




Alkem Laboratories Ltd

Industry Pharmaceuticals
Bloomberg ALKEM IN
BSE CODE 539523

Strong margin expansion on account of superior revenue mix & savings on marketing activities.

RATING	NEUTRAL
CMP	2980
Price Target	2983
Potential Upside	0%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	3090/1703
Mkt Capital (Rs Cr)	35634
Free float (%)	34%
Avg. Vol 1M (,000)	213
No. of Shares (Cr)	12
Promoters Pledged %	0%

Research Analyst
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1QFY21 Result update

- ❑ The domestic business de- grew by 5% YoY to Rs. 1155 crs on account of decline in the acute segment majorly due to lower prescription generation in the therapeutic area of anti-infectives, gastro & pain management.
- ❑ On the chronic side of the Domestic business, cardiology & diabetics grew faster than the market. The trade generics part of the business (27% of the overall revenue in 1QFY21) grew by a healthy double digit on account of better reach & franchisee with the distributors & stockists.
- ❑ The US sales grew by 28% YoY to US\$ 89 mn on account of new launches coupled with increase in the market share of the existing portfolio, while the other international market grew by 9% YoY to Rs.119 crs.
- ❑ The milestone income of Rs.25 crs along with the cost savings in terms travelling & sales promotional spends this quarter has helped in the significant improvement in the EBITDA margins from 14.3% in 1QFY20 to 26.6% in Q1FY21.
- ❑ PAT grew significantly by 21.1% YoY to Rs.423 crs on account of strong execution in the International markets & reduced cost on account of lower marketing activities.

View and Valuation

The overall revenue for ALKEM grew by 8% YoY despite Covid-related challenges prevailing in the market. The strong growth in US & other International markets have offset the impact of weak Domestic growth. The EBITDA margin has seen a significant growth from 14.3% in 1QFY20 to 26.6% in 1QFY21 based on superior revenue mix, savings on marketing activities & travelling expenses.

The India business stayed impacted this quarter on account of lower prescription, with revival seen in the month of July. We expect the Domestic business to still see the impact of lower prescription in Q2FY21, with normalcy expected in Q3 & Q4. The US business will continue to grow on the lower base with 10-12 decent launches expected in FY21. The cost savings on account of lower sales promotional activities & travelling on account of Covid driven lockdown in Q1FY21 will help in the significant margin & profitability expansion for the full year. Therefore, we believe the current valuation adequately factors earnings potential over the medium term. Hence, we reduce our rating from BUY to NEUTRAL with a target price of Rs. 2983 at 22x FY22E EPS.

Key Risks to our rating and target

- ❑ Delay in the approvals & launches of ANDAs in US.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	6431	7357	8344	9142	10186
EBITDA	1028	1115	1473	1999	1970
EBIT	885	922	1221	1718	1675
PAT	631	774	1127	1594	1621
EPS (Rs)	53	65	94	133	136
EPS growth (%)	-29%	23%	46%	41%	2%
ROE (%)	13%	14%	18%	21%	18%
ROCE (%)	18%	16%	19%	22%	19%
BV	407	455	515	627	742
P/B (X)	4.9	3.9	5.2	4.7	4.0
P/E (x)	37.5	27.1	28.7	22.3	22.0

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1QFY21 Results

<i>Financials</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>3QFY20</i>	<i>4QFY20</i>	<i>1QFY21</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY19</i>	<i>FY20</i>	<i>YoY %</i>
<i>Net Sales</i>	1,850	2,264	2,182	2,049	2,003	8.3%	-2.2%	7,357	8,344	13.4%
<i>Other Income</i>	17	31	28	27	44	149.0%	58.5%	88	104	18.8%
<i>COGS</i>	712	904	834	894	734	3.1%	-17.9%	2,945	3,345	13.6%
<i>Gross Margin</i>	62%	60%	62%	56%	63%	1.9%	7.0%	60%	60%	-0.1%
<i>Employee Cost</i>	390	390	396	330	394	1.0%	19.5%	1,362	1,505	10.5%
<i>Other Expen.</i>	483	518	499	522	342	-29.1%	-34.4%	1,935	2,021	4.4%
<i>EBITDA</i>	265	453	453	303	533	101.6%	76.0%	1,115	1,473	32.2%
<i>EBITDA Mar.</i>	14%	20%	21%	15%	27%	12.3%	11.8%	15%	18%	2.5%
<i>Depreciation</i>	56	56	59	81	67	19.7%	-17.5%	193	253	30.8%
<i>EBIT</i>	209	396	394	222	466	124%	110.1%	922	1,221	32.4%
<i>Interest</i>	16	18	17	14	17	6%	20.8%	55	65	19.1%
<i>PBT</i>	210	410	405	235	493	134.6%	109.5%	955	1,260	32%
<i>Exceptional</i>	-	-	-	-	-			-	-	
<i>Tax</i>	23	29	15	44	70	206.0%	59.0%	181	110	-39%
<i>PAT</i>	187	380	390	192	423	126.0%	121%	774	1,149	49%
<i>PAT Margin</i>	10%	17%	18%	9%	21%	11.0%	12%	11%	14%	3%

Concall Highlights

- The domestic business de- grew by 5% YoY to Rs. 1155 crs on account of decline in the acute segment majorly due to lower prescription generation in the therapeutic area of anti-infectives, gastro & pain management. The July month has started showing revival.
- On the chronic side of the Domestic business, cardiology & diabetics grew faster than the market. The trade generics part of the business (27% of the overall revenue in 1QFY21) grew by healthy double digit on account of better reach & franchisee with the distributors & stockist.
- The US sales grew by 28% YoY to US\$ 89 mn on account of new launches coupled with increase in the market share of the existing portfolio.
- In terms of ANDAs filings & approvals- the company is focussing on manufacturing better than plain vanilla generics in the oral solids. Alkem expects to launch 10-12 products in US each year.
- The operating income includes Rs.25 crs this quarter on account of research milestone income received.
- The company expects gross margins to be sustainable at 60% on account of growing chronic contribution in the India business, growth in the semi-chronic segment in India & better US portfolio (high margin).
- The milestone payment along with the savings of travelling & marketing and promotional spends this quarter has helped in the significant improvement in the EBITDA margins.
- With the un-lockdown initiating in various parts of the country, the travelling & marketing and promotional expenses may go up from Q2FY21. The company expects to see normalcy coming back in Q2, with no disruption expected from Q3 & Q4 onwards.
- The company do not expect any significant CAPEX in the next 3 years. The Indore plant is expected to start by next year & will not see any significant sales from the US in the next 3 years.
- The company expects the R&D spends for the full year to be 6% sales.

Operational Details

Geography	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Domestic	960	1091	1318	1248	1218	1222	1550	1424	1258	1155
US	407	424	473	518	482	482	528	584	607	666
Other International	117	124	108	135	128	109	142	142	146	119

Revenue gr. %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Domestic	12%	26%	-6%	-1%	27%	12%	18%	14%	3%	-5%
US	40%	43%	55%	44%	18%	14%	12%	13%	26%	38%
Other International	23%	13%	-19%	26%	9%	-12%	31%	5%	14%	9%

Revenue Mix	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Domestic	63%	66%	69%	65%	66%	66%	68%	65%	61%	58%
US	27%	26%	25%	27%	26%	26%	23%	27%	30%	33%
Other International	8%	7%	6%	7%	7%	6%	6%	6%	7%	6%
Others	2%	1%	1%	1%	1%	2%	2%	2%	2%	3%

Exhibit: Sales & Gross margin

Gross margin grew by 190 bps YoY to 63.4% this quarter driven by revenue mix & milestone income of Rs.25 crs

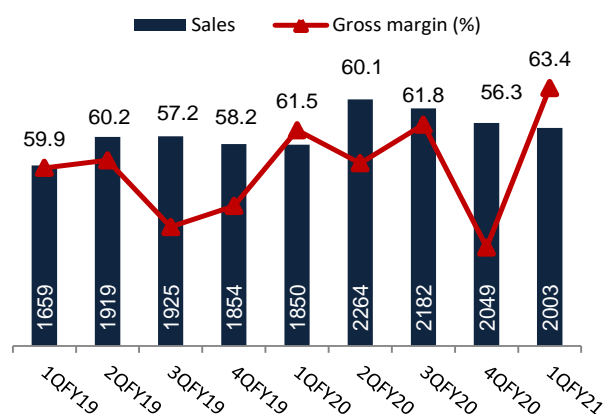


Exhibit: US sales and YoY growth

US sales grew by 28% YoY to US\$ 89 mn based on new launches increase in base business.

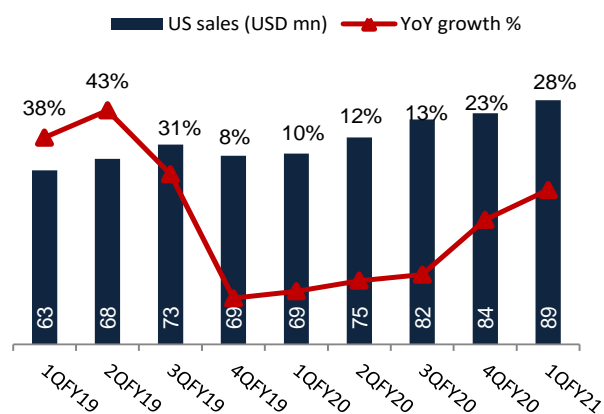


Exhibit: Domestic sales & YoY growth

The domestic business de-grew by 5% YoY to Rs. 1155 crs on account of lower prescription generation.

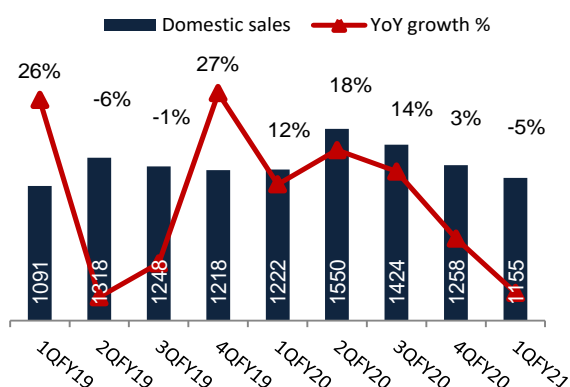
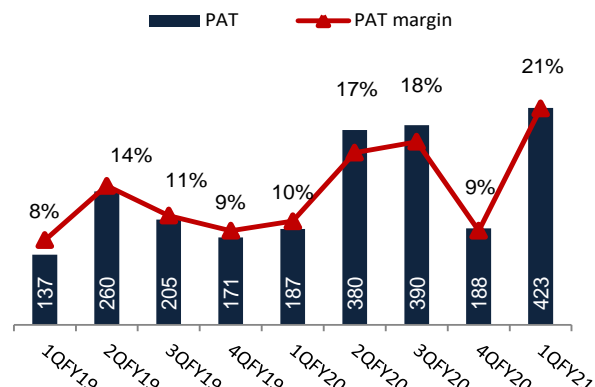


Exhibit: PAT & PAT Margin

PAT grew by 21.1% YoY to Rs.423 crs on account of reduced cost on account of lower marketing activities.



Financial Details
Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	24	24	24	24	24	24	24	24
Reserves	2,975	3,668	4,444	4,840	5,415	6,137	7,477	8,845
Networth								
Debt	1,248	683	769	1,014	1,035	1,811	1,811	1,811
Other Non Current Liab	172	87	114	166	215	232	253	284
Total Capital Employed	3,009	3,792	4,625	4,971	5,647	6,296	7,637	9,004
Net Fixed Assets (incl CWIP)	1,143	1,269	1,751	2,319	2,666	2,898	3,057	3,227
Non Current Investments	420	234	259	196	96	92	150	150
Other Non Current Assets	1,395	1,263	1,640	1,235	1,230	1,457	1,476	1,487
Non Current Assets	2,958	2,766	3,651	3,750	3,992	4,447	4,683	4,864
Inventory	784	909	1,206	1,442	1,500	1,819	1,993	2,220
Debtors	527	568	714	1,081	1,248	1,649	1,807	2,013
Cash & Bank	791	127	167	167	249	176	1,952	2,859
Other Current Assets	236	1,165	829	1,226	1,207	1,834	1,029	1,119
Current Assets	2,338	2,769	2,915	3,915	4,205	5,478	6,781	8,211
Creditors	466	580	741	961	962	954	1,045	1,165
Provisions	84	105	124	124	127	185	200	223
Other Current Liabilities	327	388	352	537	430	601	654	724
Curr Liabilities	877	1,073	1,217	1,622	1,519	1,740	1,899	2,111
Net Current Assets	1,461	1,695	1,698	2,293	2,685	3,738	4,882	6,100
Total Assets	5,296	5,535	6,568	7,666	8,208	9,943	11,464	13,076

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	3,743	5,048	5,853	6,431	7,357	8,344	9,142	10,186
Change (%)	20%	35%	16%	10%	14%	13%	10%	11%
EBITDA	422	853	999	1028	1115	1473	1999	1970
Change (%)	0	102%	17%	3%	8%	32%	36%	-1%
Margin (%)	0	16.9%	17.1%	16.0%	15.2%	17.7%	21.9%	19.3%
Depr & Amor.	71	93	101	143	193	253	280	294
EBIT	351	760	898	885	922	1221	1718	1675
Int. & other fin. Cost	81	71	45	55	55	65	70	75
Other Income	181	240	112	96	88	104	176	243
EBT	451	928	965	926	955	1260	1824	1843
Exp Item	0	0	0	0	0	0	0	0
Tax	59	176	60	288	181	110	229	221
Minority Int & P/L share of Ass.	-	(11)	(13)	(7)	-	22	-	-
Reported PAT	392	742	892	631	774	1,127	1,594	1,621
Change (%)	(0)	89%	20%	-29%	23%	46%	41%	2%
Margin(%)	10.5%	14.7%	15.2%	9.8%	10.5%	13.5%	17.4%	15.9%

Financial Details
Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	13.1%	20.1%	20.0%	13.0%	14.2%	18.3%	21.3%	18.3%
ROCE	11.6%	19.9%	19.3%	17.7%	16.3%	19.3%	22.4%	18.6%
Asset Turnover	0.7	0.9	0.9	0.8	0.9	0.8	0.8	0.8
Debtor Days	51	41	45	61	62	72	72	72
Inv Days	76	66	75	82	74	80	80	80
Payable Days	45	42	46	55	48	42	42	42
Int Coverage	4	11	20	16	17	19	24	22
P/E	-	22.0	29.6	37.5	27.1	28.7	22.3	22.0
Price / Book Value	-	4.4	5.9	4.9	3.9	5.2	4.7	4.0
EV/EBITDA	(2)	19	26	23	19	22	17	17
FCF per Share	16	39	(15)	(34)	20	19	106	103
Div Yield	0.0%	0.0%	0.0%	0.8%	0.9%	0.6%	0.5%	0.5%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	451	928	965	926	955	1,260	1,824	1,843
(inc)/Dec in Working Capital	(12)	10	(263)	(563)	(143)	(647)	(252)	(290)
Non Cash Op Exp	71	93	101	143	193	253	280	294
Int Paid (+)	77	67	61	55	55	65	70	75
Tax Paid	(106)	(198)	(264)	(203)	(251)	(283)	(229)	(221)
others	(156)	(175)	(129)	(82)	(36)	(65)	18	-
CF from Op. Activities	325	726	471	276	773	585	1,711	1,701
(inc)/Dec in FA & CWIP	(135)	(253)	(634)	(677)	(527)	(348)	(439)	(465)
Free Cashflow	187	469	(174)	(408)	244	222	1,272	1,236
(Pur)/Sale of Inv	103	32	(42)	87	123	46	(89)	-
others	(204)	423	390	223	89	(439)	-	-
CF from Inv. Activities	(237)	202	(286)	(367)	(314)	(741)	(528)	(465)
inc/(dec) in NW	-	-	-	0	-	-	-	-
inc/(dec) in Debt	87	(671)	12	357	(106)	603	-	-
Int. Paid	(79)	(71)	(64)	(55)	(55)	(65)	(70)	(75)
Div Paid (inc tax)	(57)	(185)	(86)	(218)	(219)	(440)	(254)	(254)
others	(3)	-	-	-	-	-	-	-
CF from Fin. Activities	(52)	(927)	(138)	85	(379)	79	(324)	(329)
Inc(Dec) in Cash	37	1	47	(7)	80	(77)	860	907
Add: Opening Balance	103	126	119	173	165	253	1,092	1,952
Closing Balance	140	127	167	167	245	176	1,952	2,859

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