

# Alkem Laboratories

## Muted Q2; growth in India and margin to improve

EBITDA (+1% YoY) below consensus estimates due to 1% YoY sales decline (+6% YoY India, -7% QoQ in the US), which was offset by higher gross margin (+330 bps YoY) and cost controls (staff/SG&A +10%/+1%YoY). ALKEM guidance (1) lowered overall revenue growth to mid-single digit in FY25 vs. ~10% earlier, (2) India business to see growth at par with the IPM growth of 8-9% in FY25 as it expects strong growth H2FY25 (~6% YoY in H1), (3) the company raises EBITDA margin guidance to 18.5-19% in FY25 (~18-18.5% earlier), (4) it expects gross margin expansion led by lower input costs and improved product mix, and (5) mid-single-digit decline in the US (-16% YoY in H1; earlier guided for single-digit growth) in FY25; it hopes to improve growth in H2 on visibility of few new launches (one CGT exclusivity launch). It expects to monetize its biosimilar (in next 2-3 years) and Medtech (from H1FY26). Factoring Q2, we tweaked our EPS for FY25/26E and rolled forward the TP to INR 6,180 (28x Q3FY27E EPS). ADD stays, as we believe ALKEM will see steady growth, led by a recovery in the acute segment (in FY26), scale-up in the chronic (new launches), and steady growth in trade generics as well as US business to see recovery from FY26. This is coupled with an improvement in EBITDA margin, led by improved GM, increasing chronic share, and cost controls.

- Q2 highlights – muted growth:** Revenue declined 1% YoY at INR 34.14 bn as India revenues (73% of sales) grew 6% YoY to INR 24.6 bn as growth in VMN (+12.8% YoY vs 7.6% IPM, as per IQVIA) and steady growth in key chronic therapies (anti-diabetics, Derma, and CNS) was offset by muted growth in anti-infective (2.5% YoY vs 6.8% IPM in Q2FY25, as per IQVIA) and Gastro (8.4% YoY vs 9.6% IPM). US (18%) declined 7% QoQ to USD 71 mn (-23% YoY) due to price erosion in base. Non-US international sales (9%) grew 12% YoY.
- Muted EBITDA:** GM was up 330 bps YoY at 64.7% due to lower input costs for select raw materials (paracetamol, sitagliptin). Moderate growth in staff cost (+10% YoY) and muted SG&A (+1% YoY) was offset by higher R&D (+27%) led to EBITDA at INR 7.53 bn (+1% YoY) and margin at 22.0% (+34 bps YoY). Lower interest (-7% YoY), higher other income (+113%), and higher depreciation (+7%) led to reported PAT of INR 6.88 bn (+10% YoY).
- Key takeaways from con call:** The company saw muted growth in its anti-infective segment (~36% of sales) due to lower traction from its injectable portfolio. It reported volume growth of ~1.1% (as per IQVIA) in Q2. Trade generics was (20% of sales) saw improvement in margins led by better product mix and pricing. US declined in Q2FY25 was due to ~18.7% drop in the volume and ~6% impact of price erosion; focus to improve profitability through operating efficiencies and exit from low margin products. Enzene plant (US CDMO biologic) to be operationalised in H1CY25; capex of INR 4.5 bn; to break even in 12 months from operation. Focus on selective M&As with priority on the chronic segment (net cash at INR 42.2 bn as of Sep'24).

### Quarterly financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	34,147	34,402	(1)	30,318	13	1,15,993	1,26,676	1,32,749	1,48,210	1,64,521
EBITDA	7,528	7,467	1	6,087	24	16,095	22,455	26,284	30,531	35,043
APAT	6,886	6,266	10	5,452	26	10,756	19,346	23,289	26,146	26,468
EPS (INR)	57.6	52.4	10	45.6	26	90.0	161.8	194.8	218.7	221.4
P/E (x)						62.0	34.4	28.6	25.5	25.2
EV/EBITDA (x)						40.7	29.7	25.0	21.1	18.0
RoCE (%)						13	19	20	20	21

Source: Company, HSIE Research

## ADD

CMP (as on 13 Nov 2024) INR 5,571

Target Price INR 6,180

NIFTY 23,559

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5950	INR 6180
EPS %	FY25E (0.3)	FY26E (0.7)

### KEY STOCK DATA

Bloomberg code	ALKEM IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	666/7,894
6m avg traded value (INR mn)	1,508
52 Week high / low	INR 6,440/4,285

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.4)	6.9	29.6
Relative (%)	(0.8)	0.2	9.9

### SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	56.38	55.66
FIs & Local MFs	18.57	19.21
FPIs	8.69	9.02
Public & Others	16.36	16.11
Pledged Shares	-	-

Source: BSE

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