



ALKEM

Alkem Laboratories Ltd

**INITIATING COVERAGE
REPORT**

**ALKEM LABORATORIES LTD
(Alkem)**
PHRM
STOCK DATA
BUY

Reuters Code	ALKE BO	
Bloomberg Code	ALKEM IN	
BSE Code	539523	
NSE Symbol	ALKEM	
Face Value	Rs. 2	
Shares Outstanding	11.9 Cr	
Avg. Daily Vol. (6m)	144,498	
Price Performance (%)		
1M	3M	6M
6	6	16
200 Days EMA Rs.3290		

SHARE HOLDING (%)

Promoters	57.16
FII	4.44
FI/MF	16.19
Body Corporate	0.12
Public & Others	28.09

RESEARCH ANALYST

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Market Cap.

Rs. 42,009 Cr.

52 Week H/L

Rs. 3,625/2,835

CMP

Rs.3,513

Target Price

Rs. 4,242

Alkem Laboratories manufactures formulations as well as API, has a strong foothold in India and is one of the leading player in the US market. It has 19 manufacturing facilities and 6 R&D centers in India and US.

Market leader in various therapeutic areas

Alkem has a strong presence in India across various therapeutic areas. It has maintained its leadership position in anti-infectives for the last 15 years and is among the Top 3 players in gastro as well as the Pain division, through brand-building efforts and new launches. Apart from this, the chronic segment is picking up pace and with an increase in revenue, it should result in an improvement in margins due to high operating leverage.

Business restructuring underway

The company decided to close down the St.Louis plant due to structural changes in the US market, which should lead to cost savings of Rs.80-100cr in FY24E. Alkem has seen a significant, almost double-digit price erosion of its products in the US in FY23. Restructuring in the US and healthy growth in India should lead to improvement in the return ratios of the company.

Scope for margin expansion

Alkem has invested in manpower with an addition of 3,000 MRs in the last 3 years to 12,000 to expand its reach. Going forward, better productivity from this investment should result in higher operating leverage. Apart from this, with the cost savings initiatives by the company, lower freight charges and steady raw material prices, management is confident of the increase in EBITDA margins by ~200 bps to 16% in FY24E.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	NPM (%)	AEPS (Rs.)	P/E (x)	P/S (x)	P/BV (x)
FY23P	11,599	1,609	1,110	9.6	91.2	38.4	3.7	4.7
FY24E	12,630	1,958	1,480	11.7	121.7	28.8	3.4	4.3
FY25E	13,763	2,133	1,607	11.7	132.2	26.5	3.1	4.0
FY26E	15,017	2,343	1,781	11.9	146.5	23.9	2.8	3.7

OUTLOOK & VALUATION

We believe that earnings should grow at a CAGR of 17% for FY23-26 driven by 1) Steady sales growth from India and other International businesses 2) an increase in productivity from the new medical representatives (MRs) on the domestic front 3) Cost rationalization leading to improvement in EBITDA margins. The stock has been trading at 26.5x & 23.9x its FY25E & FY26E EPS of Rs.132.2 & Rs.146.5 resp. We recommend BUY on the stock with a target price of Rs.4,242, with an upside of 22%, over an investment horizon of 18-24 months.

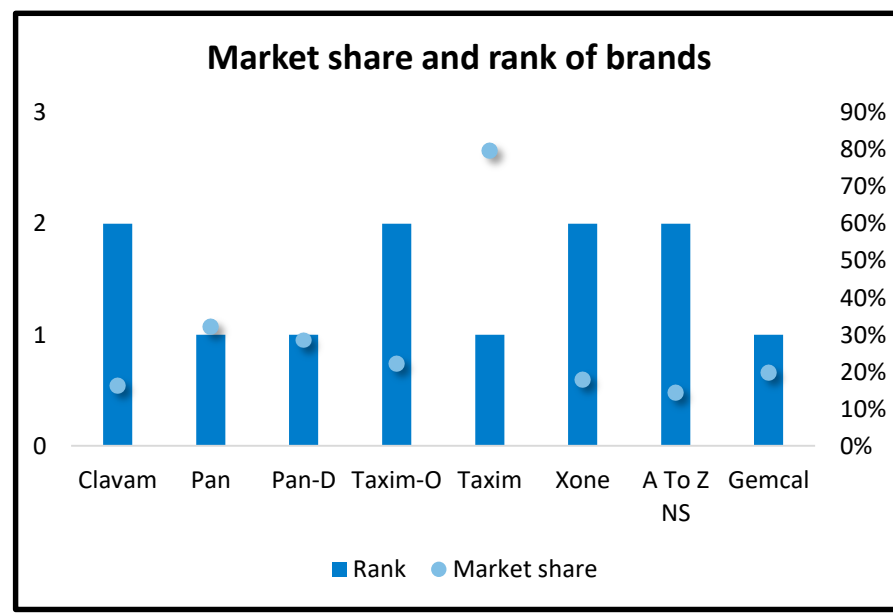
INVESTMENT RATIONALE

Market leader in various therapeutic areas

Alkem has outperformed the domestic market by ~400bps in the last 4 years on secondary sales, with a CAGR of ~14% in India. The domestic market is dominated by branded generic segment, with doctors prescribing medicines to patients. ~80% of domestic sales are through prescription. Over the years, it has been a market leader in the anti-infective segment, thanks to brand-building efforts and an increase in penetration led by an increase in medical representatives (MR). In the last 3 years, it has increased MRs by 3,000 to 12,000 as of FY23. The below chart indicates that the company has maintained its position in the acute segment like anti-infectives, Gastro and pain segment, while in chronic segments like CNS, Cardiac and Anti-diabetic, it has improved its ranking over the last 6 years.

Rank	2016	2017	2018	2019	2020	2021	2022
Anti-infectives	1	1	1	1	1	1	1
Gastro Intestinal	3	3	3	3	3	3	3
Pain	3	3	3	3	3	3	3
Vitamins/Minerals	5	6	4	4	4	4	2
CNS	14	11	9	7	7	8	8
Derma	15	18	18	17	15	18	18
Cardiac	30	30	28	26	26	27	27
Anti-Diabetic	28	26	25	22	21	20	17

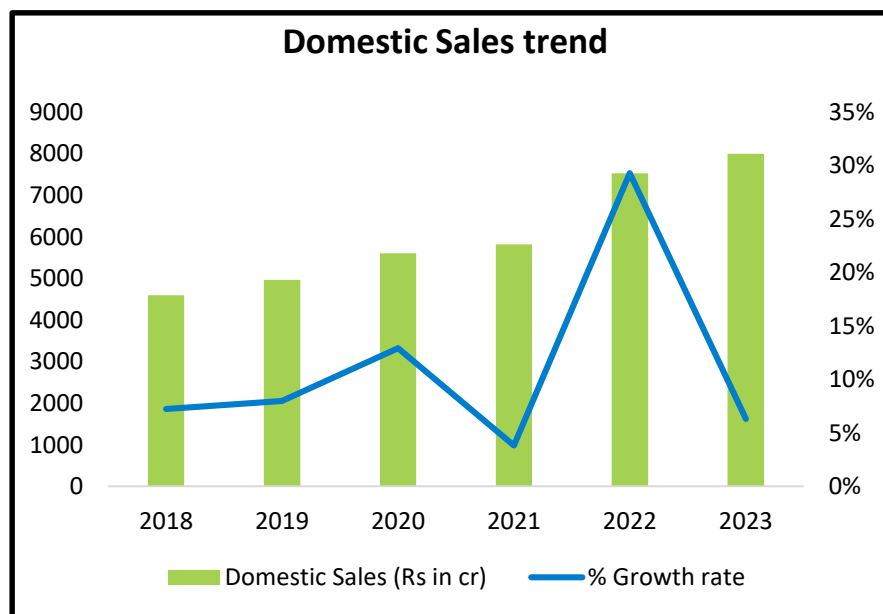
Source: Company, Sushil Finance Research



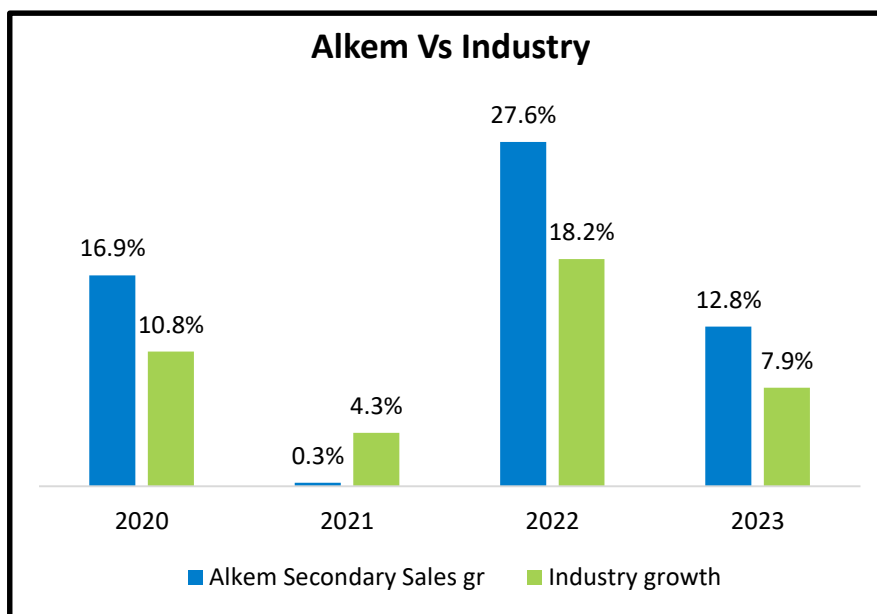
Source: Company, Sushil Finance Research

Recently, the outperformance of Alkem as compared to the industry has been higher on account of new launches by the company. It has successfully launched a couple of products in the anti-diabetic segment, thereby leading to an improvement in ranking by 5 points to 15th position in the last 2 years. On the cardiac front, it has shifted its focus from anti-coagulants to lipid management and hypertensives., which should drive growth as per the management of the company.

We believe a higher proportion of India sales (~70% of the total sales) with a consistent track record of outperformance and potential for higher chronic sales should augur well for the company.



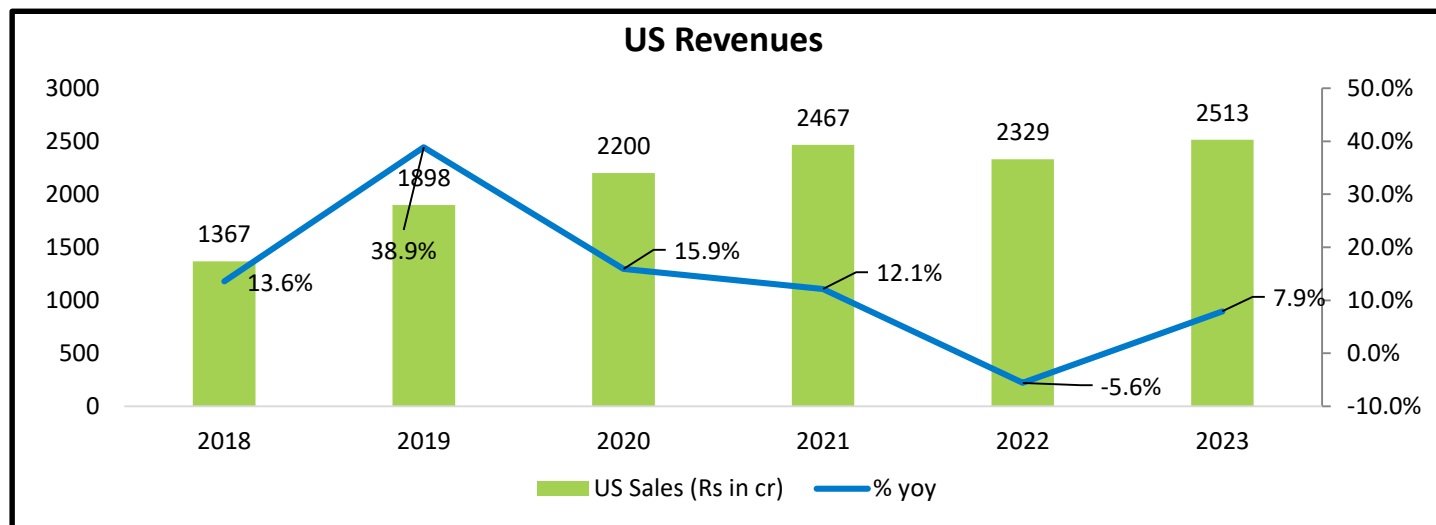
Source: Company, Sushil Finance Research



Source: Company, Sushil Finance Research

Business restructuring underway

Alkem established its presence in the US and diversified its manufacturing capabilities in dosage forms like semi-solid, liquid and nasal formulations. However, pricing pressure on the legacy business has offset the impact of new product launches in FY23. The company used to manufacture control substance products at its St.Louis site in the US. It decided to restructure its manufacturing operations by closing its St.Louis facility in the US due to changes in dynamics. St.Louis contributes ~2% of the total revenue as of FY23, so the overall revenue impact would be marginal, however, it should benefit the company on the bottom line with cost savings of Rs.80-100cr in FY24E.



Source: Company, Sushil Finance Research

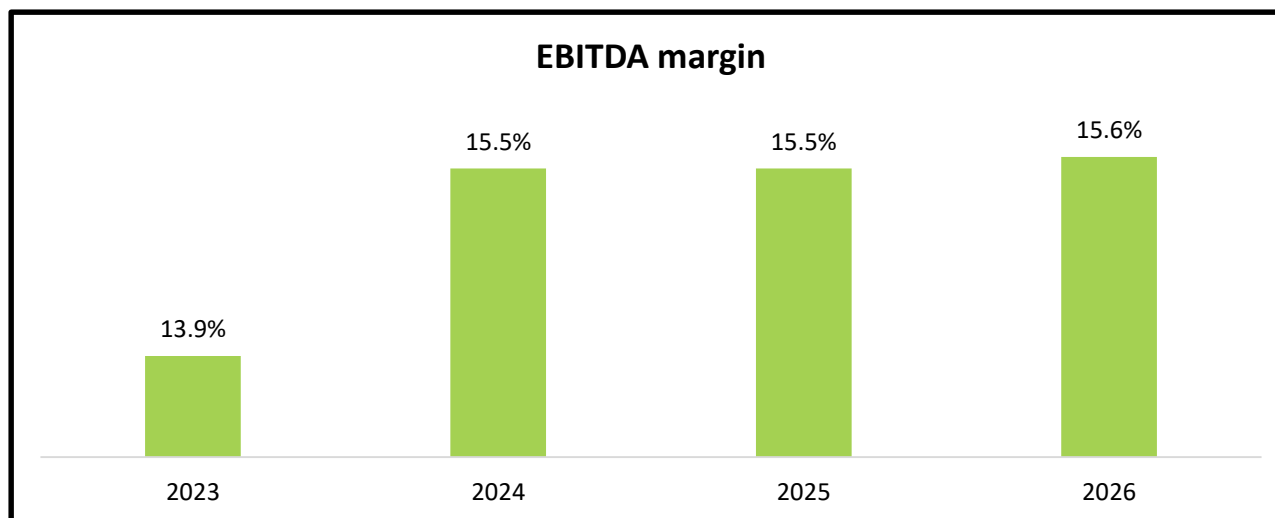
Alkem operates in the Biotech segment through its subsidiary, Enzene Biosciences (Enzene). It is one of the first movers globally with expertise in the manufacturing of biosimilars. It is positioned to address the large and high-growth Biotech market through the launch of its biosimilar portfolio and by providing services in the CDMO space. It has received approvals for 5 products in India and 3 products are undergoing global development and are expected to be launched by FY25-26. It recorded a revenue of ~Rs.160cr and the management expects the biosimilars to be 5-6% of the total revenue in the next 3-4 years.

Scope for margin expansion

EBITDA grew at a tepid pace, 3% CAGR over the last three years, while operating margins dropped to 13.9% in FY23. This weakness can be attributed to:

- (1) a higher 12.3% CAGR in staff cost in last three years due to an increase in medical representatives in India by 25% to 12,000
- (2) US pricing pressure
- (3) Inflated raw material prices due to the closure of the China region due to Covid.

In the domestic market, the company has already made significant investments to create infrastructure for the growth of its chronic and acute segments. Alkem has invested in manpower with an addition of 3,000 MRs in the last 3 years to expand its reach. Going forward, productivity from this investment should result in higher operating leverage. Apart from this, cost initiatives undertaken by the company in the US should start to kick-off from this year and softening of API prices in the medium term would save ~Rs.200-250cr in FY24 according to the management. We expect EBITDA margins to improve from 13.9% in FY19 to 15.5% in FY26.

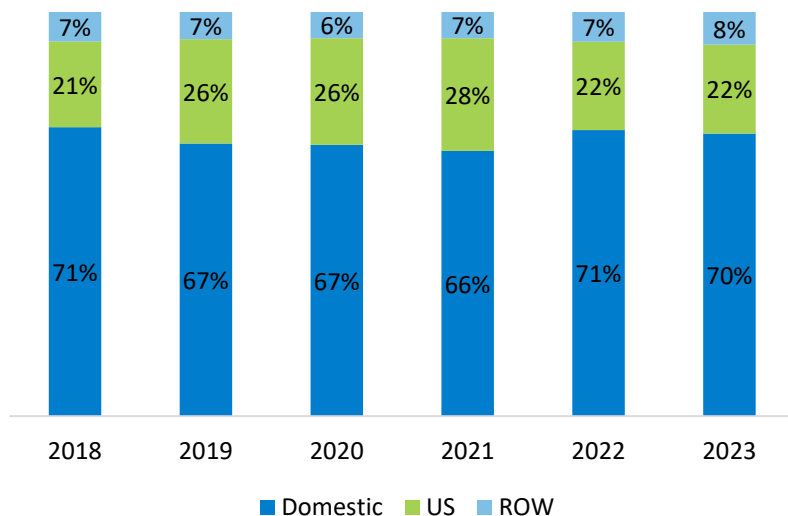


Source: Company, Sushil Finance Research

COMPANY OVERVIEW

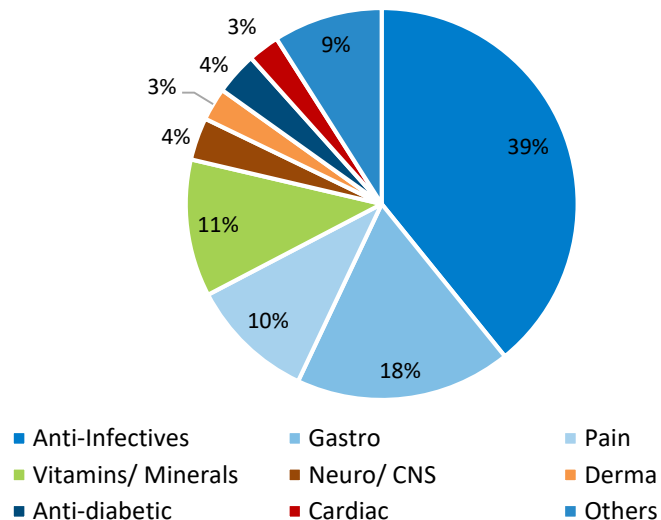
Alkem Laboratories is one of the leading pharma companies in India with strong product portfolio and brand equity. In the past two decades, the Company has consistently secured a place among the top 10 domestic pharmaceutical companies and has strong presence in the acute segment. Apart from India, it produces branded generics, trade generics, and active pharmaceutical ingredients (API) in 50 countries globally, with the US being its key overseas market. Alkem was established in 1973 and now it has a portfolio of over 800 brands, with 12 brands with annual sales of more than Rs.100 cr in India. Alkem is one of the prominent names in India in the acute therapy areas of Anti-infective, Gastro-intestinal, Pain management, and Vitamins/Minerals/Nutrients. The Company also has a growing presence in the chronic therapy areas of Neuro/CNS, Cardiac, Anti-diabetes, and Dermatology. The Company's product portfolio includes mega-brands like Clavam, Pan, Pan-D and Taxim-O, which feature among the top 50 pharmaceutical brands in India.

Revenue mix



Source: Company, Sushil Finance Research

Therapy contribution



Source: Company, Sushil Finance Research

PROFIT & LOSS STATEMENT

(Rs.cr)

Y/E Mar.	FY23P	FY24E	FY25E	FY26E
Net Sales	11,599.3	12,629.8	13,763.4	15,016.7
Raw Material Cost	3,056.9	3,346.9	3,647.3	3,979.4
Employee Cost	2,131.4	2,336.5	2,546.2	2,778.1
Other Expenses	2,951.6	3,157.5	3,440.8	3,739.2
EBITDA	1,609.5	1,957.6	2,133.3	2,342.6
Depreciation	310.4	315.7	330.3	352.9
Interest Cost	107.4	107.0	114.0	114.0
Other Income	216.1	227.3	247.7	270.3
PBT	1,407.8	1,762.2	1,936.7	2,146.0
Tax	298.0	282.0	329.2	364.8
APAT	1,109.8	1,480.3	1,607.5	1,781.2

BALANCE SHEET STATEMENT

(Rs.cr)

As on 31 st Mar.	FY23P	FY24E	FY25E	FY26E
Equity Share Capital	23.9	23.9	23.9	23.9
Reserves	9,021.4	9,796.2	10,613.2	11,543.0
Non controlling int	389.7	350.0	380.0	400.0
Net worth	9,435.0	10,170.1	11,017.1	11,966.9
Total loans	1,307.2	1,080.2	1,095.0	1,120.0
Other non Current Liabilities	614.5	638.0	675.0	710.0
Other Current Liabilities	2,400.0	1,901.9	1,979.5	2,105.3
Total Liabilities	13,756.7	13,790.3	14,766.6	15,902.2
Net block	2,065.4	2,065.4	2,148.0	2,260.6
Capital WIP	310.3	315.7	412.9	465.5
Intangible assets	492.6	530.0	570.0	640.0
Other non current assets	2,020.9	2,281.0	2,693.0	3,040.0
Sundry debtors	2,132.2	2,428.8	2,646.8	2,887.8
Inventories	2,607.5	2,589.1	2,821.5	3,078.4
Cash and bank	2,616.9	2,613.4	2,981.2	3,523.0
Loans and advances	6.8	5.0	5.0	5.0
Other Current Assets	1,504.2	1,718.0	1,980.0	2,325.0
Total Assets	13,756.7	13,790.3	14,766.6	15,902.2

Source: Company, Sushil Finance Research Estimates

CASH FLOW STATEMENT

(Rs.cr)

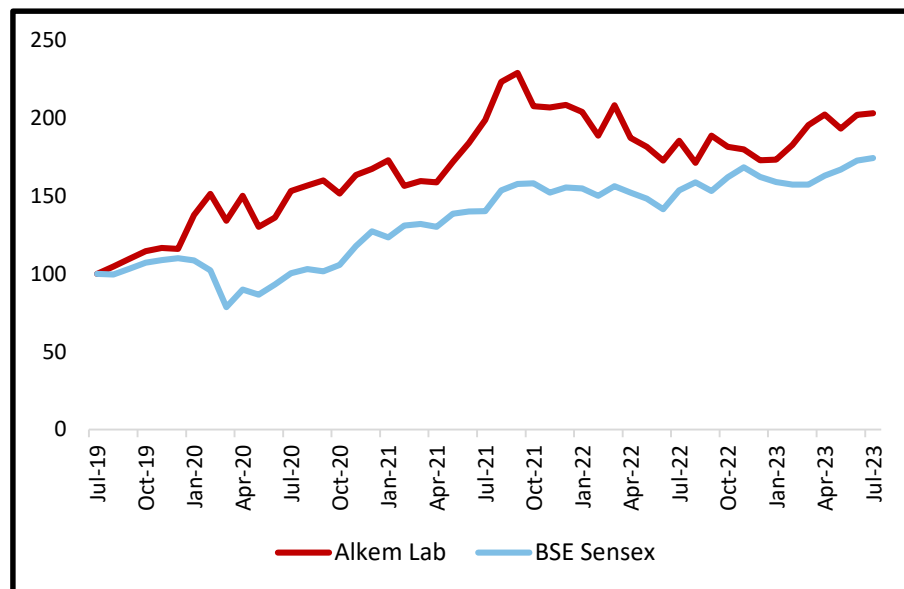
Y/E Mar.	FY23P	FY24E	FY25E	FY26E
PAT	1,006.8	1,480.3	1,607.5	1,781.2
Depreciation & Amortization	310.4	315.7	330.3	352.9
Finance Cost	107.4	107.0	114.0	114.0
(Incr)/Decr in Working Capital	(237.3)	(633.2)	(624.8)	(677.2)
Cash Flow from Operating	1,485.2	1,551.8	1,756.3	1,935.7
(Incr)/ Decr in Gross PP&E	(88.7)	(315.7)	(412.9)	(465.5)
(Incr)/Decr In Investments	378.3	(236.7)	(415.2)	(397.6)
Cash Flow from Investing	289.6	(552.4)	(828.1)	(863.1)
(Decr)/Incr in Debt	(1273.0)	(226.9)	14.8	25.0
Others	(463.6)	(775.9)	(575.2)	(555.8)
Cash Flow from Financing	(1,736.5)	(1,002.8)	(560.5)	(530.8)
Opening Cash	2,579.0	2,617.0	2,613.0	2,981.0
Total cash flow	38.3	(3.5)	367.8	541.8
Cash at the End of the Year	2,616.9	2,613.4	2,981.2	3,523.0

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY23P	FY24E	FY25E	FY26E
Growth (%)				
Total Sales	9.1%	8.9%	9.0%	9.1%
Profitability (%)				
EBITDA Margin	13.9%	15.5%	15.5%	15.6%
APAT Margin	9.6%	11.7%	11.7%	11.9%
ROCE	13.5%	15.7%	16.0%	16.3%
Per Share Data (Rs.)				
AEPS	91.2	121.7	132.2	146.5
Reported CEPS	116.8	147.7	159.3	175.5
BVPS	743.7	807.4	874.6	951.1
Valuation				
PER (x)	38.4	28.8	26.5	23.9
P/BV (x)	4.7	4.3	4.0	3.7
EV/EBITDA (x)	26.6	21.9	20.1	18.3
MCap/Net Sales (x)	3.7	3.4	3.1	2.8
Turnover				
Debtor Days	67	70	70	70
Inventory Days	194	183	183	183
Creditor Days	87	87	83	83
Gearing Ratio				
D/E (x)	0.14	0.11	0.10	0.10

Source: Company, Sushil Finance Research Estimates

Price Comparison between Sensex and Alkem Lab



Source: Company, Sushil Finance Research

Price/Earning



Source: Company, Sushil Finance Research

OUTLOOK & VALUATION

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RISKS & CONCERNS

- Company is present in 50 international markets, which exposes it to global economic risk as well foreign exchange risk.
- Company has added ~3000 Medical representatives (MR) in last 3 years to boost Indian operations. MR have good relations with doctors, which thereby leads to prescription for company's medicines. Higher Attrition may impact the performance
- Any further slowdown in the economy may adversely affect the company's performance.

Rating Scale : This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

Total Expected Return Matrix (Rating and Return)

BUY : Over 12%

HOLD : -12% to 12%

SELL : Below -12%

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Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No