

Alkem Laboratories

Estimate change	
TP change	
Rating change	

Bloomberg	ALKEM IN
Equity Shares (m)	120
M.Cap.(INRb)/(USDb)	629.2 / 7.5
52-Week Range (INR)	5581 / 3283
1, 6, 12 Rel. Per (%)	7/2/35
12M Avg Val (INR M)	1024

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	126.7	139.7	156.4
EBITDA	22.5	25.6	29.1
Adj. PAT	19.1	20.7	23.0
EBIT Margin (%)	15.4	16.0	16.4
Cons. Adj. EPS (INR)	159.7	173.1	192.2
EPS Gr. (%)	50.6	8.4	11.0
BV/Sh. (INR)	862.6	996.7	1,145.7

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	19.7	18.6	17.9
RoCE (%)	18.3	17.3	16.8
Payout (%)	22.5	22.5	22.5

Valuations

P/E (x)	33.0	30.4	27.4
EV/EBITDA (x)	27.9	24.4	21.3
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	2.8	0.8	1.2
EV/Sales (x)	5.0	4.5	4.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	56.7	56.7	57.2
DII	15.6	15.9	16.7
FII	9.1	8.5	4.4
Others	18.5	18.9	21.7

FII Includes depository receipts

CMP: INR5,262 TP: INR5,390 (+2%) Neutral

Exports growth offset by weak India business

Increasing investments in the biosimilars segment

- Alkem Lab (ALKEM) delivered a miss on 4QFY24 earnings, led by lower domestic formulation (DF) sales and higher R&D spend. Having said this, compared to earnings decline over FY22-23, it has delivered a 50% YoY earnings growth in FY24. This is largely on the back of lower raw material cost and reduced intensity of price erosion in the US generics segment.
- We reduce our earnings estimate by 4%/2% for FY25/FY26, factoring in a) increased opex related to the Enzene facility in the US, and b) higher product development spend. We assign 27x PE multiple on 12M forward earnings to arrive at a price target of INR5,390.
- We expect 10% earnings CAGR over FY24-26, backed by 12%/20% sales CAGR in DF/Ex-US exports business and stable margins. The improved margins in the base business is expected to be partially offset by higher operational cost related to the biosimilars segment. Given the limited upside from the current levels, we maintain Neutral stance on the stock.

Lower RM costs benefit offset by higher opex

- ALKEM 4QFY24 revenues was stable YoY to INR29.3b (our est: INR31.3b). Domestic business decreased 1.9% YoY to INR19.7b (68% of sales). International business grew 6% YoY to INR9b for the quarter. Within international business, Other International sales grew 7.6% YoY to INR2.9b (10% of sales). US sales grew 5.5% YoY to INR6.2b (22% of Sales).
- Gross margin expanded 550bp on a YoY basis to 62.3%, due to lower raw material prices.
- EBITDA margin expanded 150bp YoY to 13.7% (our est: 16.7%) as higher GM was offset by higher other expense/R&D spend (+320bp/+90bp YoY as % of sales).
- Accordingly, EBITDA increased 13.8% YoY to INR4b (vs. est. of INR5.2b).
- Adj PAT grew at a lower rate of 3.4% YoY to INR3b (our est: INR3.5b) due to higher depreciation.
- For FY24, Revenue/EBITDA/PAT grew 9%/34%/50% YoY to INR129b/INR22.4b/INR19b.

Highlights from the management commentary

- ALKEM indicated to maintain GM/EBITDA margin at FY24 levels (60%/18%).
- ALKEM has responded to 483 issued by USFDA at its Baddi site. The company has no new launches from Baddi in FY25.
- ALKEM recently launched g-Suprep in the US market
- Increased focus on profitability at the organizational level affected 4QFY24 performance.
- ALKEM is working on four assets in the biosimilars segment at a global level.
- ALKEM is putting up plant for the bio-CDMO segment in the US. The plant would be operational by the end of FY25. The annualized operational expense for this facility would be INR1.2b.

Quarterly Perf. (Consolidated)										(INR b)		
Y/E March	FY23				FY24				FY23	FY24	Vaq 4QE %	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	25.8	30.8	30.4	29.0	29.7	34.4	33.2	29.4	116.0	126.7	31.4	-6.4
YoY Change (%)	-5.7	10.0	16.1	16.9	15.2	11.7	9.3	1.1	9.1	9.2	8.1	
Total Expenditure	23.0	26.3	24.4	25.5	25.8	26.9	26.2	25.3	64.4	65.7	26.1	
EBITDA	2.7	4.5	6.0	3.5	3.9	7.5	7.1	4.0	16.8	22.5	5.2	-23.3
YoY Change (%)	-53.9	-27.3	20.2	4.8	42.4	64.5	18.1	13.8	-18.2	33.7	48.4	
Margins (%)	10.6	14.7	19.7	12.2	13.1	19.6	21.3	13.7	14.5	17.7	16.7	
Depreciation	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8	3.1	3.0	0.7	
EBIT	2.0	3.8	5.2	2.7	3.2	6.7	6.4	3.2	13.7	19.5	4.5	
YoY Change (%)	-62.3	-31.7	23.7	8.2	60.8	78.7	22.6	15.9	-21.0	11.3	64.5	
Margins (%)	7.6	12.2	17.1	9.5	10.7	19.6	19.2	10.9	11.8	15.4	14.4	
Interest	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.1	1.1	0.2	
Other Income	0.5	0.5	0.5	0.7	0.7	0.6	0.9	0.9	2.2	3.1	0.6	
PBT before EO Exp	2.2	4.0	5.4	3.1	3.5	7.1	7.1	3.8	14.8	21.4	4.9	-21.9
EO Exp/(Inc)	0.7	0.0	0.0	1.0	0.0	0.6	0.5	0.1	1.7	1.2	0.0	
PBT after EO Exp	1.5	4.0	5.4	2.1	3.5	6.5	6.5	3.7	13.0	20.2	4.9	
Tax	0.2	0.5	0.8	1.4	0.7	0.3	0.5	0.6	3.0	2.1	1.1	
Rate (%)	13.5	13.6	14.6	68.0	18.4	5.1	7.7	17.1	20.2	9.9	22.3	
PAT (pre Minority Interest)	1.3	3.5	4.6	0.7	2.9	6.1	6.0	3.0	10.1	18.1	3.8	
Minority Interest	0.0	0.2	0.1	0.0	0.0	-0.1	0.1	0.1	0.2	0.2	0.2	
Reported PAT	1.3	3.3	4.5	0.7	2.9	6.2	5.9	2.9	9.8	18.0	3.6	-17.9
Adj Net Profit	1.9	3.3	4.5	2.9	2.9	6.8	6.4	3.0	12.7	19.1	3.6	-15.0
YoY Change (%)	-59.8	-39.7	12.2	28.2	52.3	104.1	41.3	3.4	-23.2	50.6	21.6	

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24				FY23E	FY24	FY24 4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
INRm											
India formulations	17.8	22.2	19.9	20.1	19.0	23.3	22.3	19.7	80.0	84.3	22.2
YoY Change (%)	(6.7)	13.0	9.7	17.0	6.7	5.0	12.1	(1.9)	8.1	5.4	10.4
US generics	5.6	6.0	7.6	5.9	7.0	7.7	6.8	6.2	25.1	27.7	6.8
YoY Change (%)	(7.9)	(0.9)	32.8	9.2	25.0	27.1	(10.2)	5.5	7.9	10.2	14.5
International (Ex-US)	2.0	2.3	2.3	2.7	3.2	2.9	3.4	2.9	9.3	12.3	3.2
YoY Change (%)	9.6	15.2	17.1	33.3	56.5	27.3	46.9	7.6	18.9	33.0	21.5
Cost Break-up											
RM Cost (% of Sales)	42.5	42.4	41.1	43.3	40.4	38.6	39.2	37.7	42.3	39.0	39.9
Staff Cost (% of Sales)	20.7	18.5	17.3	17.3	19.1	16.1	17.2	17.2	18.4	17.4	18.6
R&D Expenses(% of Sales)	5.1	4.2	4.3	5.1	4.1	3.4	3.3	6.0	4.7	4.1	4.0
Other Cost (% of Sales)	21.1	20.0	17.7	22.2	23.3	20.2	18.9	25.4	20.2	21.8	22.8
Gross Margins(%)	57.5	57.6	58.9	56.7	59.6	61.4	60.8	62.3	57.7	61.0	60.1
EBITDA Margins(%)	10.6	14.7	19.7	12.2	13.1	21.7	21.3	13.7	14.5	17.7	16.7
EBIT Margins(%)	7.6	12.2	17.1	9.5	10.7	19.6	19.2	10.9	11.8	15.4	14.4

E: MOFSL Estimates

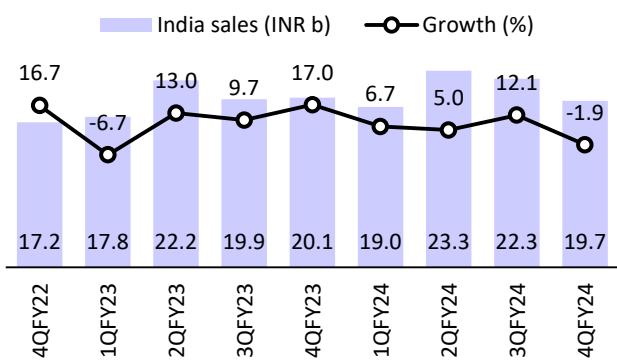


Management call highlights

- ALKEM expects 8-10% IPM growth for FY25. The company expects to grow 100bp better than IPM.
- Biosimilar sales for FY24 stood at 5% of DF sales.
- DF business for the quarter was partly impacted by weak seasonality.
- ALKEM has an overall field force of 12,000 in the DF segment at the end of FY24.
- Price erosion intensity has reduced to low single digits in the US generics segment.
- It has seven biosimilar products commercialized in the DF segment.
- There was service-level penalty of INR1.2b/INR300m for FY24/4QFY24 in the US generics segment.
- R&D expenditure is expected to be 4.5%-5% of sale.

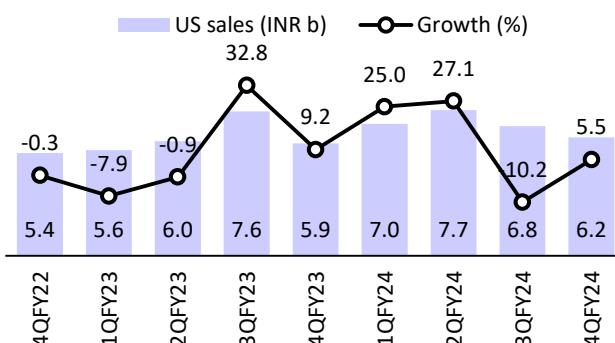
Key exhibits

Exhibit 1: DF revenue declined 2% YoY in 4QFY24



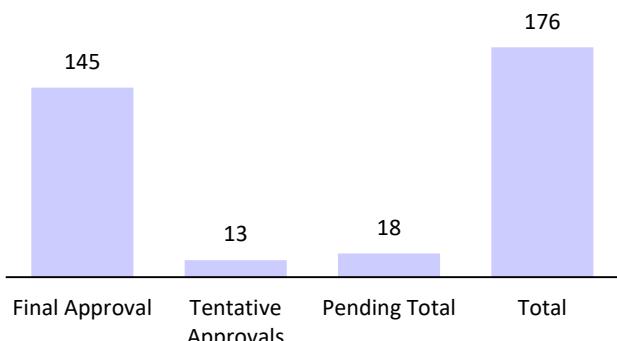
Source: MOFSL, Company

Exhibit 2: US sales increased 5.5% YoY in 4QFY24



Source: MOFSL, Company

Exhibit 3: Cumulative US ANDA filings



Source: MOFSL, Company

Exhibit 4: Robust ANDA pipeline

US Filings	# Nos.
Total ANDAs filed	176
ANDAs filed in 4QFY24	4
NDAs	0

Source: MOFSL, Company

Product development, organizational changes to drive better business prospects

DF: Chronic therapies, addition of biosimilars offset weak seasonality

- In FY24, ALKEM's DF business grew 5.4% YoY to INR84.3b due to strong growth across chronic therapies.
- In FY24, 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 FY24, ALKEM delivered strong growth in the chronic segment, with anti-diabetic/Derma/GI segments growing 15.6%/4.4%/1.6% YoY vs. 6.0%/6.2%/7.2% YoY for IPM. The neuro segment grew in line with IPM in FY24.
- Further, the company is working on biosimilar assets for India business to enhance offerings in branded generics space.
- Accordingly, we expect ALKEM to register a 12% sales CAGR in DF to INR105b over FY24-26.

US: Reduced price erosion, new launches to aid growth

- In FY24, US sales grew 10% YoY to INR27.7b (up 8% at USD334m in cc terms) due to market share gains in the existing products and reduced intensity of price erosion.

- In FY24, the company filed 8 ANDAs and received 19 final approvals. It has 176 ANDAs filed and has 145 final approvals to date.
- Further, the company is planning to launch 6-7 products in the US in FY25. Also, the company has launched g-Suprep in the US market.
- Overall, we expect ALKEM to deliver an 8.5% sales CAGR in the US to reach ~USD393m over FY24-26.

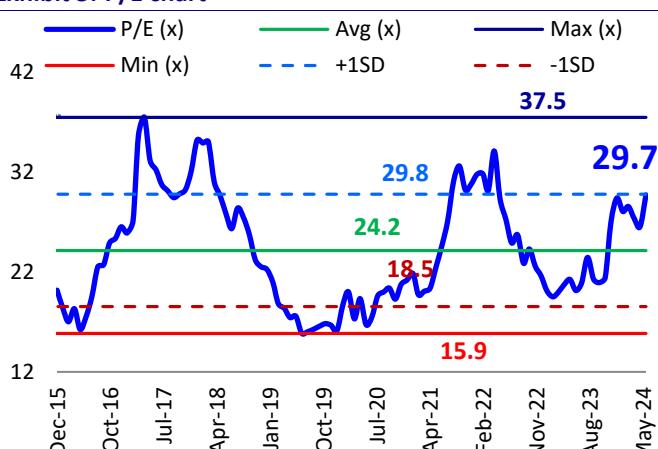
Building blocks in biosimilar segment

- 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. ALKEM is aiming to commercialize the bio-CDMO plant in the US in FY26.
- Further, ALKEM is focusing on commercializing the biosimilar assets in the regulated market as well.
- Overall, ALKEM has achieved break-even in India and the EU market in FY24 and expects profitability-led growth in this segment in the coming years.

Maintain Neutral

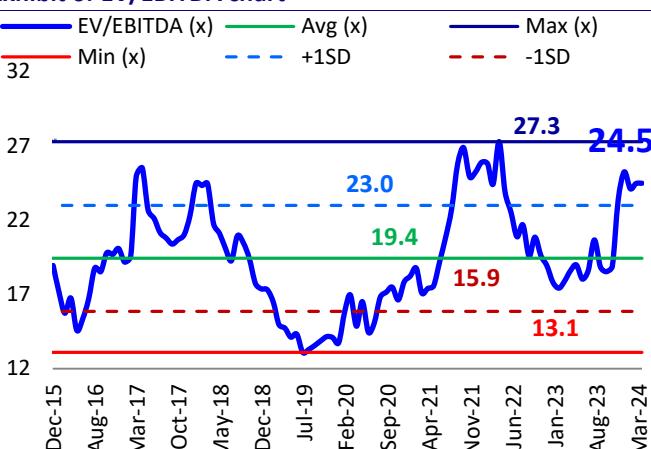
- We reduce our earnings estimate by 4%/2% for FY25/FY26 factoring in a) increased opex related to the Enzene facility in the US, and b) higher product development spend. We assign 27x PE multiple on 12M forward earnings to arrive at a price target of INR5,390.
- We expect 10% earnings CAGR over FY24-26, backed by 12%/20% sales CAGR in DF/Ex-US exports business and stable margins. The improved margins in the base business is expected to be partially offset by higher operational cost related to the biosimilars segment. Given the limited upside from the current levels, we maintain a Neutral stance on the stock.

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 remained flat on YoY basis in 4QFY24

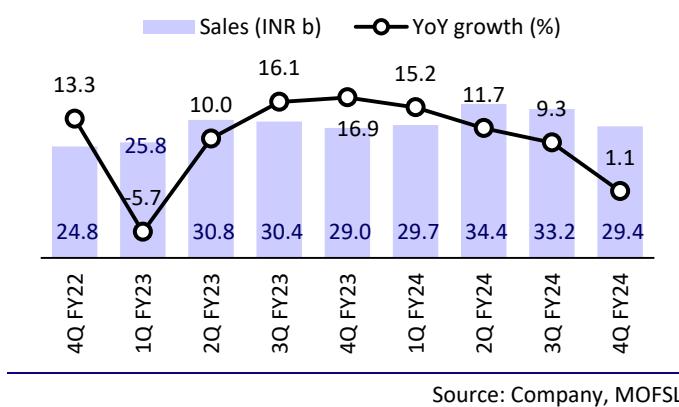


Exhibit 8: Gross margin expanded 550bp YoY in 4QFY24

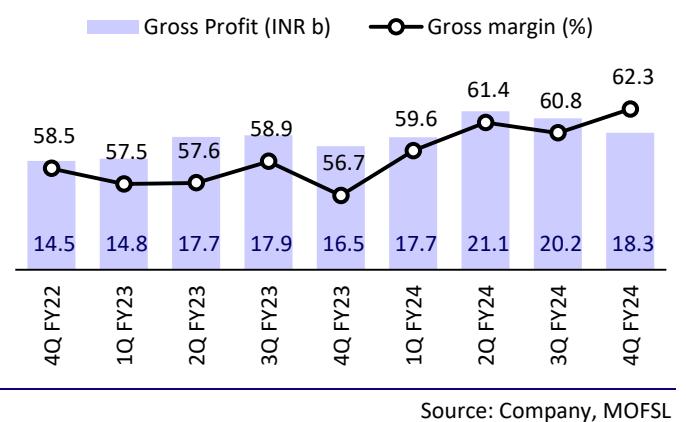


Exhibit 9: EBITDA margin expanded 150bp YoY

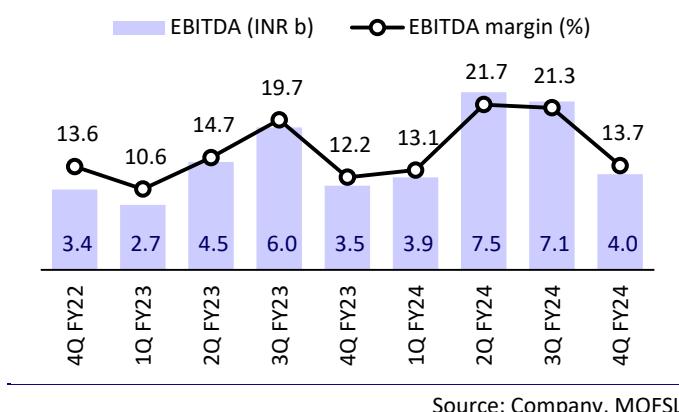
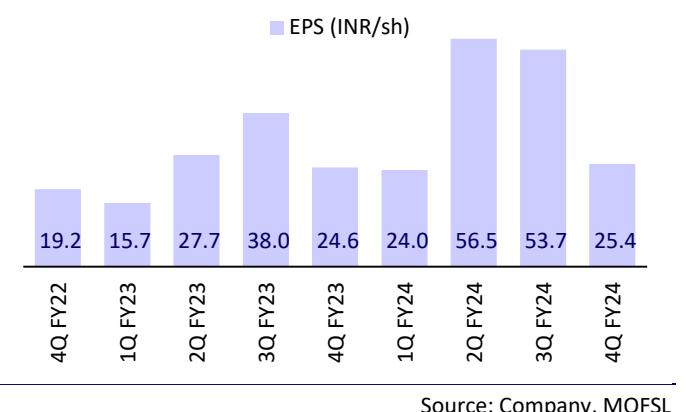
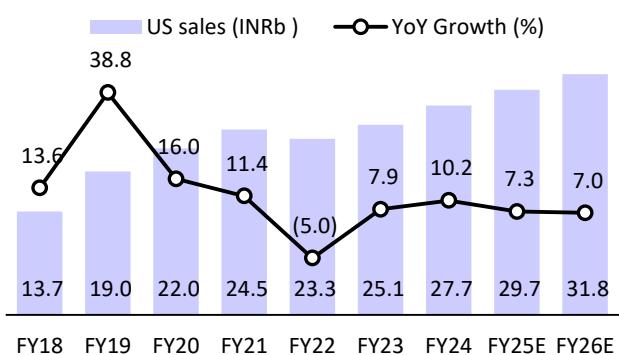


Exhibit 10: EPS increased 3.4% YoY to ~INR25.4 in 4QFY24



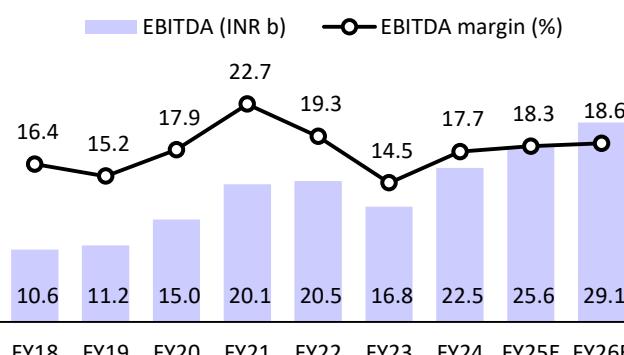
Story in charts

Exhibit 11: Expect 7% sales CAGR in the US over FY24-26



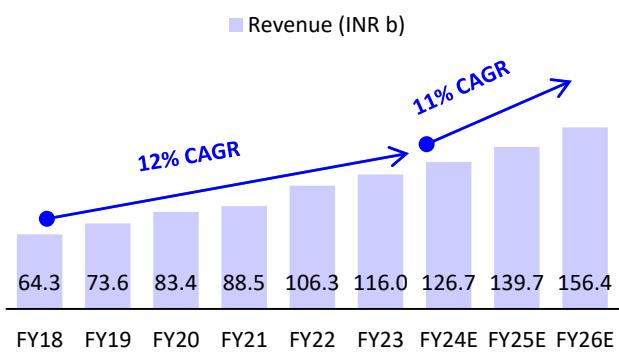
Source: Company, MOFSL

Exhibit 12: EBITDA margin to expand 90bp over FY24-26



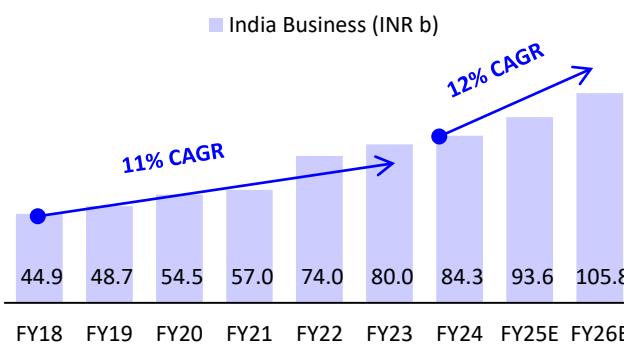
Source: Company, MOFSL

Exhibit 13: Expect revenue CAGR of 11% over FY24-26



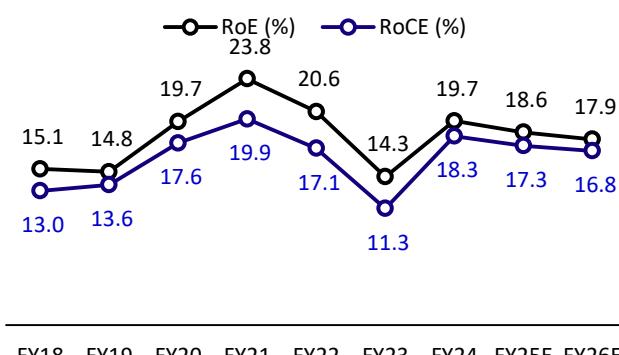
Source: Company, MOFSL

Exhibit 14: Expect India sales CAGR of 12% over FY24-26



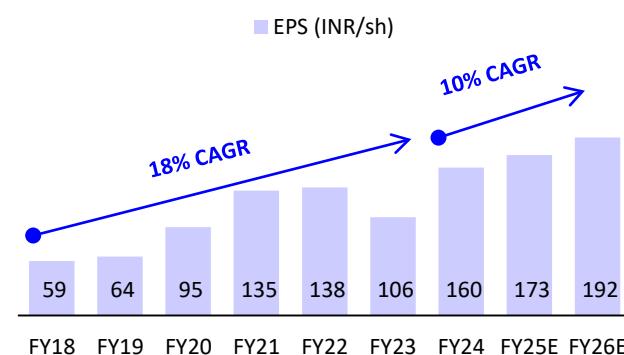
Source: Company, MOFSL

Exhibit 15: Return ratios to decrease going forward



Source: Company, MOFSL

Exhibit 16: Expect earnings CAGR of 10% over FY24-26



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	73,572	83,444	88,505	1,06,342	1,15,993	1,26,676	1,39,703	1,56,418
Change (%)	14.4	13.4	6.1	20.2	9.1	9.2	10.3	12.0
Total Expenditure	62,401	68,484	68,426	85,813	99,198	1,04,221	1,14,138	1,27,324
% of Sales	84.8	82.1	77.3	80.7	85.5	82.3	81.7	81.4
EBITDA	11,171	14,960	20,079	20,529	16,795	22,455	25,566	29,094
Margin (%)	15.2	17.9	22.7	19.3	14.5	17.7	18.3	18.6
Depreciation	1,932	2,348	2,746	3,040	3,104	2,993	3,179	3,455
EBIT	9,239	12,612	17,333	17,490	13,690	19,462	22,387	25,639
Int. and Finance Charges	546	651	589	524	1,074	1,124	968	898
Other Income	877	1,042	1,867	1,627	2,161	3,108	3,141	3,524
PBT bef. EO Exp.	9,570	13,004	18,611	18,592	14,778	21,446	24,560	28,265
EO Items	-23	-406	-190	-150	-1,730	-1,215	0	0
PBT after EO Exp.	9,547	12,598	18,421	18,443	13,048	20,231	24,560	28,265
Current Tax	1,810	1,105	2,243	1,640	2,980	2,117	3,684	5,088
Deferred Tax	0	0	0	0	0	0	0	0
Tax Rate (%)	19.0	8.8	12.2	8.9	22.8	10.5	15.0	18.0
Less: Mionrity Interest	131	222	328	300	226	157	177	200
Reported PAT	7,606	11,271	15,850	16,503	9,842	17,958	20,699	22,977
Adjusted PAT	7,629	11,407	16,100	16,516	12,678	19,091	20,699	22,977
Change (%)	8.4	49.5	41.1	2.6	-23.2	50.6	8.4	11.0
Margin (%)	10.4	13.7	18.2	15.5	10.9	15.1	14.8	14.7

Consolidated - Balance Sheet								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	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	1,02,882	1,18,920	1,36,724
Net Worth	54,393	61,607	73,767	86,379	90,453	1,03,121	1,19,159	1,36,963
Minority Interest	1,326	1,483	1,813	2,094	3,897	4,023	4,023	4,023
Deferred Tax Liabilities	3	0	0	0	0	0	0	0
Total Loans	9,026	16,628	17,336	26,466	13,775	14,032	14,032	14,032
Capital Employed	64,748	79,717	92,916	1,14,939	1,08,125	1,21,176	1,37,215	1,55,019
Gross Block	26,000	30,354	32,376	35,948	36,835	43,260	46,280	49,685
Less: Accum. Deprn.	4,944	7,291	10,037	13,077	16,181	19,174	22,352	25,807
Net Fixed Assets	21,056	23,063	22,339	22,871	20,654	24,086	23,927	23,878
Goodwill on Consolidation	4,248	6,017	5,591	6,146	4,796	4,642	4,642	4,642
Capital WIP	4,930	3,630	3,933	3,395	3,103	1,586	2,068	2,165
Total Investments	3,236	2,614	3,328	3,710	6,218	4,838	4,838	4,838
Curr. Assets, Loans&Adv.	41,535	54,784	68,923	91,477	89,770	1,05,449	1,22,754	1,44,671
Inventory	14,999	18,188	23,124	30,055	26,075	26,612	32,209	35,930
Account Receivables	12,484	16,494	16,072	18,846	21,322	22,528	27,558	35,569
Cash and Bank Balance	6,616	10,922	19,905	25,786	25,786	15,694	18,195	23,019
Loans and Advances	7,437	9,180	9,822	16,790	16,587	40,616	44,793	50,152
Curr. Liability & Prov.	17,334	19,716	22,277	25,753	29,442	34,572	36,162	40,322
Account Payables	9,623	9,541	10,694	11,734	11,650	17,481	14,697	16,395
Other Current Liabilities	4,436	6,108	6,709	7,955	10,370	12,824	14,143	15,835
Provisions	3,275	4,067	4,874	6,064	7,421	4,267	7,322	8,092
Net Current Assets	24,202	35,068	46,647	65,725	60,329	70,877	86,592	1,04,349
Deferred Tax assets	7,076	9,326	11,079	13,093	13,025	15,148	15,148	15,148
Appl. of Funds	64,748	79,717	92,916	1,14,939	1,08,125	1,21,177	1,37,215	1,55,019

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	63.8	95.4	134.7	138.1	106.0	159.7	173.1	192.2
Cash EPS	80.0	115.1	157.6	163.6	132.0	184.7	199.7	221.1
BV/Share	455	515	617	723	757	863	997	1,146
DPS	15.0	17.9	27.8	27.6	16.5	28.5	32.9	36.5
Payout (%)	28.5	22.5	24.9	23.7	23.7	22.5	22.5	22.5
Valuation (x)								
P/E	82.5	55.1	39.1	38.1	49.6	33.0	30.4	27.4
Cash P/E	65.8	45.7	33.4	32.2	39.9	28.5	26.3	23.8
P/BV	11.6	10.2	8.5	7.3	7.0	6.1	5.3	4.6
EV/Sales	8.6	7.6	7.1	5.9	5.3	5.0	4.5	4.0
EV/EBITDA	56.5	42.4	31.2	30.7	36.7	27.9	24.4	21.3
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	121.5	147.3	43.2	63.3
Return Ratios (%)								
RoE	14.8	19.7	23.8	20.6	14.3	19.7	18.6	17.9
RoCE	13.6	17.6	19.9	17.1	11.3	18.3	17.3	16.8
RoIC	15.8	20.5	23.7	21.6	13.6	20.3	18.0	17.7
Working Capital Ratios								
Fixed Asset Turnover (x)	2.8	2.7	2.7	3.0	3.1	2.9	3.0	3.1
Asset Turnover (x)	1.1	1.0	1.0	0.9	1.1	1.0	1.0	1.0
Inventory (Days)	74	80	95	103	82	77	84	84
Debtor (Days)	62	72	66	65	67	65	72	83
Creditor (Days)	48	42	44	40	37	50	38	38
Working Cap. Turnover (Days)	87	106	110	137	109	159	179	190
Leverage Ratio (x)								
Current Ratio	2.4	2.8	3.1	3.6	3.0	3.1	3.4	3.6
Interest Cover Ratio	16.9	19.4	29.4	33.4	12.8	17.3	23.1	28.5
Debt/Equity	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	INRm FY26E
OP/(Loss) before Tax								
9,547	12,598	18,421	18,443	13,048	20,231	24,560	28,265	
Depreciation	1,932	2,528	2,746	3,040	3,104	2,993	3,179	3,455
Interest & Finance Charges	134	19	-312	-703	1,074	1,124	-2,173	-2,626
Direct Taxes Paid	-2,511	-2,834	-4,007	-3,969	-2,734	-4,069	-3,684	-5,088
(Inc)/Dec in WC	-1,403	-6,472	-3,412	-5,450	3,268	-516	-13,214	-12,932
CF from Operations	7,698	5,839	13,436	11,361	17,759	19,763	8,668	11,074
Others	98	12	-787	-250	-934	-281	0	0
CF from Operating incl EO	7,797	5,851	12,649	11,110	16,825	19,482	8,668	11,074
(Inc)/Dec in FA	-5,269	-3,477	-1,845	-3,280	-2,297	-1,868	-3,502	-3,502
Free Cash Flow	2,527	2,374	10,805	7,830	14,528	17,614	5,166	7,572
(Pur)/Sale of Investments	1,235	458	3	-12,051	1,955	-10,612	0	0
Others	871	-4,395	-8,144	980	1,471	2,395	3,141	3,524
CF from Investments	-3,164	-7,414	-9,985	-14,351	1,128	-10,085	-361	22
Inc/(Dec) in Debt	-1,057	6,031	1,397	8,628	-11,408	-5,132	0	0
Interest Paid	-546	-651	-536	-401	-905	-913	-968	-898
Dividend Paid	-2,186	-4,396	-3,348	-4,219	-5,295	-5,405	-4,660	-5,173
CF from Fin. Activity	-3,789	791	-2,718	3,796	-16,388	-19,489	-5,806	-6,272
Inc/Dec of Cash	843	-771	-54	555	1,565	-10,093	2,501	4,825
Opening Balance	1,667	2,490	1,759	1,705	2,297	3,862	-6,231	-3,729
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	-6,231	-3,729	1,095
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	15,694	18,195	23,019

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