

Alkem lab's earnings were below our expectations on revenue front while earnings exceeded our expectations. Revenue at INR 29,358mn saw a marginal growth of 1.1% YoY and declined by 11.7% sequentially. EBITDA saw a growth of 13.8% YoY and degrowth of 43.2% QoQ to INR 4,020mn with margin expansion of 152bps YoY to 13.7%. APAT at INR 3,039mn saw a massive growth of 192.5% YoY but de-grew by 52.7% QoQ. The top-line growth will be in-line with the industry growth of 10%, majorly driven by the domestic market, and margins are expected to be in the similar range.

- India Business:** The India business saw a 1.9% YoY and 11.7% QoQ drop, totaling INR 19,724 million, contributing 67% of total revenues. 20% of India's total revenue comes from the trade generics sector, and future revenue is anticipated to be in a range similar to this and the margins are improving annually. During the year, 5% of the revenues came from biosimilars with 7 product portfolio and does not expect to launch any new product in FY25. The percentage of chronic therapy is currently 17–18%, but it will soon approach 20%. In FY24, the company has an impact on the volume, which is expected to grow in FY25 and drive the overall growth of the business. The margin will likely improve as a result of the share of chronic therapies rising and the prices of raw materials and APIs stabilizing.
- North America:** The US Business experienced a YoY growth of 5.5%, and de-growth of 8.7% amounting to INR 6,241mn, contributing 21.0% to the overall sales. The business's seasonality and supply chain challenges, which will eventually normalize, have been attributed to the decline. During Q4FY24, 4 ANDA has been filed and received 2 approvals from the USFDA. In addition, the US business is anticipated to expand as a result of volume growth, new product releases (6-7 in FY25), and normalization of price erosion. By the end of FY25, the new US facility targeted to the CDMO sector for biosimilars is anticipated to be operational.
- Margin Profile:** The gross margin saw an improvement of 553bps YoY and 153bps QoQ to 62.3% due to lower raw material cost and normalization in the price erosion. The EBITDA margin grew by 152bps YoY and sharp de-grew by 760bps QoQ at 13.7% due to one-off in the operating expenses. R&D is expected to be in the range of 4.5-5%. The management expects gross margin and EBITDA margin to be in similar range, i.e., 61% & 17.7% respectively.
- Outlook and Valuation:** The growth of Alkem will be majorly driven by the India business (volume growth) but margins are expected to be in the similar range of the current year. The company is continuously looking for the M&A opportunities and will prioritizing chronic over acute therapy. The expected CAGR for Revenue/EBITDA/PAT is 10.3%/21.6%/31.6% for FY23-26E. We value the stock based on FY26E EPS to arrive at a target price of INR 5,676 (valuing at 28x) with a **BUY** rating on the stock.

### Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	106,342	115,992	1,26,676	1,39,670	1,55,694
Gross Profit (INR Mn.)	64,539	66,924	77,300	85,599	96,040
EBITDA (INR Mn.)	20,530	16,094	22,455	25,122	28,936
EBITDA Margin (%)	19.3	13.9	17.7	18.0	18.6
Adj. EPS (INR)	138.8	89.0	159.3	172.4	202.7

Source: Company, CEBPL

May 30, 2024

CMP (Rs)	5,265
Target Price (Rs)	5,676
Potential Upside (%)	7.8

### Company Info

BB Code	ALKEM IN EQUITY
ISIN	INE540L01014
Face Value (Rs.)	2
52 Week High (Rs.)	5,581
52 Week Low (Rs.)	3,282
Mkt Cap (Rs bn.)	630.9
Mkt Cap (\$ bn.)	7.6
Shares o/s (Mn.)/F.Float (%)	119.6/42
TTM EPS (Rs)	159.3
EPS FY26E (Rs)	202.7

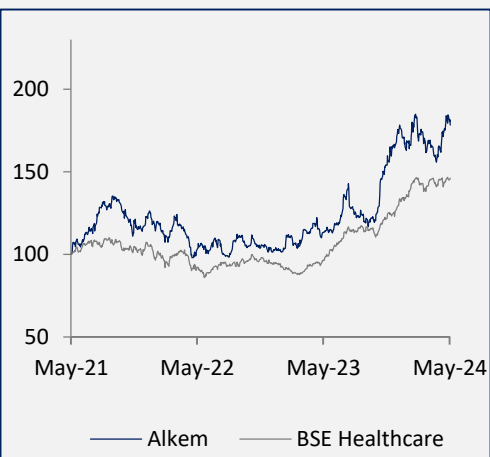
### Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	56.74	56.74	56.74
FII's	9.11	8.49	6.03
DII's	15.63	15.91	17.63
Public	18.51	18.86	19.58

### Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	46.1	58.7	51.4
Alkem Labs	78.4	73.5	57.4

### Rebased Price Performance



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### Quarterly performance

Particulars (Rs. Mn.)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Revenue</b>	<b>29,358</b>	<b>29,026</b>	<b>1.1</b>	<b>33,239</b>	(11.7)
Cost of Goods Sold	11,074	12,555	(11.8)	13,045	(15.1)
Contribution Margin (%)	62.3	56.7	553.5	60.8	152.7 bps
Employee Expenses	5,058	5,030	0.6	5,722	(11.6)
<b>EBITDA</b>	<b>4,020</b>	<b>3,533</b>	<b>13.8</b>	<b>7,076</b>	<b>(43.2)</b>
EBITDA Margin (%)	13.7	12.2	152.2	21.3	(759.6) bps
Depreciation	834	783	6.5	696	19.9
EBIT	3,186	2,749	15.9	6,380	(50.1)
Interest	269	290	(7.3)	255	5.5
<b>PBT</b>	<b>3,673</b>	<b>2,117</b>	<b>73.6</b>	<b>6,549</b>	<b>(43.9)</b>
Tax	629	1,440	(56.3)	506	24.2
<b>Adj. PAT</b>	<b>3,039</b>	<b>1,039</b>	<b>192.5</b>	<b>6,423</b>	<b>(52.7)</b>
PAT Margin (%)	10.4	3.6	677.3	19.3	(897.1) bps
Adj. EPS	25.4	8.7	192.5	53.7	(52.7)

Source: Company, CEBPL

### Geographical Performance

Rs. In Mn.	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
India	19,725	20,113	(1.9)	22,328	(11.7)
% of sales	67.2	69.3		67.2	
USA	6,241	5,916	5.5	6,838	(8.7)
% of sales	21.3	20.4		20.6	
Other countries	2,855	2,654	7.6	3,402	(16.1)
% of sales	9.7	9.1		10.2	
Other	538	343	56.9	671	(19.8)
% of sales	1.8	1.2		2.0	
<b>Total Sales</b>	<b>29,358</b>	<b>29,026</b>	<b>1.1</b>	<b>33,239</b>	<b>(11.7)</b>

Source: Company, CEBPL

### Estimates vs Actual

Particulars (Rs mn)	Actual	Estimates	Deviation (%)
Net Sales	29,358	30,816	(4.7)
EBIDTA	4,020	3,985	0.9
EBIDTA Margin (%)	13.7	12.9	76.0
PAT	3,039	2,542	19.6
EPS	25.4	21.3	19.6

Source: Company, CEBPL

### Change in estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	1,39,670	1,41,114	(1.0)	1,55,694	1,56,630	(0.6)
EBITDA	25,122	26,506	(5.2)	28,936	30,673	(5.7)
EBITDA margin(%)	18.0	18.8	(79.7) bps	18.6	19.6	(99.8) bps
PAT	20,615	20,462	0.7	24,235	24,200	0.1
EPS	172.4	171.2	0.7	202.7	202.4	0.1

Source: Company, CEBPL

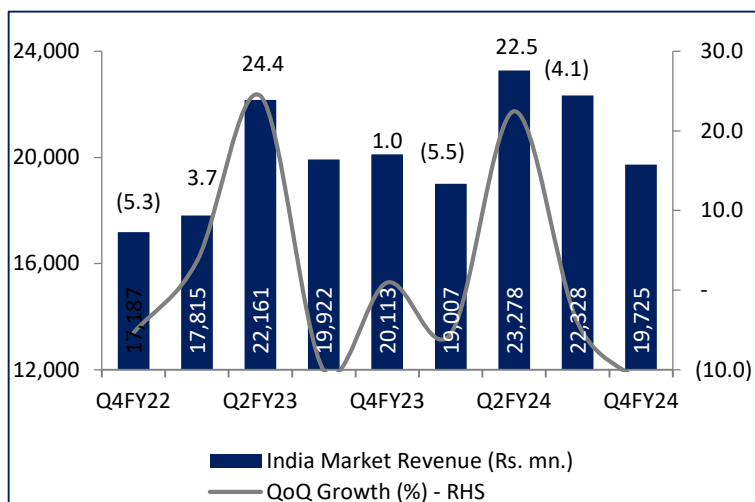
## Management Call - Highlights

- The company has outperformed the IPM in anti-diabetic, dermatology, gastrointestinal, and vitamin/mineral/nutritional therapies, with chronic business growth on track. Its ranking has improved in areas such as antidiabetic, cardiac, and respiratory therapies.
- The India business was affected by a one-off and unusual trend in the anti-infective market within the IPM, as well as a high base in Q4FY23. However, management remains optimistic about the domestic market.
- Trade generics continue to grow alongside the Rx business and the company remains optimistic about both trade and branded generics business.
- Raw material prices are expected to stabilize at current levels, with anticipated price reductions in products like PenG, which would further improve margins.
- Over the past 10 years, investments have been made in the Enzene Biosimilar space primarily for the India and Europe markets, and the segment has achieved breakeven last year in the domestic business. This year, the company will invest in the US market by building a plant.
- The decision to set up a plant in the US is made to meet the demand in the CDMO business. This decision was influenced by the opportunities arising from geopolitical pressures affecting companies like WuXi Biologicals, which previously dominated this market.
- The CDMO facility in the US for biosimilars will have a capex of approximately INR 600-700 crore, including INR 80-100 crore for maintenance capex.
- Generics contribute 20-30% to the total domestic business and are expected to remain at 22%.
- The pricing in the generic market remains competitive, and Alkem maintains a strong position with stable pricing strategies.

## Outlook

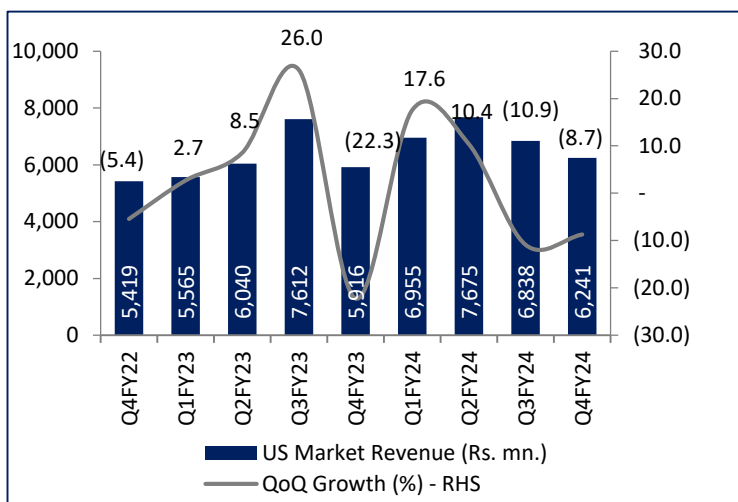
- Revenue growth for FY25 is expected to align with market growth, with an anticipated ~10% increase.
- In the US, price erosion has stabilized at a low single-digit, providing hope that the US business will grow well.
- EBITDA and gross margins are expected to be maintained at current levels.
- Capex for FY25 is projected to be in the range of INR 600-700 crore.
- R&D expenses are expected to be 4.5-5% of revenue, which will include some clinical trials for the biosimilar portfolio.
- Expected tax rate to be around 13-15% for the next two years, increasing to 25% from FY 2027 due to the end of the Sikkim tax benefit.
- The international business crossed INR 4,000 crore in revenue in FY '24.

India Market (Rs. mn) and QoQ Growth (%)



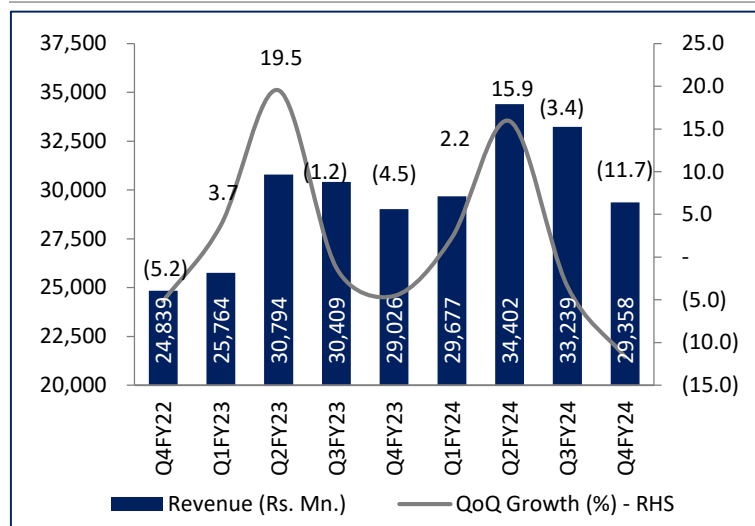
Source: Company, CEBPL

US Market (Rs. mn) and QoQ Growth (%)



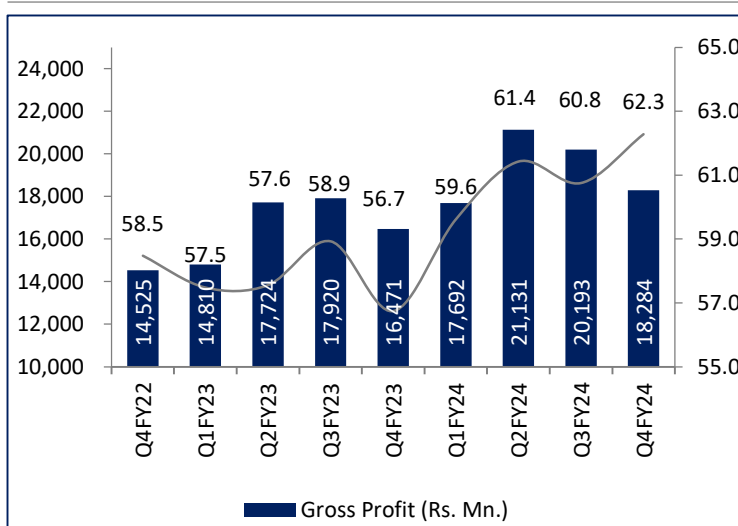
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



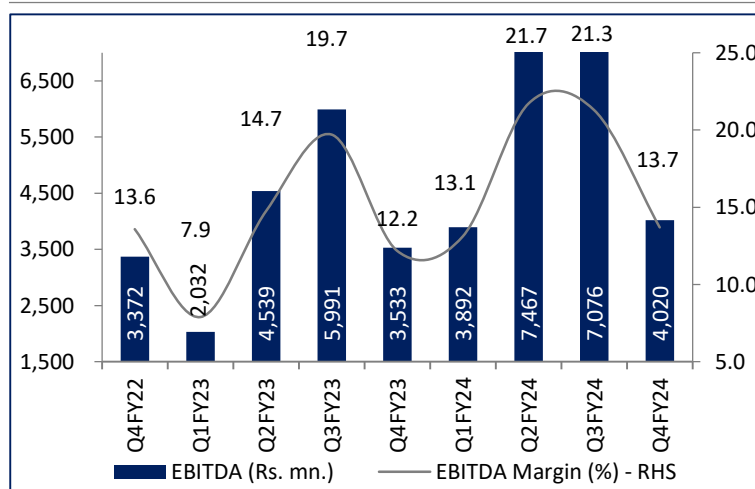
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



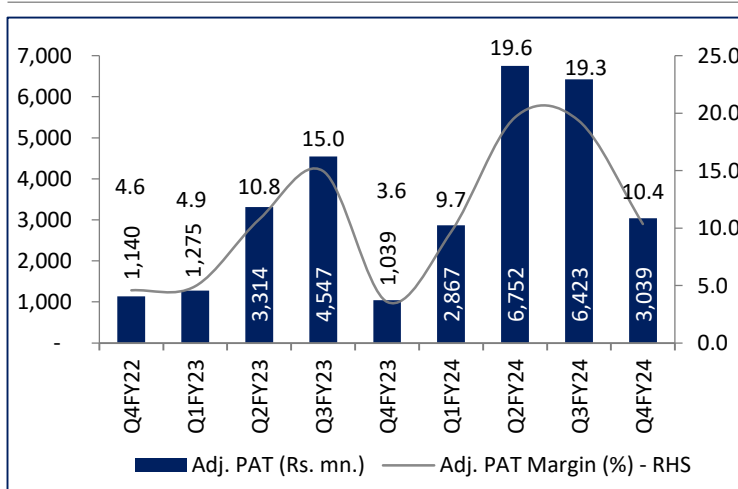
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



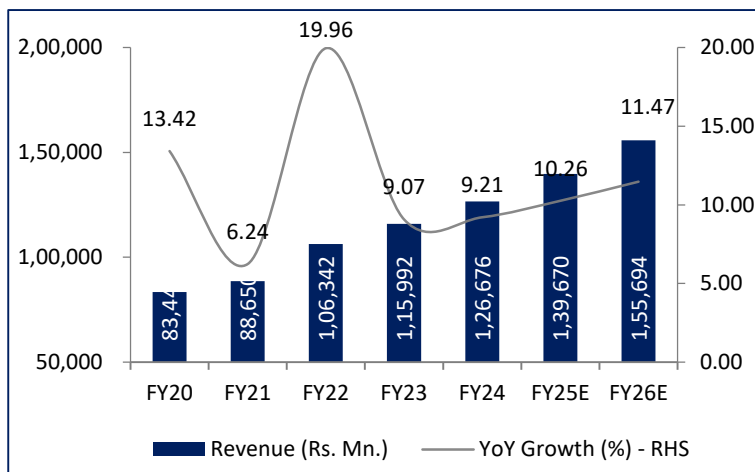
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



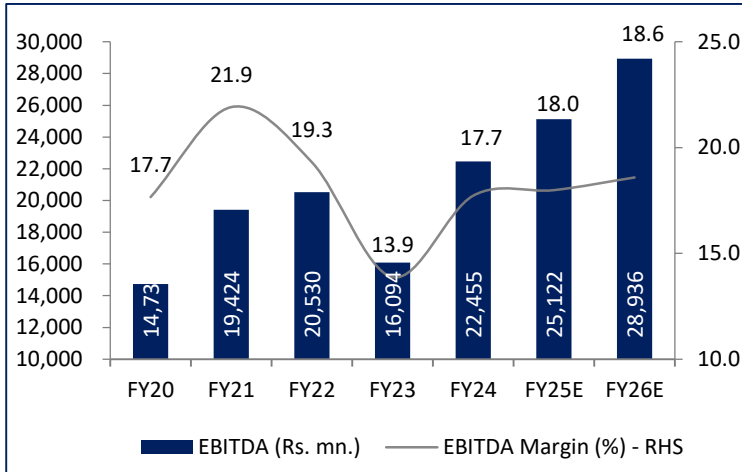
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



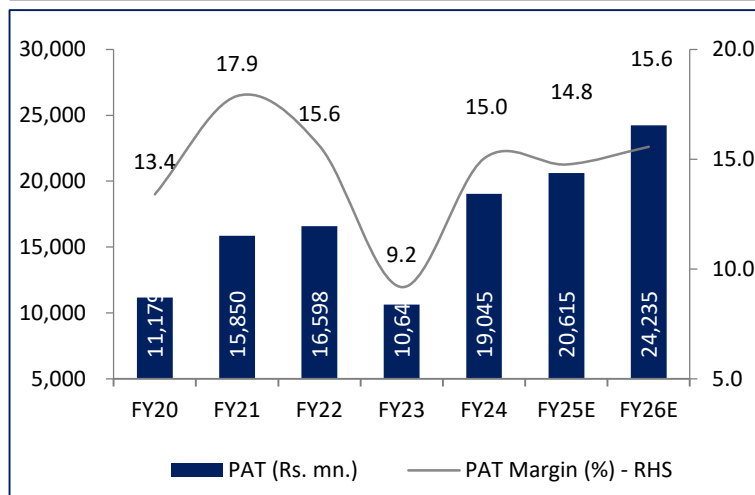
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



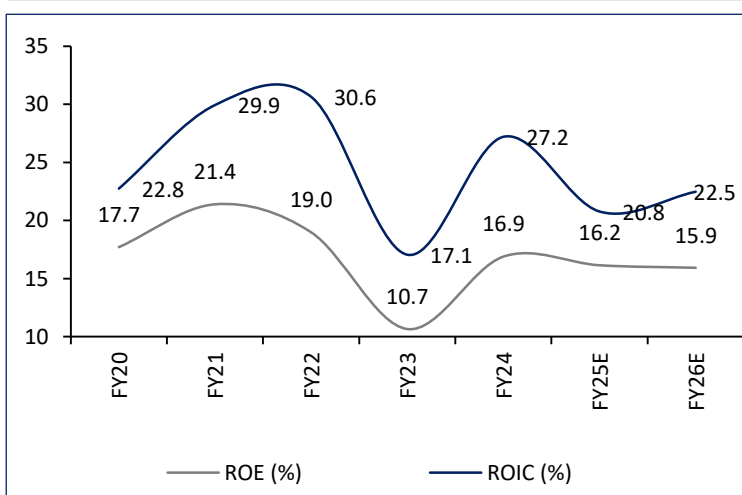
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



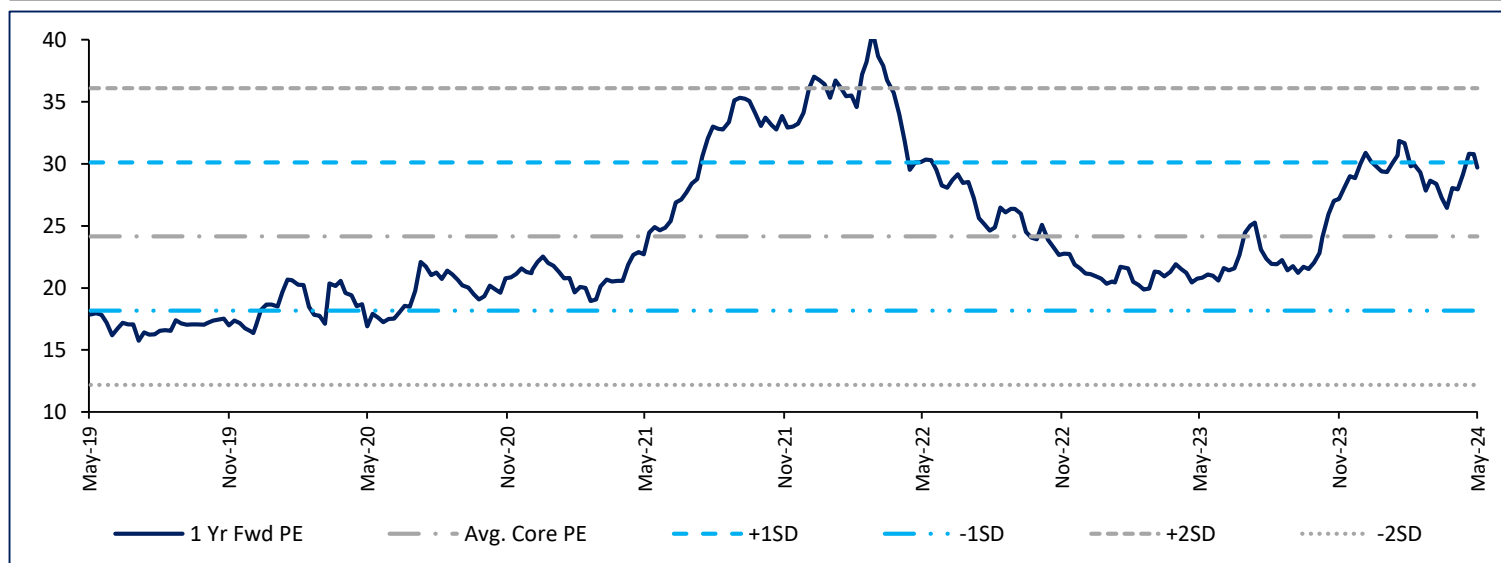
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 Year Forward PE Band (x)



Source: Company, CEBPL

## Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,06,342	1,15,992	1,26,676	1,39,670	1,55,694
Gross profit	64,539	66,924	77,300	85,599	96,040
EBITDA	20,530	16,094	22,455	25,122	28,936
Depreciation	3,040	3,104	2,993	3,505	3,670
EBIT	17,490	12,990	19,462	21,616	25,266
Other income	1,627	2,161	3,108	3,492	3,892
Interest expense	524	1,074	1,124	1,021	862
PBT	18,443	13,047	20,231	24,087	28,297
Adj. PAT	16,598	10,640	19,045	20,615	24,235
Adj. EPS (INR)	138.8	89.0	159.3	172.4	202.7

## Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	88,473	94,350	1,07,144	1,28,205	1,52,641
Borrowings	26,017	13,264	14,184	12,766	11,489
Trade Payables	11,734	11,650	17,481	17,220	19,195
Other non-current liabilities	4,071	6,145	6,367	7,053	7,551
Other current liabilities	10,396	12,158	10,573	11,104	12,160
<b>Total Net Worth &amp; liabilities</b>	<b>1,40,692</b>	<b>1,37,566</b>	<b>1,55,749</b>	<b>1,76,347</b>	<b>2,03,036</b>
Net Block	22871	20654	21615	24609	24939
Capital WIP	3,395	3,103	1,484	1,384	1,284
Goodwill & intangible assets	6,146	6,304	7,215	7,759	10,595
Investments	3,710	6,218	4,838	7,682	11,677
Trade Receivables	18,846	21,322	22,528	24,873	27,726
Cash & Cash equivalents	25,786	26,169	15,794	29,339	32,003
Other non-current assets	21,609	17,162	17,972	19,222	21,658
Other current assets	38,329	36,634	64,304	61,480	73,204
<b>Total Assets</b>	<b>1,40,692</b>	<b>1,37,566</b>	<b>1,55,749</b>	<b>1,76,347</b>	<b>2,03,086</b>

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	11,110	16,825	19,481	31,733	22,240
CFI	(14,351)	1,128	(9,678)	(9,788)	(10,731)
CFF	3,796	(17,608)	(11,450)	6,324	(8,844)

Source: Company, CEBPL

<b>Growth Ratios (%)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Revenues	20.0	9.1	9.2	10.3	11.5
Gross Profit	20.3	3.7	15.5	10.7	12.2
EBITDA	5.7	(21.6)	39.5	11.9	15.2
EBIT	4.9	(25.7)	49.8	11.1	16.9
PBT	0.1	(29.3)	55.1	19.1	17.5
Adj. PAT	3.9	(40.2)	82.4	14.8	17.6
<b>Margins (%)</b>					
Gross Profit	60.7	57.7	61.0	61.3	61.7
EBITDA	19.3	13.9	17.7	18.0	18.6
EBIT	16.4	11.2	15.4	15.5	16.2
PBT	17.3	11.2	16.0	17.2	18.2
Tax rate	8.9	22.8	10.5	14.0	14.0
Adj. PAT	15.5	8.5	14.2	14.8	15.6
<b>Profitability (%)</b>					
ROE	19.0	10.7	16.9	16.2	15.9
ROIC	30.6	17.1	27.2	20.8	22.5
ROCE	15.3	12.1	16.0	15.3	15.4
<b>Financial leverage (x)</b>					
Pre-tax OCF/EBITDA	0.5	1.0	0.9	1.3	0.8
OCF / Net profit	0.7	1.6	1.0	1.5	0.9
EV/EBITDA	30.0	37.7	27.1	25.1	21.8
<b>Earnings</b>					
EPS (Rs.)	138.8	89.0	159.3	172.4	202.7
Shares outstanding	119.6	119.6	119.6	119.6	119.6
<b>Working Capital (days)</b>					
Inventory days	103	82	77	80	80
Receivable days	65	67	65	65	65
Creditor days	40	37	50	45	45
Current Ratio (x)	1.8	2.3	2.6	3.1	3.4

Source: Company, CEBPL

## Historical recommendations and target price: Alkem Labs



### Alkem Labs

1.	29-10-2021	Outperform	Target Price Rs.4217
2.	29-01-2022	Outperform	Target Price Rs.4060
3.	16-05-2022	Neutral	Target Price Rs.3016
4.	08-08-2022	Neutral	Target Price Rs.3,254
5.	14-11-2022	Neutral	Target Price Rs. 3,112
6.	14-02-2023	Add	Target Price Rs. 3,541
7.	20-05-2023	Add	Target Price Rs. 3,511
8.	11-08-2023	Neutral	Target Price Rs. 3,957
9.	08-11-2023	Add	Target Price Rs. 4,375
10.	16-02-2024	Add	Target Price Rs. 5,668
11.	30-05-2024	Buy	Target Price Rs.5,676

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<b>ADD</b>	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
<b>NEUTRAL</b>	The security expected to show downside or upside returns by 5% over the next 12 months
<b>REDUCE</b>	The security expected to show less than -5% to greater than -15% over the next 12 months
<b>UNDERPERFORM</b>	The security is expected to generate returns in excess of -15% over the next 12 months

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