

November 07, 2023

**RESULT REPORT Q2 FY24** | Sector: Pharmaceuticals & Healthcare

# Alkem Labs

## US persistence drives beat; upgrade to Reduce

### Result Synopsis

Prima facie Alkem reported better than ours/consensus expectation, but we note few points 1) US must have drove significant part of margin beat (on back of 20% QoQ growth) as pricing environment remains benign 2) no positive surprises in domestic business as weak acute season took its toll 3) Ex-R&D, other expenses still up 13% YoY and management has indicated no further cost savings likely. H2 margin has been indicated around 16% which leaves full year expectation of 16-17% intact. Effectively, US revenue has precluded margin guidance cut which was a possibility as domestic business battles a virtually lost season. Higher R&D in H2, uncertainty around persistence of US performance and leaner seasonality would keep second half margin under check even as staff cost savings would be a more durable margin lever. We raise FY24/25 estimates by 6-8% but as was our stance on Q1, quality of margin beat is driven by US and cost savings, none of which may be a sustainable feature in H2 and FY25. Rather we continue to factor in better domestic growth of ~11% next fiscal which leads to north of 18% margin; any moderation in PenG price would be a trigger for better margin and is a risk to our upgraded Reduce rating with revised TP Rs3,770 (earlier Rs3,500), based on unchanged 22x FY25 EPS.

### Result Highlights

Revenue growth of 12% YoY ahead of estimate on surprisingly strong US performance – up 27% YoY on a not so weak base of last year

Domestic muted as expected at +5% YoY given the by now well-known weakness in anti-infectives and gastro

Margin came in much ahead of estimate at ~22% vs expected ~18% on 180bps gross margin improvement and opex decline –St Louis shutdown savings wading its way into lower opex. Notably, ex-R&D other expenses still up 13% YoY

Takes additional impairment Rs576mn related to St Louis shutdown in Q2

Strong topline and margin beat drove 88% YoY rise in PAT

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	34,402	33,257	34,140	3.4	0.8	Strong margin beat on robust US rebound and lower R&D, cost savings
EBITDA	7,467	5,854	5,909	27.6	26.4	
EBITDA Margin (%)	21.7	17.6	17.3	410 bps	440 bps	
Adjusted PAT	6,725	4,543	4,531	48.1	48.4	

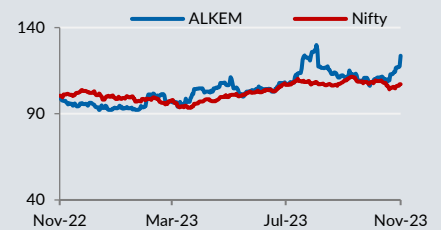
Source: Company, YES Sec

Reco	: <b>REDUCE</b>
CMP	: Rs 4,027
Target Price	: Rs 3,770
Potential Return	: -6%

### Stock data (as on November 07, 2023)

Nifty	19,407
52 Week h/l (Rs)	4243 / 2918
Market cap (Rs/USD mn)	457360 / 5496
Outstanding Shares (mn)	120
6m Avg t/o (Rs mn):	597
Div yield (%):	1.4
Bloomberg code:	ALKEM IN
NSE code:	ALKEM

### Stock performance



	1M	3M	1Y
Absolute return	14.3%	-2.5%	24.8%

### Shareholding pattern (As of Sep '23 end)

Promoter	56.7%
FII+DII	23.7%
Others	19.6%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	SELL
Target Price	3,770	3,500

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	133.9	171.4
EPS (Old)	126.2	158.4
% change	6.1%	8.2%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	115,993	125,479	139,453
YoY Growth	9.1	8.2	11.1
EBIDTA	16,095	20,605	25,942
YoY Growth	-21.6	28.0	25.9
PAT	10,068	16,010	20,497
YoY Growth	(38.8)	59.0	28.0
ROE	12.6	17.2	18.6
EPS	84.2	133.9	171.4
P/E	47.8	30.1	23.5
BV	756.6	855.4	991.8
EV/EBITDA	28.5	21.8	16.9

### BHAVESH GANDHI

Lead Analyst

bhaves.gandhi@ysil.in



## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	y/y (%)	q/q (%)
Revenue	30,794	30,409	29,026	29,677	34,402	11.7	15.9
Expenditure	26,255	24,419	25,494	25,785	26,934	2.6	4.5
- RM	13,070	12,489	12,555	11,986	13,271	1.5	10.7
- Staff Cost	5,709	5,254	5,030	5,677	5,554	(2.7)	(2.2)
- Other exp	7,477	6,676	7,909	8,123	8,110	8.5	(0.2)
Operating Profit	4,539	5,991	3,533	3,892	7,467	64.5	91.9
OPM(%)	14.7	19.7	12.2	13.1	21.7	697 bps	859 bps
Other Income	507	453	687	658	632	24.7	(4.0)
Depreciation	774	784	783	724	739	(4.5)	2.1
Interest	249	271	290	298	303	22.0	1.8
PBT	4,023	5,389	3,146	3,529	7,057	75.4	100.0
Tax	546	789	1,440	650	332	(39.3)	(49.0)
PAT	3,477	4,600	1,707	2,878	6,725	93.4	133.7
Exceptional	-	-	1,030	11	577		
Minority interest	169	-	-	11	(56)		
Reported PAT	3,308	4,600	677	2,857	6,205	87.6	117.2

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- High single digit growth in US in dollar terms
- Gross margin of 59.5-60% predicated on PenG at US\$28-30
- Would be close to 15.5% margin in H2 FY24, same as last year
- Would file 8-9 ANDAs in FY24; doing clinical trial for Denosumab for US market – spending US\$30-40mn on trial
- Suprep has not been approved as yet. No sales of Dabigatran in Q2 as facing supply challenges
- Have pruned R&D from oral solids to more complex products but no focus as such of moving away from US
- US sales did not have any one-off though the mix may not be same in next few quarters which would change the gross margin
- Most of the cost cutting related to US is largely done
- Seen softening in few RM products but no decline in Pen G which still is at US\$28-30 vs pre covid at US\$10
- Might break even in Enzene next year but that's not a priority in a nascent market
- Chronic business – focus is to gain productivity as MR addition is largely completed; key areas are cardiac, diabetic and CNS
- Would scout for M&A in chronic segment in a more open way
- Higher dependence on certain domestic geographies which were even more sluggish led to anti-infectives lagging IPM growth
- Trade generics grew 6-7% largely due to a sluggish season
- Overall productivity at Rs4.6lakh and expect improvement in chronic productivity to be much higher
- ETR for FY24 at 12-15% from 18% earlier and somewhat closer to 18% next year; Sikkim benefits last till March 25

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	239	239	239	239	239
Reserves	73,528	86,140	90,214	102,027	118,328
Net worth	<b>73,767</b>	<b>86,379</b>	<b>90,453</b>	<b>102,266</b>	<b>118,567</b>
Debt	1,813	2,094	3,897	3,897	3,897
MI	3,572	4,165	6,144	6,144	6,144
Deferred tax liab (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>79,152</b>	<b>92,639</b>	<b>100,494</b>	<b>112,307</b>	<b>128,608</b>
Fixed Asset	31,857	32,412	30,061	32,061	34,061
Investments	2,963	10,833	7,183	7,183	7,183
Net Working Capital	<b>33,254</b>	<b>36,302</b>	<b>50,225</b>	<b>60,039</b>	<b>74,339</b>
Inventories	23,124	30,055	26,075	28,208	31,349
Sundry debtors	16,072	18,846	21,322	23,066	25,634
Cash	21,699	27,179	29,342	38,355	48,419
Other current assets	8,399	8,274	10,557	11,293	12,551
Sundry creditors	(10,694)	(11,734)	(11,650)	(12,603)	(14,007)
Other CL	(25,346)	(36,319)	(25,421)	(28,280)	(29,608)
Def tax assets	11,079	13,092	13,025	13,025	13,025
<b>Total Assets</b>	<b>79,152</b>	<b>92,639</b>	<b>100,494</b>	<b>112,307</b>	<b>128,608</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	88,650	106,342	115,993	125,479	139,453
Operating profit	<b>19,424</b>	<b>20,529</b>	<b>16,095</b>	<b>20,605</b>	<b>25,942</b>
Depreciation	(2,746)	(3,040)	(3,104)	(2,859)	(3,122)
Interest expense	(589)	(524)	(1,074)	(1,048)	(1,125)
Other income	2,332	1,626	2,160	2,600	3,000
Profit before tax	<b>18,421</b>	<b>18,592</b>	<b>14,078</b>	<b>19,298</b>	<b>24,695</b>
Taxes	(2,243)	(1,640)	(2,980)	(2,702)	(4,198)
Adj. profit	<b>16,178</b>	<b>16,952</b>	<b>11,098</b>	<b>16,597</b>	<b>20,497</b>
MI	(328)	(497)	(1,030)	(587)	-
Net profit	<b>15,850</b>	<b>16,456</b>	<b>10,068</b>	<b>16,010</b>	<b>20,497</b>

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	18,421	18,592	14,078	19,298	24,695
Depreciation	2,746	3,040	3,104	2,859	3,122
Def tax assets (net)	(1,754)	(2,013)	67	-	-
Def tax lia	(3)	-	-	-	-
Tax paid	(2,243)	(1,640)	(2,980)	(2,702)	(4,198)
Working capital Δ	(1,649)	2,432	(11,760)	(800)	(4,237)
Other operating items	(328)	(497)	(1,030)	(587)	-
Operating cashflow	15,190	19,914	1,480	18,068	19,381
Capital expenditure	(1,889)	(3,595)	(753)	(4,859)	(5,122)
Free cash flow	13,301	16,320	727	13,209	14,260
Equity raised	507	911	999	0	0
MI	333	282	1,803	-	-
Investments	(521)	(7,870)	3,650	-	-
Debt financing/disposal	(336)	593	1,979	-	-
Dividends paid	(4,196)	(4,755)	(6,994)	(4,196)	(4,196)
Net Δ in cash	9,088	5,480	2,164	9,013	10,064

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

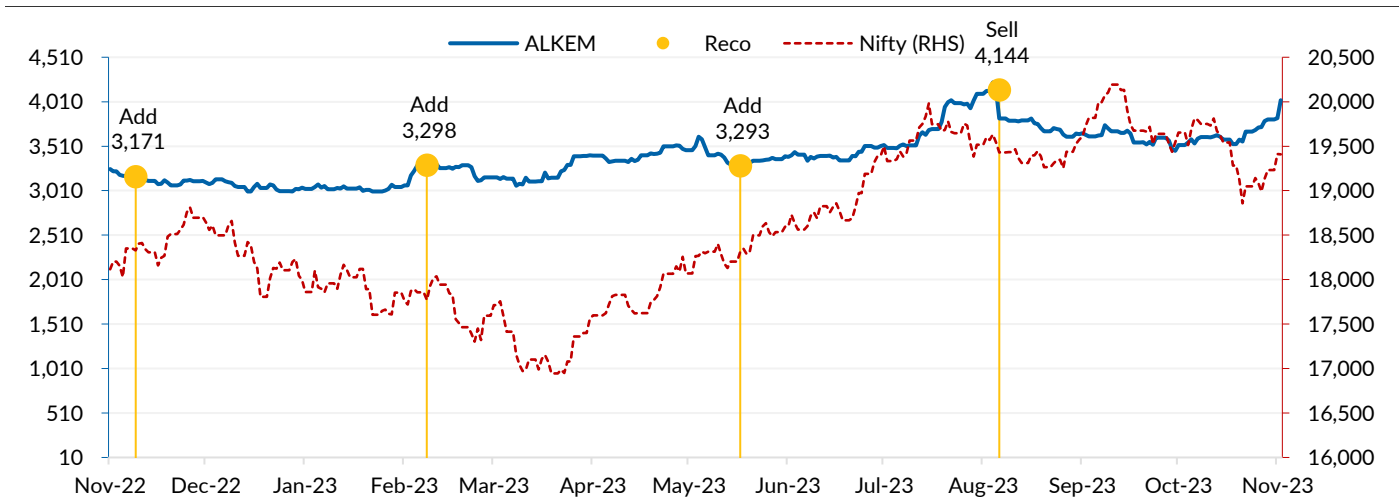
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.88	0.91	0.79	0.86	0.83
Interest burden (x)	0.97	0.97	0.93	0.95	0.96
EBIT margin (x)	0.21	0.18	0.13	0.16	0.19
Asset turnover (x)	0.91	0.92	0.92	0.95	0.93
Financial leverage (x)	1.43	1.45	1.43	1.37	1.36
RoE (%)	23.9	21.2	12.6	17.2	18.6

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Growth matrix (%)</b>					
Revenue growth	6.2	20.0	9.1	8.2	11.1
Op profit growth	31.8	5.7	(21.6)	28.0	25.9
EBIT growth	43.5	0.6	(20.7)	34.3	26.9
Net profit growth	40.6	3.8	(38.8)	59.0	28.0
<b>Profitability ratios (%)</b>					
OPM	21.9	19.3	13.9	16.4	18.6
EBIT margin	21.4	18.0	13.1	16.2	18.5

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Net profit margin	18.2	15.9	9.6	13.2	14.7
RoCE	26.0	22.3	15.7	19.1	21.4
RoNW	23.9	21.2	12.6	17.2	18.6
RoA	16.7	14.6	8.8	12.5	13.7
<b>Per share ratios</b>					
EPS	132.6	137.6	84.2	133.9	171.4
Dividend per share	30.0	30.0	50.0	30.0	30.0
Cash EPS	158.3	167.2	118.8	162.7	197.6
Book value per share	617.0	722.5	756.6	855.4	991.8
<b>Valuation ratios</b>					
P/E	30.4	29.3	47.8	30.1	23.5
P/CEPS	6.5	5.6	5.3	4.7	4.1
P/B	5.4	4.5	4.2	3.8	3.5
EV/EBIDTA	23.9	22.3	28.5	21.8	16.9
<b>Payout (%)</b>					
Dividend payout	12.2	8.8	21.2	14.0	17.0
Tax payout	26.5	28.9	69.5	26.2	20.5
<b>Liquidity ratios</b>					
Debtor days	66	65	67	67	67
Inventory days	95	103	82	82	82
Creditor days	44	40	37	37	37

## Recommendation Tracker



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all

jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

### YES Securities (India) Limited

**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in  
Website: www.yesinvest.in

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Bhavesh Gandhi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.