

Alkem Laboratories

BUY

CMP Rs2,930

Target Rs3,600

Upside 22.8%

Q3 FY21 call highlights

- ✓ Healthy traction in chronic and market share growth in acute seen as sustainable trends
- ✓ Marketing cost optimization to offset natural rebound in expenses as domestic sales revive from in FY22
- ✓ Raise FY21 estimates by 6% on better than expected Q3 margin which effectively defers costs to FY22 leaving EPS for FY22/23 largely unchanged
- ✓ Believe stock trading at attractive 18x FY23 EPS; BUY stays on unchanged target PE of 22x FY23 EPS, at a moderate discount to chronic plays like Ajanta Pharma

Guidance

- ✓ Maintains guidance of 200bps margin expansion (in FY19 margin was around 17.5% and the management expects margin expansion from the FY19 number).
- ✓ Gross margin will be in 60-62% range
- ✓ US business is expected to grow at around 15% for next year.
- ✓ Confident of filing 12-15 ANDA and launch 8-10 products every year.
- ✓ Trade generics has outperformed the branded business in Q3; next year share to decline
- ✓ India business registered growth due to growth in chronic segment.
- ✓ Marketing cost optimization to continue
- ✓ Capex for 9MFY21E- Rs1.3 bn.
- ✓ Indore facility is awaiting inspections from the USFDA.
- ✓ Gained market share in big brands and going forward will be looking to re-structure in the acute segment in the next fiscal year.
- ✓ Other income is higher due to sale of asset and asset monetization (sale of brand to Abbott).

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Exhibit 1: Results summary

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
Revenues	23,181	23,628	(1.9)	21,818	6.2
RM + inventory changes	(5,104)	(5,659)	(9.8)	(4,510)	13.2
Purchase of goods	(3,773)	(3,681)	2.5	(3,834)	(1.6)
Staff	(4,098)	(4,080)	0.4	(3,956)	3.6
Other expenses	(4,915)	(4,204)	16.9	(4,985)	(1.4)
Operating profit	5,291	6,005	(11.9)	4,533	16.7
OPM (%)	22.8	25.4	-259 bps	20.8	205 bps
Depreciation	(690)	(702)	(1.8)	(595)	16.0
Interest	(131)	(180)	(27.5)	(170)	(23.3)
Other income	964	355	171.2	279	246.0
PBT	5,434	5,478	(0.8)	4,046	34.3
Tax	(796)	(662)	20.2	(147)	443.3
Effective tax rate (%)	14.6	12.1	255 bps	3.6	1102 bps
PAT	4,639	4,815	(3.7)	3,900	18.9
PAT margin (%)	20.0	20.4	-37 bps	17.9	214 bps
PAT	4,639	4,815	(3.7)	3,900	18.9

Exhibit 2: Cost analysis

As a % of net sales	Q3 FY21	Q2 FY21	bps qoq	Q3FY20	bps yoy
RM + inventory changes	22.0	23.9	(193)	20.7	135
Purchase of goods	16.3	15.6	70	17.6	(130)
Staff	17.7	17.3	41	18.1	(46)
Other expenses	21.2	17.8	341	22.8	(165)
Total costs	77.2	74.6	259	79.2	(205)
Gross profit Rs mn	14,304	14,289	0.1	13,474	6.2
GM (%)	61.7	60.5	123	61.8	(5)

Exhibit 3: Revenue mix

Rs mn	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
India	15,140	15,574	(2.8)	14,239	6.3
US	6,156	6,258	(1.6)	5,837	5.5
Others	1,582	1,532	3.3	1,417	11.6
Total	22,878	23,364	(2.1)	21,493	6.4

Exhibit 4: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	73,572	83,443	88,165	101,094	114,640
yoy growth (%)	14.9	13.4	5.7	14.7	13.4
OPM (%)	15.2	17.7	21.8	20.6	21.9
yoy growth (%)	20.5	51.1	37.5	0.4	21.7
EPS (Rs)	63.6	96.1	132.2	132.7	161.4
P/E (x)	45.6	30.2	21.9	21.9	18.0
P/BV (x)	6.4	5.6	4.7	4.0	3.4
EV/EBITDA (x)	3.1	2.3	1.7	1.6	1.3
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
ROE (%)	15.0	19.8	23.3	19.8	20.5
ROCE (%)	17.1	20.2	24.3	21.1	21.8

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