

Alkem's reported earnings were in line with our estimations. Revenue remained flat on YoY but grew by 12.6% QoQ to INR 34,147mn. EBITDA at INR 7,528mn also remained flat on YoY and grew by 23.7% QoQ. Margins expanded by 34bps YoY and 197bps QoQ to 22%. Adj. PAT grew by 2% YoY and 26.4% QoQ at INR 6,886mn. The company expects to grow the top-line by mid-single-digit and improve margin by 100bps every year.

- India Business:** The India business grew by 5.7% YoY and 21.7% QoQ to INR 24,610mn, accounting for ~72% of total revenue. The share of trade generic to branded generic is 20:80, trade generic margin is improving because of better pricing and a better product mix. The company outperformed the IPM in anti-diabetic, Neuro/CNS, urology, dermatology, gynecology, respiratory, and VMN therapies. Alkem registered positive volume growth despite a challenging market which was flat in the quarter. Domestic chronic therapy continues to outperform the IPM growth and the focus is to grow it further. Anti-infective therapy de-grew 1% lower than the IPM growth. The company remains bullish on the India business and expects it to grow by 8-9% in FY25.
- North America:** The US business experienced a YoY decline of 22.1% and 6.9% QoQ to INR 5,976mn, accounting for ~18% of total revenue, the impact was due to supply chain challenges which impacted the volume growth and higher price erosion (6-7%). During the quarter, the company launched 1 product in the US and received approval for 5 ANDAs from the USFDA, including 1 tentative approval. Additionally, it expects to file 1 product in Q3FY25 which will have a 180-day exclusivity. By the end of FY25 or the start of FY26, the new US facility focused on the CDMO sector for biosimilars is expected to become operational, getting customer queries, and expected to break even in the first year of operation.
- Margin Profile:** The gross margin improved by 330bps YoY and 21bps QoQ, reaching 64.7%, driven by favorable API prices, better product mix, and lower sales in the US market which is a low-margin business. EBITDA margin improved by 34bps YoY and 197bps QoQ to 22%. The company remains focused on maximizing its EBITDA margin by strategically managing its product mix, controlling costs, and leveraging a favorable raw material pricing environment. The overall EBITDA margin guidance is maintained and expected to improve by 100bps every year.
- Outlook and Valuation:** We expect Alkem's growth to be muted for the year because of lower sales in India business compared to industry growth, supply chain challenges in the US market which is impacting the volume growth, lower than expected new product launches in the US, and mid-single-digit price erosion in the US. The expected CAGR for Revenue, EBITDA, and PAT is 8.9%, 14.4%, and 15.8%, respectively, for FY24-27E. We have introduced FY27E and valued the stock based on Sep-FY27E EPS, arriving at a target price of INR 6,252 (valued at 29x) and assign a **HOLD** rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	106,342	115,992	1,26,676	1,35,869	1,48,595	1,63,796
Gross Profit (INR Mn.)	64,539	66,924	77,300	85,016	93,832	1,04,537
EBITDA (INR Mn.)	20,530	16,094	22,455	25,234	29,044	33,613
EBITDA Margin (%)	19.3	13.9	17.7	18.6	19.5	20.5
Adj. EPS (INR)	138.8	89.0	159.3	180.6	199.1	232.0

Source: Company, CEBPL

Nov 13, 2024	
CMP (Rs)	5,574
Target Price (Rs)	6,252
Potential Upside (%)	12.2

*CMP as on 13th Nov 2024

Company Info

BB Code	ALKEM IN EQUITY
ISIN	INE540L01014
Face Value (Rs.)	2
52 Week High (Rs.)	6,440
52 Week Low (Rs.)	4,285
Mkt Cap (Rs bn.)	666.5
Mkt Cap (\$ bn.)	7.9
Shares o/s (Mn.)/F.Float (%)	119.6/42
TTM EPS (Rs)	182.4
EPS FY27E (Rs)	232.0

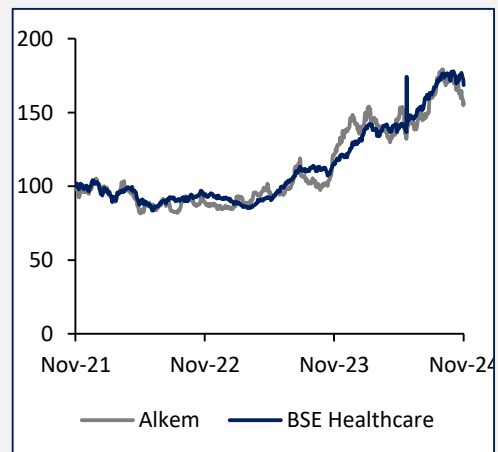
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	55.66	56.38	56.74
FII's	9.02	8.69	9.11
DII's	19.21	18.56	15.63
Public	16.12	16.37	18.51

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	68.7	78.4	46.9
Alkem Labs	57.0	75.4	29.6

Rebased Price Performance



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Quarterly performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	34,147	34,402	(0.7)	30,318	12.6
Cost of Goods Sold	12,047	13,271	(9.2)	10,760	12.0
Contribution Margin (%)	64.7	61.4	329.6	64.5	20.8 bps
Employee Expenses	6,105	5,554	9.9	6,023	1.4
EBITDA	7,528	7,467	0.8	6,086	23.7
EBITDA Margin (%)	22.0	21.7	34.1	20.1	197.2 bps
Depreciation	789	739	6.8	805	(2.0)
EBIT	6,739	6,728	0.2	5,282	27.6
Interest	281	303	(7.2)	291	(3.3)
PBT	7,803	6,480	20.4	6,194	26.0
Tax	783	332	136.2	691	13.3
Adj. PAT	6,886	6,752	2.0	5,452	26.3
PAT Margin (%)	20.2	19.6	54.0	18.0	218.6 bps
Adj. EPS	57.6	56.5	2.0	45.6	26.3

Source: Company, CEBPL

Geographical Performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
India	24,610	23,278	5.7	20,223	21.7
% of sales	72.1	67.7		66.7	
USA	5,976	7,675	(22.1)	6,416	(6.9)
% of sales	17.5	22.3		21.2	
Other countries	3,205	2,866	11.8	3,261	(1.7)
% of sales	9.4	8.3		10.8	
Other	356	583	(38.9)	419	(15.0)
% of sales	1.0	1.7		1.4	
Total Sales	34,147	34,402	(0.7)	30,319	12.6

Source: Company, CEBPL

Estimates vs Actual

Particulars (Rs mn)	Actual	Estimates	Deviation (%)
Net Sales	34,147	34,605	(1.3)
EBIDTA	7,528	7,402	1.7
EBIDTA Margin (%)	22.0	21.4	65.7
PAT	6,886	6,850	0.5
EPS	57.6	57.3	0.5

Source: Company, CEBPL

Change in estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Previous	Change	New	Previous	Change	New
Net sales	1,35,869	1,40,079	(3.0)	1,48,595	1,57,481	(5.6)	1,63,796
EBITDA	25,234	25,113	0.5	29,044	29,717	(2.3)	33,613
EBITDA margin(%)	18.6	17.9	64.4 bps	19.5	18.9	67.6 bps	20.5
PAT	21,589	21,278	1.5	23,807	25,700	(7.4)	27,740
EPS	180.6	178.0	1.5	199.1	215.0	(7.4)	232.0

Source: Company, CEBPL

Management Call - Highlights

Domestic Market

- Focus remains on growing large brands and making strategic portfolio additions.
- Acute therapies, which make up 80% of Alkem's domestic business, continue as key growth drivers, despite broader market challenges.
- Chronic therapies, accounting for approximately 20-21% of the portfolio, represent a high-growth area, with segments like diabetes expected to outpace market rates and become a major growth driver.

US Market

- Performance in H2 is anticipated to improve with a mid-single-digit decline projected for FY25.
- Strategic focus is on profitability over topline growth, with increased inventory levels to improve service levels, reduce supply penalties, and recover lost business.
- Gross margin improvements were supported by lower raw material costs, better international market product mix, and reduced sales of lower-margin US business.
- Alkem highlighted efforts to rationalize low-margin injectable anti-infective products and optimize operational expenditures.

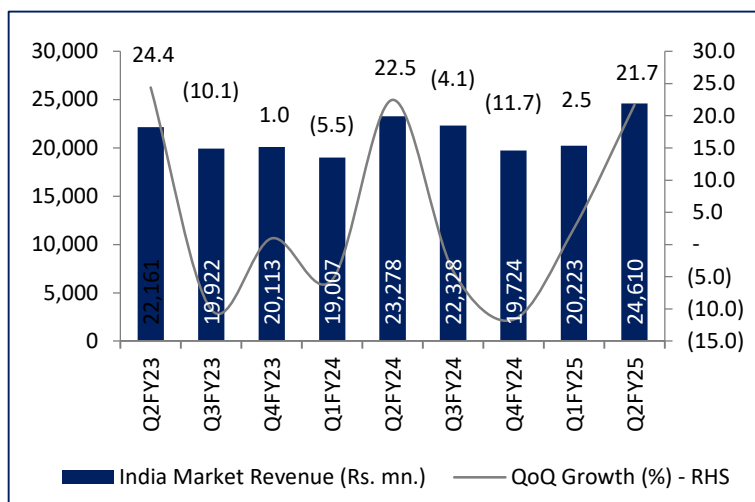
Other

- Significant growth opportunities are identified in emerging markets.
- The pipeline for new biosimilar products remains active, with global market entry plans underway.
- Collaboration with Exactech for hip and knee replacements is on track, with expected launches in Q1/Q2 of the next fiscal year, supporting Alkem's strategy to diversify its growth portfolio through MedTech business initiatives.
- The anti-infective market faced challenges due to a slowdown in acute market demand and NLEM-regulated product reliance.
- Alkem aims to enhance performance in this segment through strategic and operational adjustments.

Outlook

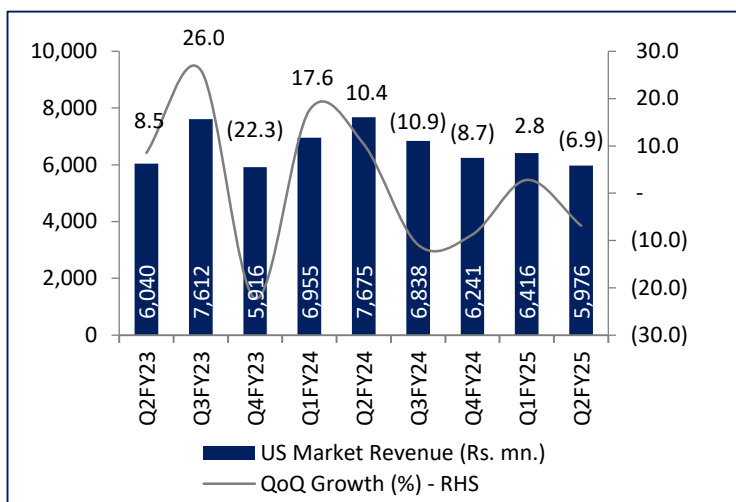
- Q4 FY25 is expected to be strong, driven by domestic business growth, inventory stabilization, and operational improvements.
- Alkem plans to maintain strong EBITDA growth by focusing on cost control, an improved product mix, and strategic market initiatives.

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



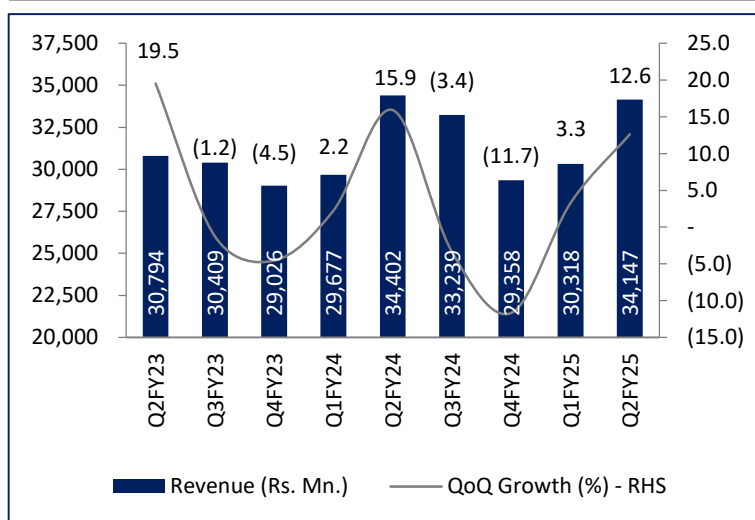
Source: Company, CEBPL

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



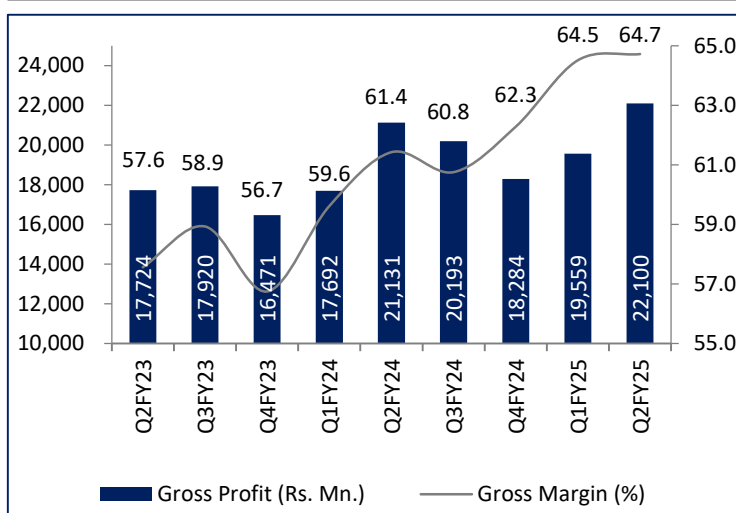
Source: Company, CEBPL

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



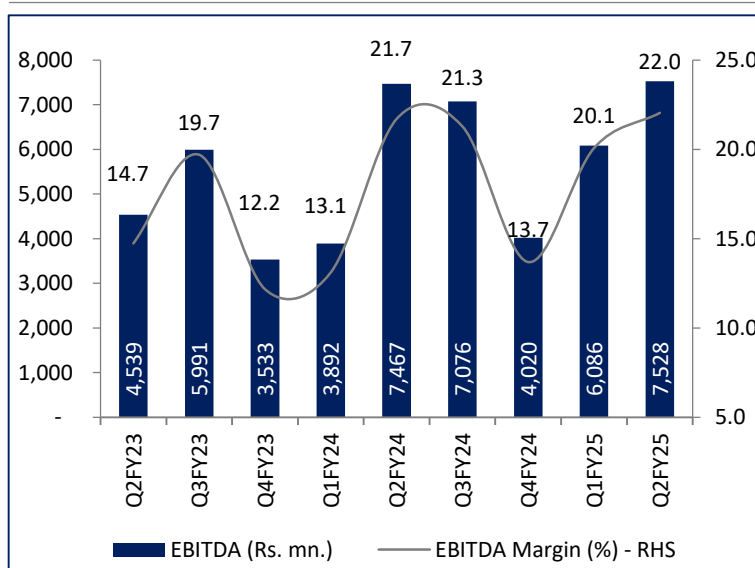
Source: Company, CEBPL

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



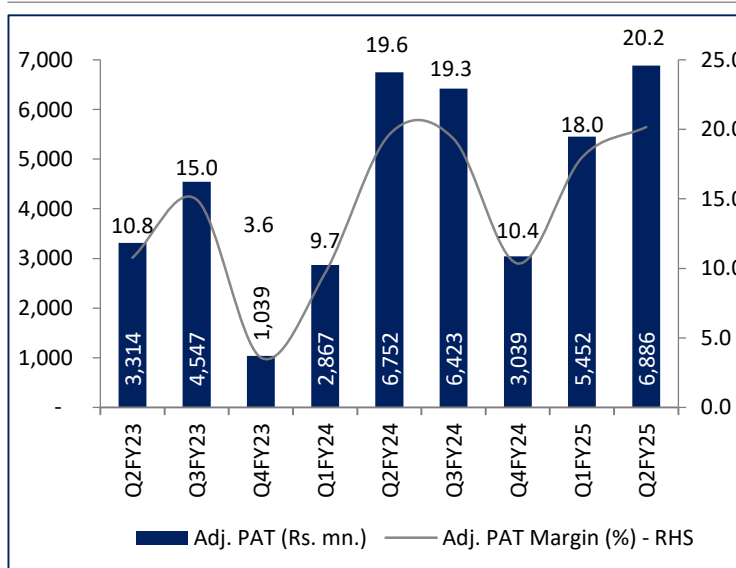
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



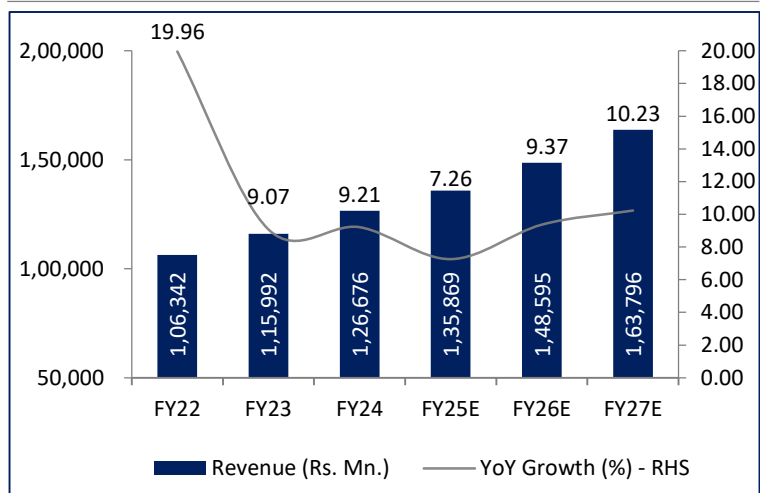
Source: Company, CEBPL

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



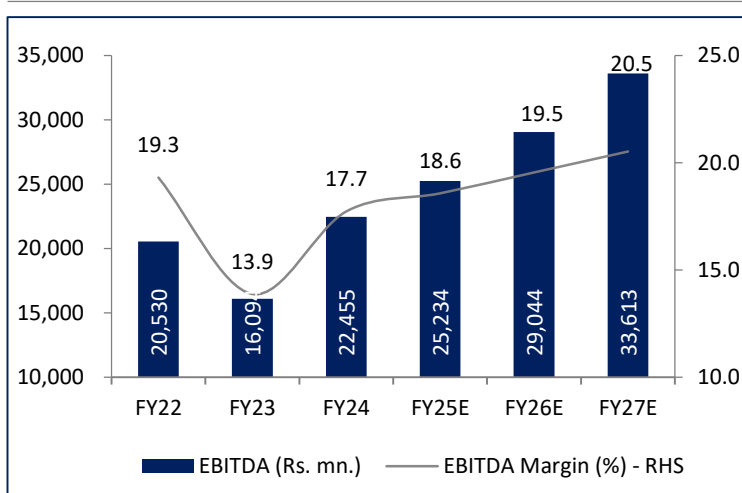
Source: Company, CEBPL

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



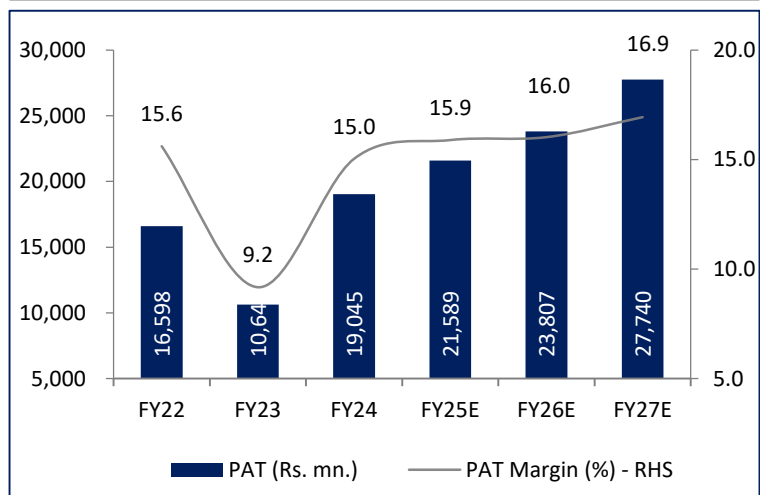
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



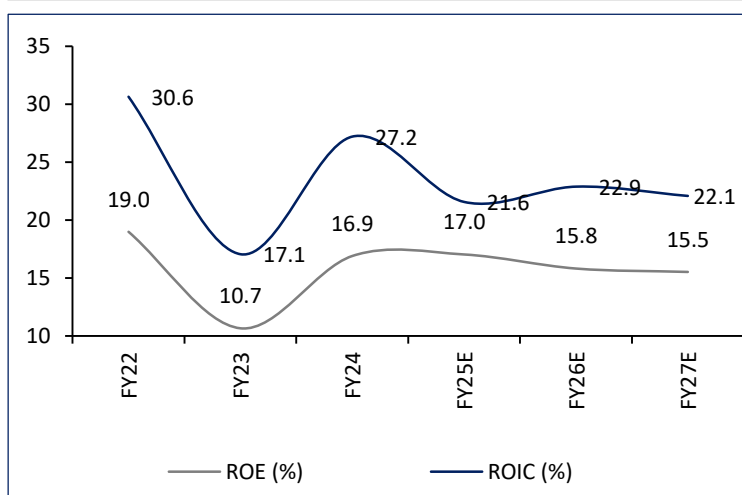
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



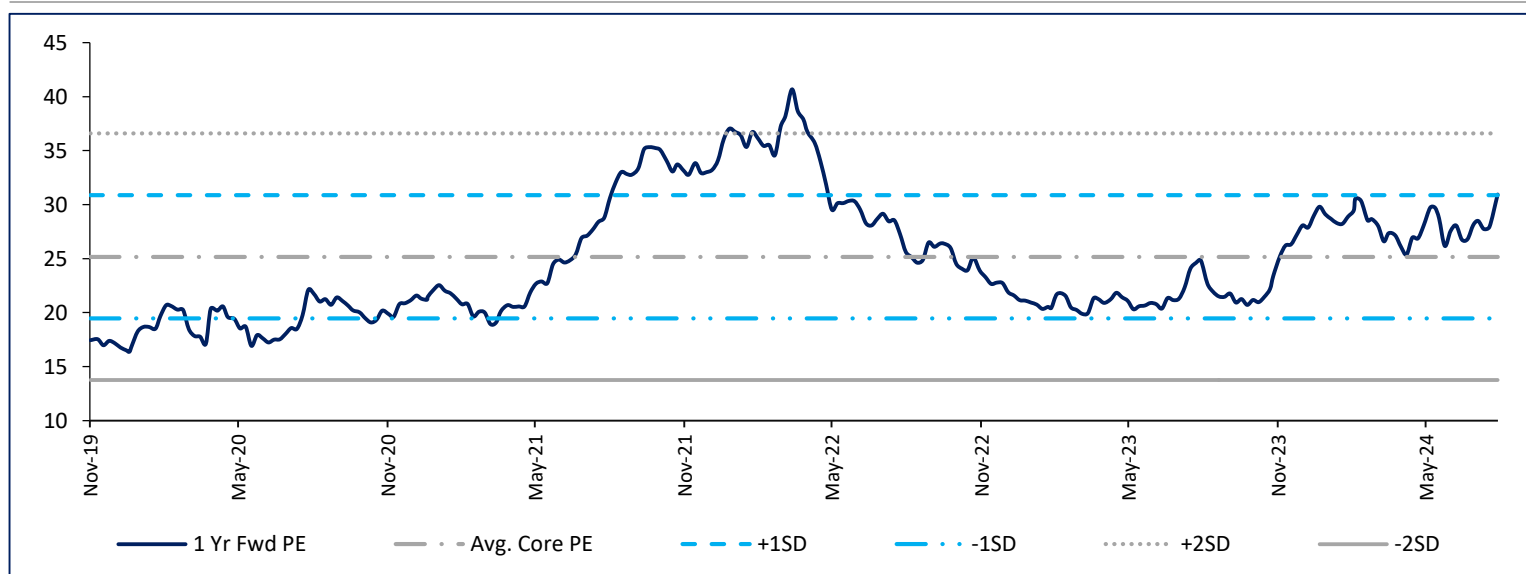
Source: Company, CEBPL

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	FY27E
Revenue	1,06,342	1,15,992	1,26,676	1,35,869	1,48,595	1,63,796
Gross profit	64,539	66,924	77,300	85,016	93,832	1,04,537
EBITDA	20,530	16,094	22,455	25,234	29,044	33,613
Depreciation	3,040	3,104	2,993	3,301	3,474	3,774
EBIT	17,490	12,990	19,462	21,933	25,570	29,839
Other income	1,627	2,161	3,108	4,076	2,972	3,276
Interest expense	524	1,074	1,124	1,021	1,034	1,137
PBT	18,443	13,047	20,231	24,988	27,508	31,977
Adj. PAT	16,598	10,640	19,045	21,589	23,807	27,740
Adj. EPS (INR)	138.8	89.0	159.3	180.6	199.1	232.0

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	88,473	94,350	1,07,144	1,29,057	1,52,975	1,81,171
Borrowings	26,017	13,264	14,184	12,766	13,787	15,166
Trade Payables	11,734	11,650	17,481	16,751	18,320	19,745
Other non-current liabilities	4,071	6,145	6,367	6,861	6,018	6,634
Other current liabilities	10,396	12,158	10,573	10,802	9,228	10,172
Total Net Worth & liabilities	1,40,692	1,37,566	1,55,749	1,76,237	2,00,328	2,32,887
Net Block	22871	20654	21615	24814	25340	25566
Capital WIP	3,395	3,103	1,484	1,384	1,284	1,184
Goodwill & intangible assets	6,146	6,304	7,215	7,664	10,311	11,019
Investments	3,710	6,218	4,838	7,473	11,145	15,561
Trade Receivables	18,846	21,322	22,528	24,196	26,462	30,515
Cash & Cash equivalents	25,786	26,169	15,794	28,553	31,960	32,755
Other non-current assets	21,609	17,162	17,972	19,127	21,374	24,958
Other current assets	38,329	36,634	64,304	63,026	72,451	91,329
Total Assets	1,40,692	1,37,566	1,55,749	1,76,237	2,00,328	2,32,887

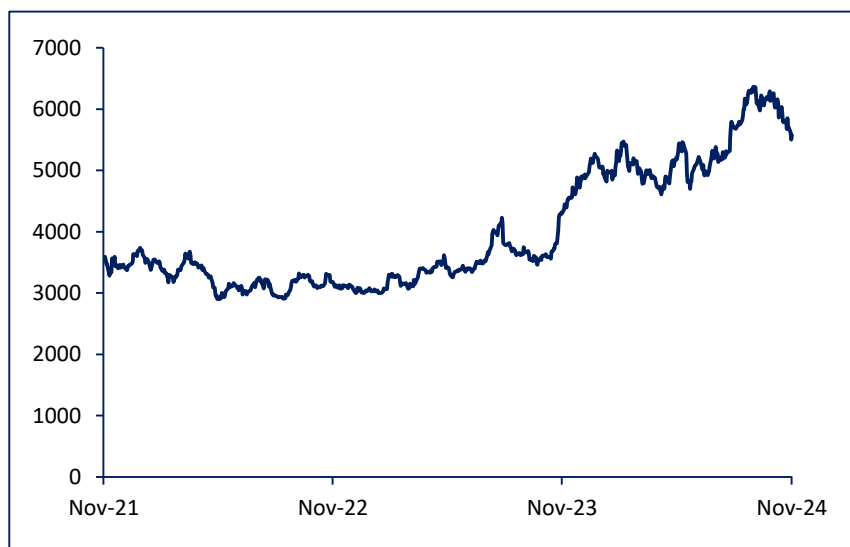
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E	FY27E
CFO	11,110	16,825	19,481	33,137	19,449	19,505
CFI	(14,351)	1,128	(9,678)	(9,484)	(10,219)	(9,024)
CFF	3,796	(17,608)	(11,450)	3,831	(5,823)	(9,686)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	20.0	9.1	9.2	7.3	9.4	10.2
Gross Profit	20.3	3.7	15.5	10.0	10.4	11.4
EBITDA	5.7	(21.6)	39.5	12.4	15.1	15.7
EBIT	4.9	(25.7)	49.8	12.7	16.6	16.7
PBT	0.1	(29.3)	55.1	23.5	10.1	16.2
Adj. PAT	3.9	(40.2)	82.4	20.2	10.3	16.5
Margins (%)						
Gross Profit	60.7	57.7	61.0	62.6	63.1	63.8
EBITDA	19.3	13.9	17.7	18.6	19.5	20.5
EBIT	16.4	11.2	15.4	16.1	17.2	18.2
PBT	17.3	11.2	16.0	18.4	18.5	19.5
Tax rate	8.9	22.8	10.5	12.0	12.0	12.0
Adj. PAT	15.5	8.5	14.2	15.9	16.0	16.9
Profitability (%)						
ROE	19.0	10.7	16.9	17.0	15.8	15.5
ROIC	30.6	17.1	27.2	21.6	22.9	22.1
ROCE	15.3	12.1	16.0	15.5	15.3	15.2
Financial leverage (x)						
Pre-tax OCF/EBITDA	0.5	1.0	0.9	1.3	0.7	0.6
OCF / Net profit	0.7	1.6	1.0	1.5	0.8	0.7
EV/EBITDA	30.0	37.7	27.1	25.7	22.9	19.8
Earnings						
EPS (Rs.)	138.8	89.0	159.3	180.6	199.1	232.0
Shares outstanding	119.6	119.6	119.6	119.6	119.6	119.6
Working Capital (days)						
Inventory days	103	82	77	85	90	90
Receivable days	65	67	65	65	65	68
Creditor days	40	37	50	45	45	44
Current Ratio (x)	1.8	2.3	2.6	3.1	3.5	3.8

Source: Company, CEBPL

Historical recommendations and target price: Alkem Labs



Alkem Labs

1.	29-01-2022	Outperform	Target Price Rs.4060
2.	16-05-2022	Neutral	Target Price Rs.3016
3.	08-08-2022	Neutral	Target Price Rs.3,254
4.	14-11-2022	Neutral	Target Price Rs. 3,112
5.	14-02-2023	Add	Target Price Rs. 3,541
6.	20-05-2023	Add	Target Price Rs. 3,511
7.	11-08-2023	Neutral	Target Price Rs. 3,957
8.	08-11-2023	Add	Target Price Rs. 4,375
9.	16-02-2024	Add	Target Price Rs. 5,668
10.	30-05-2024	Buy	Target Price Rs.5,676
11.	12-08-2024	Buy	Target Price Rs.6,234
12.	14-11-2024	Hold,	Target Price Rs. 6,252

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HOLD	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
SELL	The security expected to show Below -5% next 24 months

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