

Alkem Laboratories

BUY

CMP Rs2,905

Target Rs3,600

Upside 22%

Result Highlights

- ✓ Q4 revenues increased by 7% YoY driven by robust India sales (+17% YoY, trade generic business reported good growth), US business de-grew by 10% YoY which was due lower acute sales, pre-buying in last March
- ✓ Gross margins expanded by 63bps YoY, but declined QoQ on Rs800mn inventory provision in US business; higher staff cost and decline in US sales led to margin contraction of 150 bps YoY
- ✓ Company guided to a strong Q1 FY22 on back of surge in vitamins and anti-biotics sales due to COVID related complications
- ✓ Overall guidance of mid-teens growth in domestic business and margin gain of 200bps on FY20 base (as FY21 was exceptionally low on costs)

Our view: An inventory hit of Rs800mn impacted US business in Q4 but overall, we reckon US to grow 20% in FY22 on back of pending 7-8 launches of PY + current year launches. While not elaborated, there could be support from at-risk and launches with CGT (low generic competition) designation. With US margin at double digit, high growth in FY22 would translate in to better EBIDTA support. Domestic business would clock 16% growth on low base of FY21 with vitamins & minerals driving growth in Q1 FY22 followed by acute portfolio for rest of the year. We reckon there could be upside risk to margin if US and India surprises on growth, which can drive stock outperformance from hereon. On the cost front, we build in over 30% rise in other expenses ex-R&D. Based on FY21 actual, we marginally lower FY22/23 EPS by 4%/3% but retain BUY with unchanged TP Rs3,600. Alkem trades at attractive valuation with a cash rich balance sheet and solid growth visibility. Key risk would be slower than expected growth in current year which would pull down FY23 estimates.

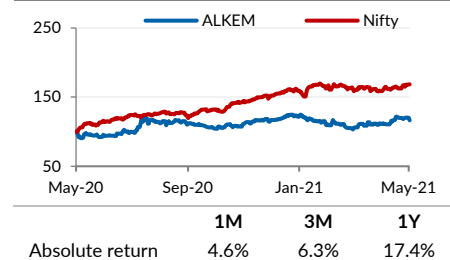
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	21,922	23,181	(5.4)	20,490	7.0
RM + inventory changes	(5,974)	(5,104)	17.0	(5,460)	9.4
Purchase of goods	(3,456)	(3,773)	(8.4)	(3,484)	(0.8)
Staff	(4,090)	(4,098)	(0.2)	(3,299)	24.0
Other expenses	(5,490)	(4,915)	11.7	(5,217)	5.3
Operating profit	2,911	5,291	(45.0)	3,030	(3.9)
OPM (%)	13.3	22.8	-955 bps	14.8	-151 bps
Depreciation	(685)	(690)	(0.7)	(811)	(15.5)
Interest	(107)	(131)	(18.1)	(142)	(24.3)
Other income	463	964	(52.0)	275	68.5
PBT	2,582	5,434	(52.5)	2,353	9.7
Tax	(89)	(796)	(88.8)	(438)	(79.6)
Effective tax rate (%)	3.5	14.6	-1118 bps	18.6	-1513 bps
PAT	2,492	4,639	(46.3)	1,915	30.1
PAT margin (%)	11.4	20.0	-864 bps	9.3	202 bps
PAT	2,492	4,639	(46.3)	1,915	30.1

Stock data (as on May 25, 2021)

Nifty:	15,208
52 Week h/l (Rs)	3152 / 2222
Market cap (Rs/USD mn)	347336/4773
Outstanding Shares	120
6m Avg t/o (Rs mn):	446
Div yield (%):	1.0
Bloomberg code:	ALKEM IN
NSE code:	ALKEM

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	62.4%
FII+DII	16.8%
Others	20.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,600	3,600

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	129.7	158.6
EPS (Old)	136.3	164.0
% change	-4.6%	-3.3%

Financial Summary

	FY21	FY22	FY23
Net Revenue	88,650	101,883	114,498
YoY Growth	6.2	14.9	12.4
EBIDTA	19,424	20,560	24,860
YoY Growth	31.8	5.9	20.9
PAT	15,850	15,503	18,960
YoY Growth	40.6	(2.2)	22.3
ROE	23.9	19.5	20.5
EPS	132.6	129.7	158.6
P/E	21.9	22.4	18.3
BV	617.0	711.6	835.1
P/BV	4.7	4.1	3.5

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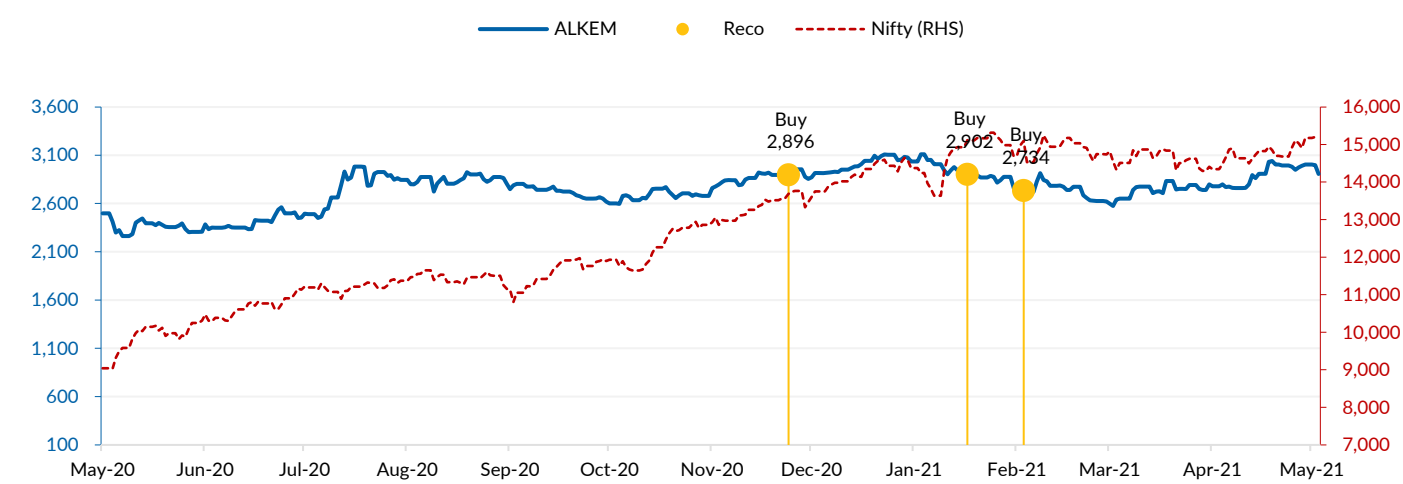
CON-CALL HIGHLIGHTS

- ✓ Guidance - mid-teens for domestic growth with risk on upside if April-May sales are an indication. EBIDTA margin of +200bps on FY20 base leading to ~20% for FY22
- ✓ Rs800mn provision for a product in US; for a product unlikely to be realized in the next 6 months
- ✓ Decline in acute portfolio in US due to COVID; also, loss of market share and late launches during the quarter. Base effect also seen as last March saw some panic buying
- ✓ Less than 50% of products approved got launched in US and should be done this year; double digit launches in FY22
- ✓ Have an eye on CGT and at-risk launches in US; double digit margin in US business
- ✓ High single digit price erosion in US business in Q4 and in FY21 was higher than seen in past - may be due to nature of portfolio
- ✓ Looking at much better Q1 FY22 than last year basis traction in vitamins and other portfolio products though expect some rationalization once covid recedes.
- ✓ Cardiac and Diabetes driving bulk of chronic business; looking to launch 3 blockbuster drugs in SGLT2s in diabetes + looking to create Rs500mn-1bn brands in cardiac & diabetes; chronic portfolio revenue to double in next 3-4 years.
- ✓ Trade generics - 20% of Q4 domestic business, mix may have declined due to strong revival in acute Rx
- ✓ Lack of anti-infective due to lack of surgeries is almost being offset by high volumes of OPD; hospital anti-biotics injections business is impacted
- ✓ Inventory should normalize in next 6 months (FY21 inventory at 95 days vs avg 77 in prior 2 years)
- ✓ Costs - April was regular but May saw some saving in sales and marketing
- ✓ Foresee savings on conferences, events since doctors unlikely to travel
- ✓ API prices, packaging and other costs have increased substantially - could have a 100-150bps impact on gross margin

Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	73,572	83,443	88,650	101,883	114,498
yoy growth (%)	14.9	13.4	6.2	14.9	12.4
OPM (%)	15.2	17.7	21.9	20.2	21.7
Reported PAT	7,605	11,270	15,850	15,503	18,960
yoy growth (%)	20.5	48.2	40.6	(2.2)	22.3
EPS (Rs)	64.7	96.1	132.6	129.7	158.6
P/E (x)	44.9	30.2	21.9	22.4	18.3
Price/Book (x)	6.4	5.6	4.7	4.1	3.5
EV/EBITDA (x)	30.8	23.0	16.9	15.6	12.6
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
RoE (%)	15.0	19.8	23.9	19.5	20.5
RoCE (%)	17.9	20.8	24.6	21.3	22.2

Recommendation Tracker



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