




# Alkem Laboratories Ltd

Industry Pharmaceuticals  
Bloomberg ALKEM IN  
BSE CODE 539523

## Strong US growth offset by weak domestic business in 4QFY20.

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>2396</b>
<b>Price Target</b>	<b>2764</b>
<b>Potential Upside</b>	<b>15%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	2822/1660
Mkt Capital (Rs Cr)	28647
Free float (%)	34%
Avg. Vol 1M (,000)	160
No. of Shares (Crs)	12
Promoters Pledged %	0%

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### 4QFY20 Result update

- ❑ Overall revenue grew by 11% YoY to Rs. 2049 crs (vs our estimate of Rs 2137 crs) based on the growth of the International business partially offset by the weak domestic business.
- ❑ The domestic business grew by 3% YoY to Rs. 1258 crs impacted due delay in transportation due to lockdown which led to lower booking of sales in the month of March 2020. Adjusting for this impact, the domestic would have grown by higher double digit.
- ❑ The US business grew by 22.7% YoY to US\$ 84 mn on account of product launches & market share gain in the existing business.
- ❑ Gross margin declined by 180 bps YoY to 56.3% on account of the business mix. The sustainable gross margin is expected to be around 60% going forward.

### View and Valuation

The weak domestic business in 4QFY20 due Covid related lockdown dragged down the overall revenue growth. The US business has grown quite significantly on account of new product launches & market share gain in existing products. The gross margin has contracted by 180 bps YoY on account of the business mix with the increased revenue contribution from the International market.

With the slowdown in the prescription generation due to deferment of elective surgeries & shut down of OPDs, the domestic business has been severely impacted, as 40% of the domestic revenues consist of anti-infectives. The company had a muted start in FY21, but we believe as the lockdown is relaxed in various states of the country, the growth will revive. US business crossed US\$ 300 mn revenue mark in FY20 and break-even as well, we believe US will continue to grow with 10+ launches expected in FY21. On the margin front, the operating leverage in the India chronic & US business, increased field force productivity and higher utilization of recently added capacities will remain a major growth driver for the expansion in the EBITDA margin going ahead. Therefore, we increase our rating from ACCUMULATE to BUY at a target price of Rs.2764.

### Key Risks to our rating and target

- ❑ Delay in the relaxation of lockdown in few states.
- ❑ Delay in the approvals & launches of ANDAs in US.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	5853	6431	7357	8344	9150
EBITDA	999	1028	1115	1473	1682
EBIT	898	885	922	1221	1425
PAT	892	631	774	1127	1322
EPS (Rs)	75	53	65	94	111
EPS growth (%)	20%	-29%	23%	46%	17%
ROE (%)	20%	13%	14%	18%	18%
ROCE (%)	19%	18%	16%	19%	19%
BV	374	407	455	515	608
P/B (X)	5.9	4.9	3.9	5.2	3.9
P/E (x)	29.6	37.5	27.1	28.7	21.7

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**4QFY20 Results**

<i>Financials</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>3QFY20</i>	<i>4QFY20</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>Fig in Rs Cr</i>		
								<i>FY19</i>	<i>FY20</i>	<i>YoY %</i>
<i>Net Sales</i>	1,854	1,850	2,264	2,182	2,049	<b>10.5%</b>	<b>-6.1%</b>	7,357	8,344	<b>13.4%</b>
<i>Other Income</i>	28	17	31	28	27	<b>-0.8%</b>	<b>-1.5%</b>	88	104	<b>18.8%</b>
<i>COGS</i>	776	712	904	834	894	<b>15.3%</b>	<b>7.2%</b>	2,945	3,345	<b>13.6%</b>
<i>Gross Margin</i>	58%	62%	60%	62%	56%	<b>-1.8%</b>	<b>-5.4%</b>	60%	60%	<b>-0.1%</b>
<i>Employee Cost</i>	349	390	390	396	330	<b>-5.4%</b>	<b>-16.6%</b>	1,362	1,505	<b>10.5%</b>
<i>Other Expen.</i>	495	483	518	499	522	<b>5.4%</b>	<b>4.6%</b>	1,935	2,021	<b>4.4%</b>
<i>EBITDA</i>	235	265	453	453	303	<b>28.9%</b>	<b>-33.1%</b>	1,115	1,473	<b>32.2%</b>
<i>EBITDA Mar.</i>	13%	14%	20%	21%	15%	<b>2.1%</b>	<b>-6.0%</b>	15%	18%	<b>2.5%</b>
<i>Depreciation</i>	57	56	56	59	81	<b>41.5%</b>	<b>36.3%</b>	193	253	<b>30.8%</b>
<i>EBIT</i>	178	209	396	394	222	<b>25%</b>	<b>-43.6%</b>	922	1,221	<b>32.4%</b>
<i>Interest</i>	7	16	18	17	14	<b>115%</b>	<b>-17.0%</b>	55	65	<b>19.1%</b>
<i>PBT</i>	199	210	410	405	235	<b>18.3%</b>	<b>-41.9%</b>	955	1,260	<b>32%</b>
<i>Exceptional</i>	-	-	-	-	-			-	-	
<i>Tax</i>	28	23	29	15	44	<b>54.6%</b>	<b>198.7%</b>	181	110	<b>-39%</b>
<i>PAT</i>	171	187	380	390	192	<b>12.3%</b>	<b>-51%</b>	774	1,149	<b>49%</b>
<i>PAT Margin</i>	9%	10%	17%	18%	9%	<b>0.0%</b>	<b>-9%</b>	11%	14%	<b>3%</b>

**Concall Highlights**

- The domestic business grew by 3% YoY to Rs. 1258 crs impacted due delay in transportation due to lockdown which led to lower booking of sales in the month of March 2020. Adjusting for this impact, the domestic would have grown by higher double digit.
- Of the 12% revenue growth in the Domestic business in 4QFY20, 3% is from new product introduction, 4% is from price increase and remaining is on account of volume increase.
- The Trade generics (15% of the domestic sales) grew double digits even in this environment while the prescription business was under pressure.
- The US business grew by 22.7% YoY on account of product launches & market share gain in the existing business.
- For the US business- the company expects to launch 10+ products and file 12-15 products in FY21, and grow from low to mid-teens. Going forward, with the increasing base in the US- the company aspires to grow mid-teens over the 2 yrs.
- For the US business- the investment of the company is across complex generics, dosage forms, and old generics products with lesser competition. The company has crossed breakeven levels for US business.
- Gross margin declined by 180 bps YoY to 56.3% on account of the business mix. The sustainable gross margin is expected to be around 60%.
- The company is confident regarding EBITDA margin expansion by 100 bps each year and expects to achieve 20%+ margin in the next 2-3 yrs.
- The operating leverage in the domestic Chronic business, US business, increased newly added field force productivity & higher utilization of recently added capacities remains major growth driver for the expansion in the EBITDA margin.
- The company has guided towards Rs. 350 crs capex plan across facilities with more concentration on the Indore plant as it's the new plant.

## Operational Details

Fig in Rs Cr

Geography	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Domestic	1257	960	1091	1318	1248	1218	1222	1550	1424	1258
US	359	407	424	473	518	482	482	528	584	607
Other International	107	117	124	108	135	128	109	142	142	146

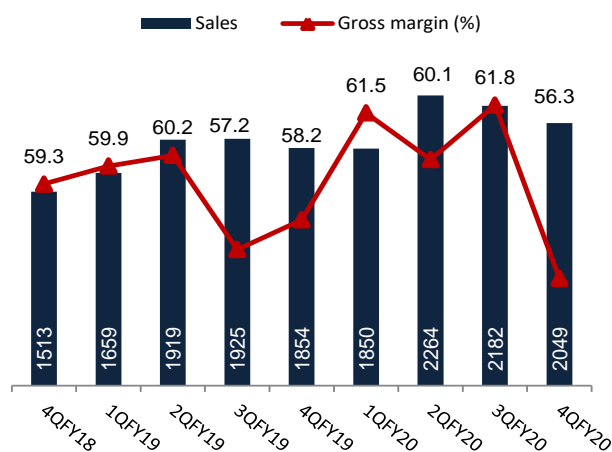
Revenue gr. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Domestic	22%	12%	26%	-6%	-1%	27%	12%	18%	14%	3%
US	6%	40%	43%	55%	44%	18%	14%	12%	13%	26%
Other International	14%	23%	13%	-19%	26%	9%	-12%	31%	5%	14%

Revenue Mix	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Domestic	72%	63%	66%	69%	65%	66%	66%	68%	65%	61%
US	21%	27%	26%	25%	27%	26%	26%	23%	27%	30%
Other International	6%	8%	7%	6%	7%	7%	6%	6%	6%	7%
Others	1%	2%	1%	1%	1%	1%	2%	2%	2%	2%

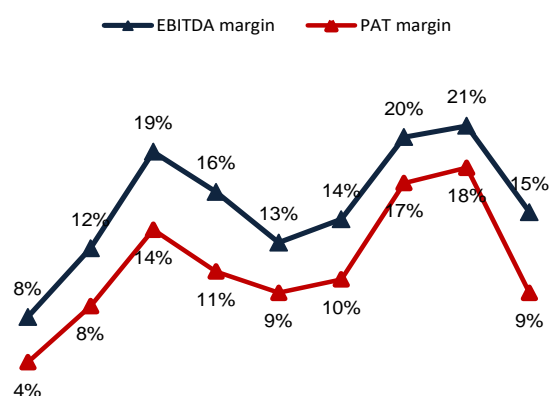
### Exhibit: Sales and Gross margin

Gross margin declined by 180 bps YoY to 56.3% on account of the business mix.



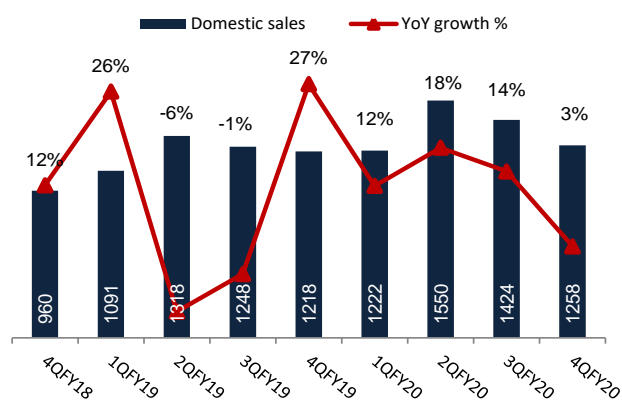
### Exhibit: EBITDA Margin and PAT Margin

EBITDA margin grew by 210 bps YoY to 14.8% & PAT margin remained flat at 9.2%



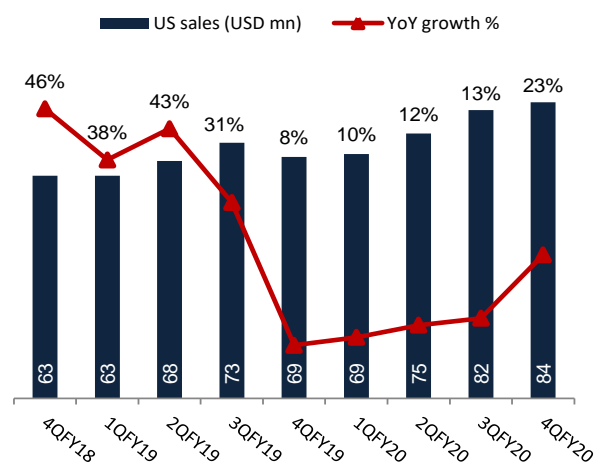
### Exhibit: Domestic sales and YoY growth

The domestic business grew by 3% YoY to Rs. 1258 crs impacted due delay in transportation due to lockdown.



### Exhibit: US sales and YoY growth

US business grew by 22.7% YoY on account of product launches & market share gain in the existing products.



**Financial Details**
**Balance Sheet**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
Share Capital	12	24	24	24	24	24	24	24
Reserves	2,643	2,975	3,668	4,444	4,840	5,415	6,137	7,243
<b>Networth</b>								
Debt	1,077	1,248	683	769	1,014	1,035	1,811	954
Other Non Current Liab	96	172	87	114	166	215	232	253
<b>Total Capital Employed</b>	<b>2,875</b>	<b>3,009</b>	<b>3,792</b>	<b>4,625</b>	<b>4,971</b>	<b>5,647</b>	<b>6,296</b>	<b>7,449</b>
Net Fixed Assets (incl CWIP)	980	1,143	1,269	1,751	2,319	2,666	2,898	3,006
Non Current Investments	338	420	234	259	196	96	92	150
Other Non Current Assets	1,417	1,395	1,263	1,640	1,235	1,230	1,457	1,476
<b>Non Current Assets</b>	<b>2,735</b>	<b>2,958</b>	<b>2,766</b>	<b>3,651</b>	<b>3,750</b>	<b>3,992</b>	<b>4,447</b>	<b>4,632</b>
Inventory	620	784	909	1,206	1,442	1,500	1,819	1,880
Debtors	373	527	568	714	1,081	1,248	1,649	1,705
Cash & Bank	206	791	127	167	167	249	176	1,128
Other Current Assets	412	236	1,165	829	1,226	1,207	1,834	1,030
<b>Current Assets</b>	<b>1,612</b>	<b>2,338</b>	<b>2,769</b>	<b>2,915</b>	<b>3,915</b>	<b>4,205</b>	<b>5,478</b>	<b>5,742</b>
Creditors	306	466	580	741	961	962	954	1,046
Provisions	25	84	105	124	124	127	185	201
Other Current Liabilities	188	327	388	352	537	430	601	655
<b>Curr Liabilities</b>	<b>519</b>	<b>877</b>	<b>1,073</b>	<b>1,217</b>	<b>1,622</b>	<b>1,519</b>	<b>1,740</b>	<b>1,901</b>
<b>Net Current Assets</b>	<b>1,094</b>	<b>1,461</b>	<b>1,695</b>	<b>1,698</b>	<b>2,293</b>	<b>2,685</b>	<b>3,738</b>	<b>3,841</b>
<b>Total Assets</b>	<b>4,348</b>	<b>5,296</b>	<b>5,535</b>	<b>6,568</b>	<b>7,666</b>	<b>8,208</b>	<b>9,943</b>	<b>10,375</b>

**Income Statement**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>
Revenue from Operation	3,131	3,743	5,048	5,853	6,431	7,357	8,344	9,150
Change (%)		20%	35%	16%	10%	14%	13%	10%
<b>EBITDA</b>	<b>424</b>	<b>422</b>	<b>853</b>	<b>999</b>	<b>1028</b>	<b>1115</b>	<b>1473</b>	<b>1682</b>
Change (%)		-1%	102%	17%	3%	8%	32%	14%
Margin (%)	0	11.3%	16.9%	17.1%	16.0%	15.2%	17.7%	18.4%
Depr & Amor.	52	71	93	101	143	193	253	258
<b>EBIT</b>	<b>373</b>	<b>351</b>	<b>760</b>	<b>898</b>	<b>885</b>	<b>922</b>	<b>1221</b>	<b>1425</b>
Int. & other fin. Cost	93	81	71	45	55	55	65	69
Other Income	169	181	240	112	96	88	104	147
<b>EBT</b>	<b>449</b>	<b>451</b>	<b>928</b>	<b>965</b>	<b>926</b>	<b>955</b>	<b>1260</b>	<b>1502</b>
Exp Item	0	0	0	0	0	0	0	0
Tax	10	59	176	60	288	181	110	180
Minority Int & P/L share of Ass.	-	-	(11)	(13)	(7)	-	22	-
<b>Reported PAT</b>	<b>439</b>	<b>392</b>	<b>742</b>	<b>892</b>	<b>631</b>	<b>774</b>	<b>1,127</b>	<b>1,322</b>
Change (%)		-11%	89%	20%	-29%	23%	46%	17%
Margin(%)	14.0%	10.5%	14.7%	15.2%	9.8%	10.5%	13.5%	14.4%

**Financial Details**
**Key Ratios**

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
ROE	16.5%	13.1%	20.1%	20.0%	13.0%	14.2%	18.3%	18.2%
ROCE	12.9%	11.6%	19.9%	19.3%	17.7%	16.3%	19.3%	19.1%
Asset Turnover	0.7	0.7	0.9	0.9	0.8	0.9	0.8	0.9
Debtor Days	44	51	41	45	61	62	72	68
Inv Days	72	76	66	75	82	74	80	75
Payable Days	36	45	42	46	55	48	42	42
Int Coverage	4	4	11	20	16	17	19	21
P/E	-	-	22.0	29.6	37.5	27.1	28.7	21.7
Price / Book Value	-	-	4.4	5.9	4.9	3.9	5.2	3.9
EV/EBITDA	-	(2)	19	26	23	19	22	16
FCF per Share	156	16	39	(15)	(34)	20	19	106
Div Yield	0.0%	0.0%	0.0%	0.0%	0.8%	0.9%	0.6%	0.6%

**Cash Flow Statement**

Fig in Rs Cr

<b>Y/E March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>
PBT	449	451	928	965	926	955	1,260	1,502
(inc)/Dec in Working Capital	(65)	(12)	10	(263)	(563)	(143)	(647)	(36)
Non Cash Op Exp	52	71	93	101	143	193	253	258
Int Paid (+)	14	77	67	61	55	55	65	69
Tax Paid	(111)	(106)	(198)	(264)	(203)	(251)	(283)	(180)
others	(49)	(156)	(175)	(129)	(82)	(36)	(65)	18
<b>CF from Op. Activities</b>	<b>290</b>	<b>325</b>	<b>726</b>	<b>471</b>	<b>276</b>	<b>773</b>	<b>585</b>	<b>1,631</b>
(inc)/Dec in FA & CWIP	(100)	(135)	(253)	(634)	(677)	(527)	(348)	(365)
Free Cashflow	186	187	469	(174)	(408)	244	222	1,266
(Pur)/Sale of Inv	2	103	32	(42)	87	123	46	(89)
others	448	(204)	423	390	223	89	(439)	-
<b>CF from Inv. Activities</b>	<b>350</b>	<b>(237)</b>	<b>202</b>	<b>(286)</b>	<b>(367)</b>	<b>(314)</b>	<b>(741)</b>	<b>(454)</b>
inc/(dec) in NW	-	-	-	-	0	-	-	-
inc/(dec) in Debt	(473)	87	(671)	12	357	(106)	603	(857)
Int. Paid	(91)	(79)	(71)	(64)	(55)	(55)	(65)	(69)
Div Paid (inc tax)	(32)	(57)	(185)	(86)	(218)	(219)	(440)	(216)
others	(4)	(3)	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(600)</b>	<b>(52)</b>	<b>(927)</b>	<b>(138)</b>	<b>85</b>	<b>(379)</b>	<b>79</b>	<b>(1,142)</b>
Inc(Dec) in Cash	40	37	1	47	(7)	80	(77)	35
<b>Add: Opening Balance</b>	<b>60</b>	<b>103</b>	<b>126</b>	<b>119</b>	<b>173</b>	<b>165</b>	<b>253</b>	<b>1,092</b>
Closing Balance	101	140	127	167	167	245	176	1,128

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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