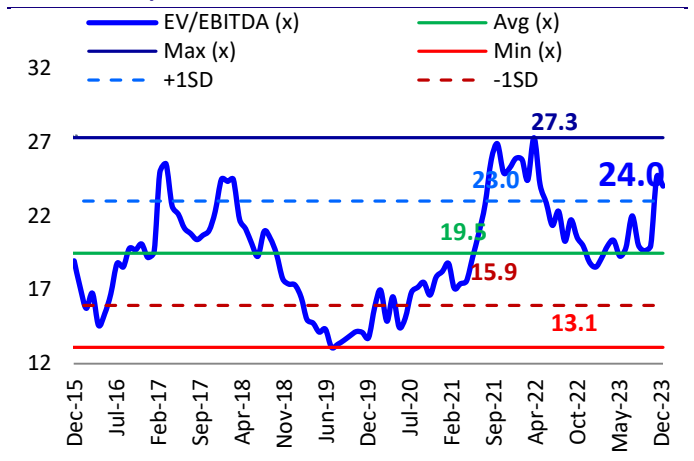
- We raise our earnings estimates by 10%/5%/6% for FY24/FY25/FY26, factoring in lower operating costs/better productivity, a robust show in international business, and an improved outlook for its biosimilar segment. We value ALKEM at 25x 12M forward earnings to arrive at a TP of INR5,160.
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Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

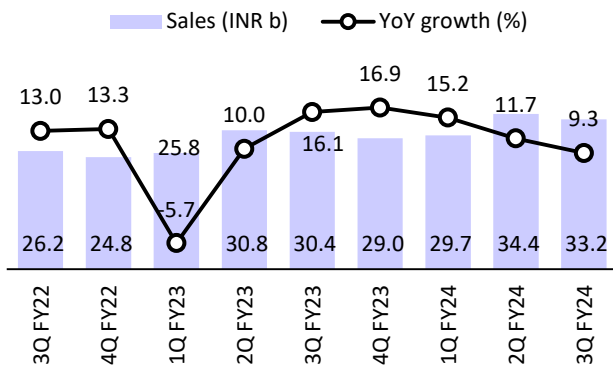
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

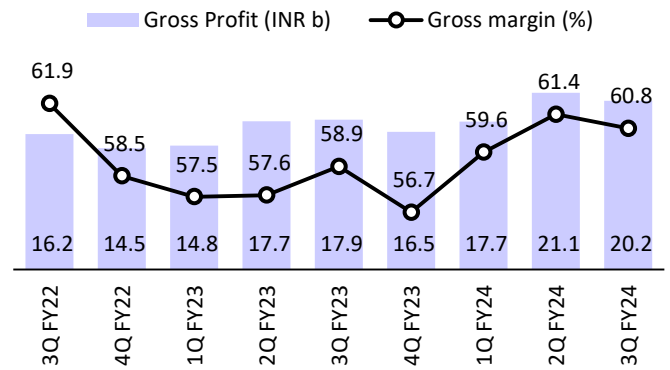
Story in charts

Exhibit 7: Total sales grew 9% YoY in 3QFY24



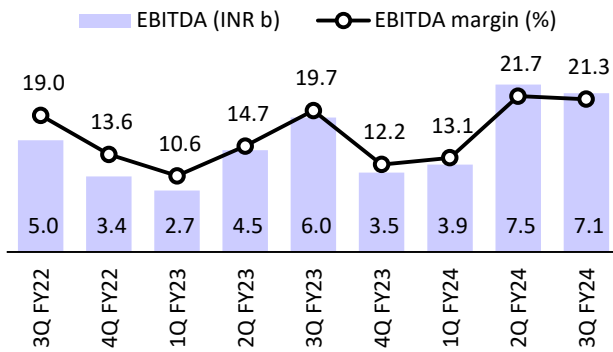
Source: Company, MOFSL

Exhibit 8: Gross margin expanded 180bp YoY in 3QFY24



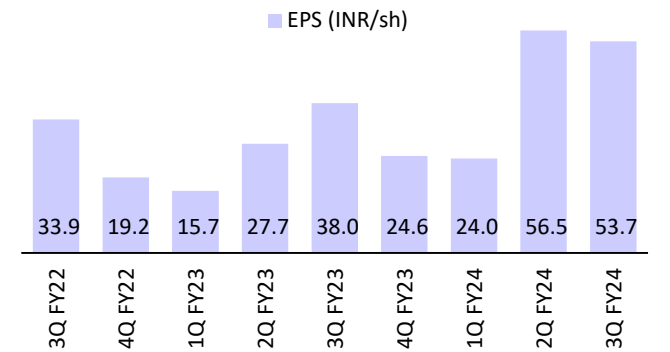
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded 160bp YoY



Source: Company, MOFSL

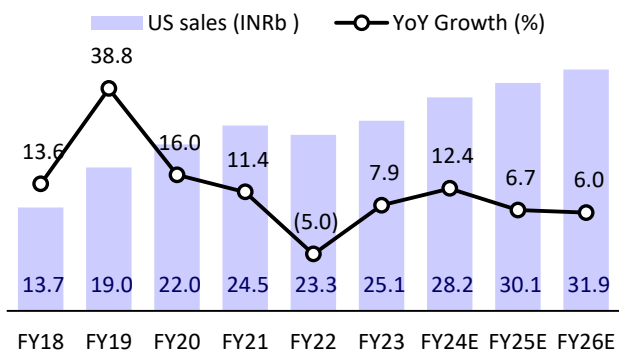
Exhibit 10: EPS increased 41% YoY to ~INR54 in 3QFY24



Source: Company, MOFSL

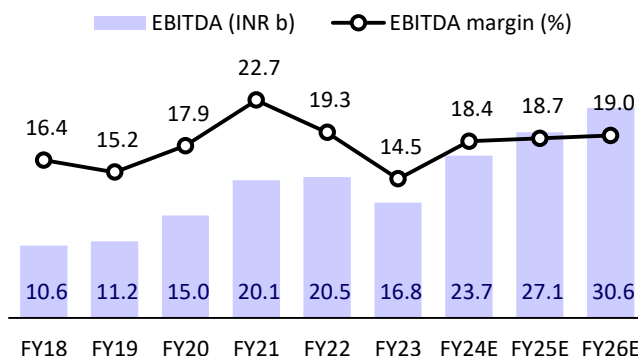
Story in charts

Exhibit 11: Expect 6% sales CAGR in the US over FY24-26



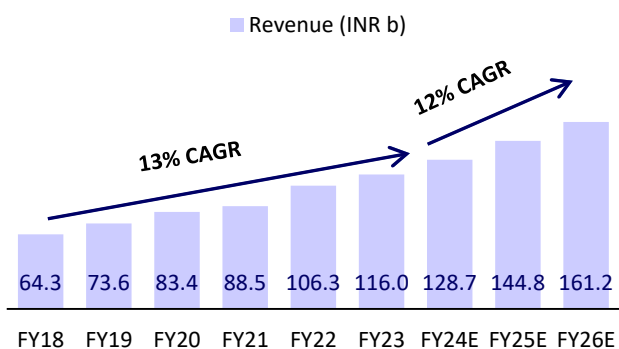
Source: Company, MOFSL

Exhibit 12: EBITDA margin to expand 60bp over FY24-26



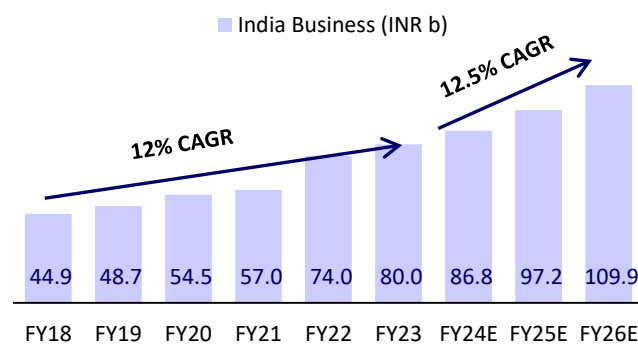
Source: Company, MOFSL

Exhibit 13: Expect revenue CAGR of 12% over FY24-26



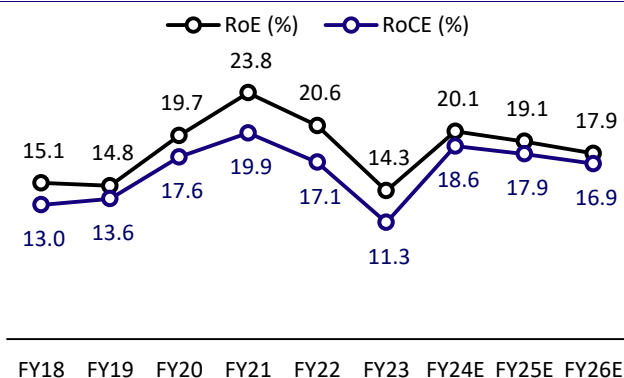
Source: Company, MOFSL

Exhibit 14: Expect India sales CAGR of 12.5% over FY24-26



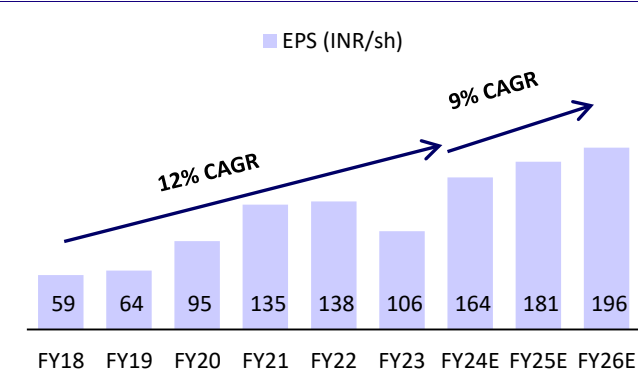
Source: Company, MOFSL

Exhibit 15: Return ratios to decrease going forward



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 9% 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	106,342	115,993	128,690	144,800	161,227
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	105,011	117,723	130,594
% 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
Deferred Tax	0	0	0	0	0	0	0	0
Tax Rate (%)	19.0	8.8	12.2	8.9	22.8	12.0	16.0	20.0
Less: Minority 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	104,623	121,379	139,539
Net Worth	54,393	61,607	73,767	86,379	90,453	104,862	121,618	139,779
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	114,939	108,125	122,534	139,290	157,450
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	105,574	126,277	148,159
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	108,732
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	114,939	108,125	122,534	139,290	157,450

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	83.7	56.0	39.7	38.7	50.4	32.6	29.5	27.2
Cash P/E	66.8	46.4	33.9	32.7	40.5	28.4	25.8	23.8
P/BV	11.7	10.4	8.7	7.4	7.1	6.1	5.3	4.6
EV/Sales	8.7	7.7	7.2	6.0	5.4	4.8	4.2	3.7
EV/EBITDA	57.4	43.1	31.7	31.1	37.3	26.1	22.5	19.6
Dividend Yield (%)	0.3	0.3	0.5	0.5	0.3	0.6	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

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