

# Alkem Labs

## Preferred Play on India Recovery

We initiate coverage on Alkem with a BUY based on the following factors: (a) recovery in acute therapies is likely to benefit Alkem the most, given its dominant position in the segment (rank 1 in Anti-infective, rank 3 in Gastro, rank 3 in Vitamins); (b) steady market share gains in chronic (+50bps over the past five years) will contribute to higher growth and profitability; (c) rising scale in US generics (USD300mn, growing at double digit CAGR) will contribute ~20% to FY23 EBITDA vs. single digit in FY20. We value Alkem at 22x Sep 22 EPS and arrive at a target price of Rs3,315/sh.

### Acute dominance, consolidating market share in top four therapies

Despite being acute focused, Alkem's India business (~2/3<sup>rd</sup> of revenues and 85%+ profits) grew by 13% CAGR over FY15-20, outperforming the Indian pharma market (IPM) by ~340bps over the same period. Leadership in the acute segment (~4.6% market share, ranks 5<sup>th</sup>) with strong brands is expected to further drive market share gains. Our analysis of top six therapies which accounts for ~65% of IPM suggests that bigger companies with leading brands are outperforming the category average (Exhibit 20).

### Chronic scale up is noteworthy, albeit on a low base

Alkem's market share in the chronic segment has increased from 1.1% to 1.6% in the past five years. Its rank improved from 22<sup>nd</sup> in FY15 to 17<sup>th</sup> in FY20. Cardiac/Anti-diabetes/CNS therapies have outperformed the IPM by 13%/14%/9% in the same period.

### US business to witness improved margin trajectory

Despite being a late entrant in the US market, Alkem has demonstrated good execution (fair market share in the products launched) in the past five years. With increasing scale, margins in US are expected to inch up to ~15-20% (from single digit in FY20) in the next three years. New product launches (10-12 p.a, c.56 pending ANDAs) would offset base business erosion (mid-single-digit) and drive 13% revenue CAGR during the same period

### Levers for margin expansion in place

Higher profit contribution from the chronic portfolio, improving MR productivity (from Rs5mn to Rs6.1mn in the next three years), and rising scale in the US market should drive margin expansion of ~460bps over FY20-23e.

### Our target price of Rs3,315/sh provides ~20% upside potential; risks

We initiate coverage on Alkem with a BUY rating and TP of Rs3,315/sh, based on a target PER of 22x Sep 22e EPS, which is ~15% discount to Torrent's implied PER of 26x on Sep 22e. Downside risks: expansion of NLEM list (~30% portfolio is under price control), lower growth in India, higher price erosion in the US.

### Financial Summary

YE Mar (Rs bn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	64,012	73,572	83,444	89,573	1,01,092	1,13,705
EBIDTA	10,090	11,147	14,734	21,002	21,557	25,316
EBITDA Margins	15.8	15.2	17.7	23.4	21.3	22.3
APAT	6,310	7,604	11,271	16,197	16,678	19,361
Diluted EPS (Rs)	52.8	63.6	94.3	135.5	139.5	161.9
P/E (x)	52.2	43.3	29.2	20.3	19.7	17.0
EV / EBITDA (x)	33.6	30.3	23.5	16.1	15.2	12.6
RoE (%)	12.1	13.1	16.6	20.1	18.5	19.0

Source: Company, HSIE Research

## BUY

CMP (as on 6 Nov 2020)	Rs 2,753
Target Price	Rs 3,315
NIFTY	12,264

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	Rs 3,315
EPS %	FY20	FY21E
	-	-

### KEY STOCK DATA

Bloomberg code	ALKEM IN
No. of Shares (mn)	120
MCap (Rs bn) / (\$ mn)	329/4,438
6m avg traded value (Rs mn)	554
52 Week high / low	Rs 3,090/1,881

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.0)	5.3	33.7
Relative (%)	(14.2)	(26.9)	30.2

### SHAREHOLDING PATTERN (%)

	Sep-20	Jun-20
Promoters	62.43	62.43
FIs & Local MFs	12.89	12.03
FPIs	3.92	3.49
Public & Others	20.76	22.05
Pledged Shares	0.00	0.00

Source : BSE

### Bansi Desai, CFA

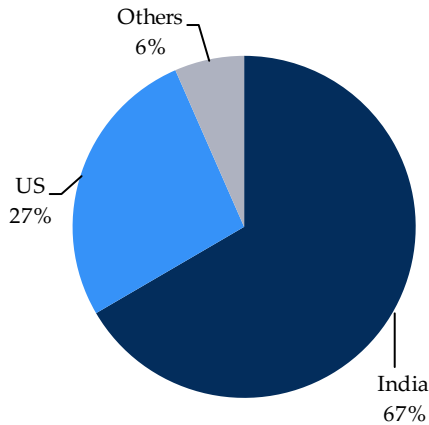
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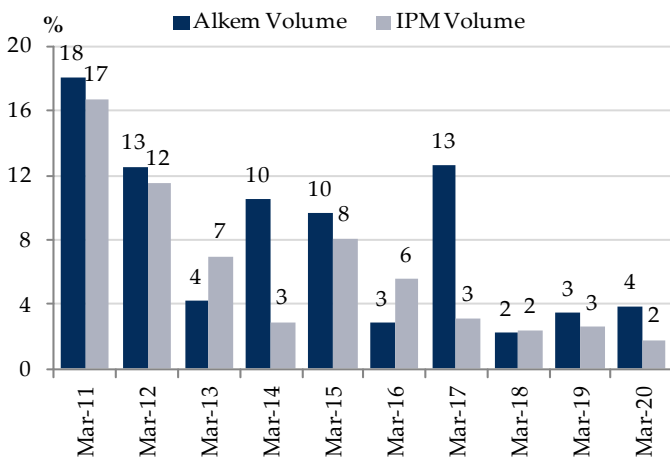
## Focus Charts

**Exhibit 1: India business contributes to ~two-third of revenues and ~85%+ of profits**



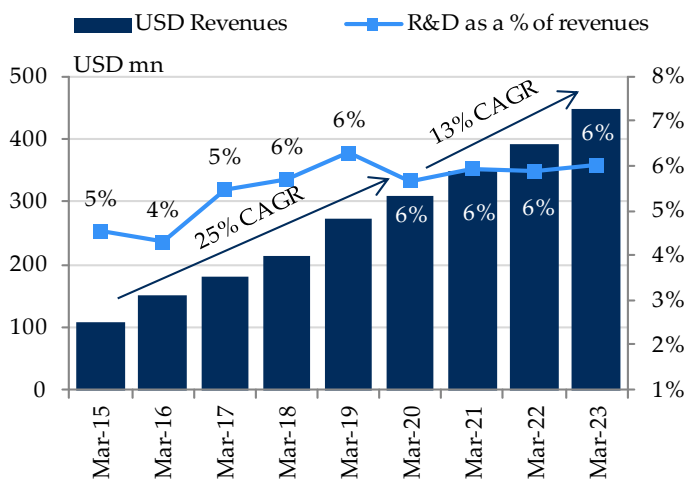
Source: Company, HSIE Research; FY20

**Exhibit 3: Despite being acute focused, Alkem's volume growth has been higher than industry average**



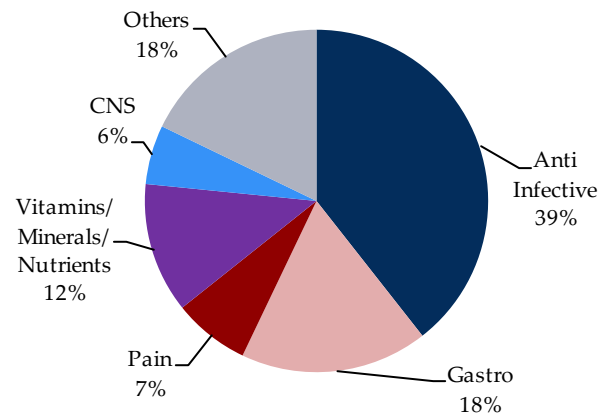
Source: AIOCD AWACS, HSIE Research

**Exhibit 5: Scale up in US revenues has been encouraging we expect ~13% CAGR over FY20-23e**



Source: Company, HSIE Research

**Exhibit 2: Acute and sub-chronic segments forms ~80-85% of India revenues**



Source: AIOCD AWACS, HSIE Research

**Exhibit 4: Strong execution demonstrated in market share gains across key therapeutic segments**

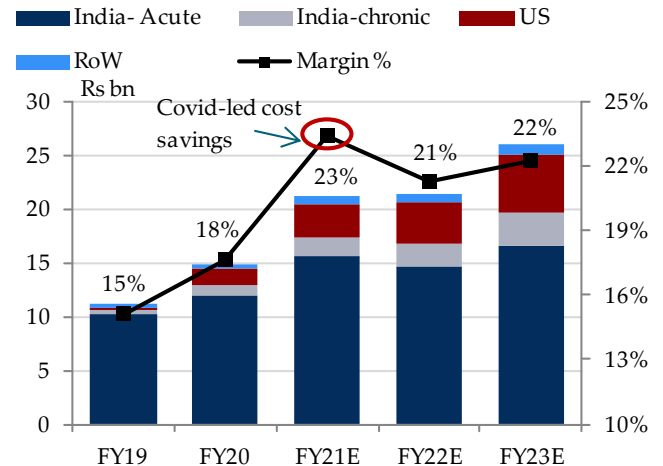
Acute	4-yr CAGR		Mkt. share		IPM Rank	
	Alkem	IPM	FY16	FY20	FY16	FY20
Anti-Infective	8.0%	5.7%	9.3%	10.2%	1	1
Gastro	12.2%	7.4%	4.7%	5.6%	3	3
Vitamins	8.6%	7.6%	4.9%	5.0%	3	3
Pain	10.2%	7.8%	3.4%	3.7%	7	6

Chronic	4-yr CAGR		Mkt. share		IPM Rank	
	Alkem	IPM	FY16	FY20	FY16	FY20
CNS	17.2%	8.5%	2.4%	3.3%	10	5
Anti-Diabetic	30.2%	14.0%	0.9%	1.5%	26	19
Cardiac	23.4%	10.1%	0.7%	1.0%	28	24

Source: AIOCD AWACS, HSIE Research

**Exhibit 6: Rising share of chronic biz, US revenues and cost savings will drive EBIDTA margins higher**



Source: Company, HSIE Research

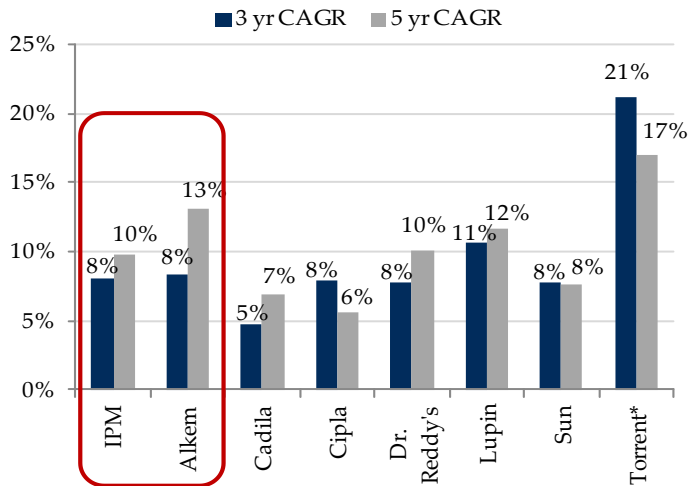
## Leading player in IPM

7<sup>th</sup> largest company with ~3.4% share in the IPM

Trade generics accounts for ~20% of the revenues (FY20)

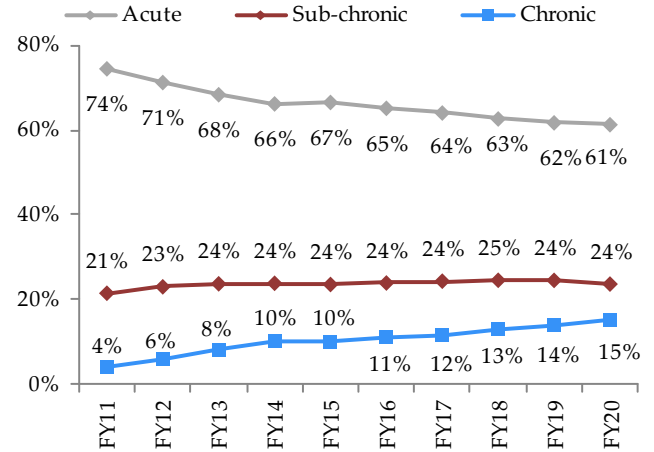
- Alkem is the seventh largest company in India with ~3.4% share in the IPM (MAT Sept'20, AIOCD AWACS). Despite being acute focused, Alkem's India business has grown at ~13% CAGR (reported growth), outperforming the India Pharma Market (IPM) by ~340bps over the last five years.
- Acute and sub-chronic segments account for ~80-85% of Alkem's revenues.

Exhibit 7: Alkem has out-performed IPM as well as peers over the last 5 years



Source: Company, AIOCD AWACS, HSIE Research,\* includes Unichem acquisition

Exhibit 8: Share of chronic is gradually inching up

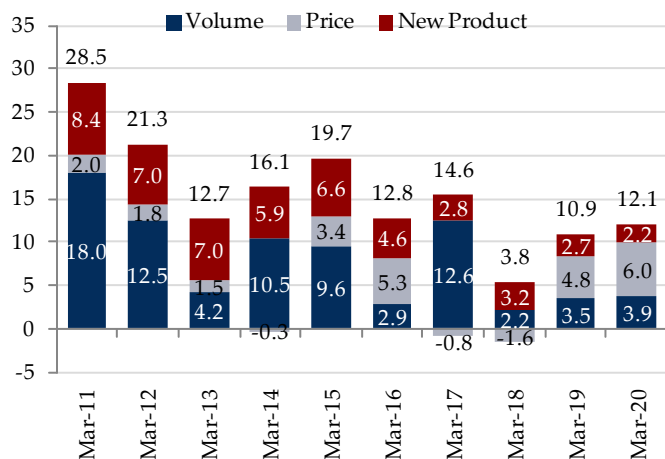


Source: AIOCD AWACS, HSIE Research

## Volume-led growth expected to continue

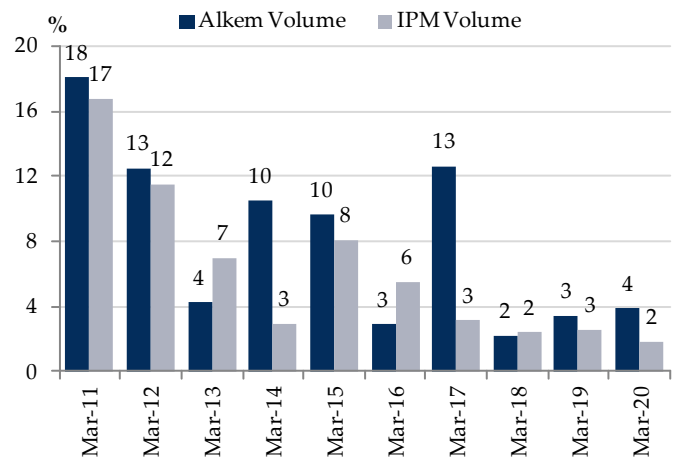
- Despite having lower exposure to chronic segment (chronic volumes are double the IPM average), Alkem's volume growth has been higher than IPM average. However, in the last two years, price growth component has been higher than volumes, in line with the industry trend.

Exhibit 9: Despite an acute-focused portfolio, volume has been the key growth driver over the last decade



Source: AIOCD AWACS, HSIE Research

Exhibit 10: Volume growth has been higher than the industry average



Source: AIOCD AWACS, HSIE Research

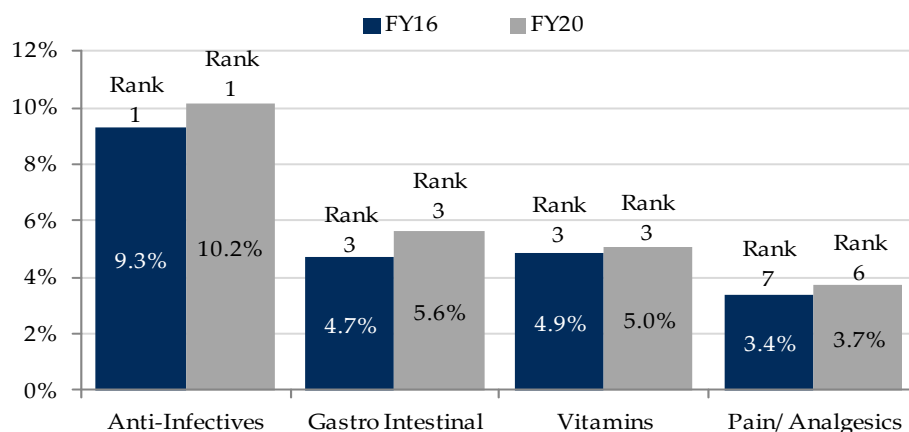
## Consolidating market share in acute therapies

*Maintained ranks in anti infective, Gastro and Vitamins*

*Improved rank in Pain*

- Alkem ranks 5<sup>th</sup> with ~4.6% market share in acute segment. The company has leading position in Anti-infectives (Rank 1), Gastro (Rank 3) and Vitamins (Rank 3) therapies.

**Exhibit 11: Market share and ranks in key therapies**



Source: AIOCD AWACS, HSIE Research

**Exhibit 12: Alkem's performance compares favorably with peers**

Market Share	Anti-Infectives		Gastro-Intestinal		Pain/Analgesics	
	Mar-13	Mar-20	Mar-13	Mar-20	Mar-13	Mar-20
Alkem	9.1%	10.2%	4.5%	5.6%	1.7%	3.7%
Cipla	7.1%	7.5%	3.0%	2.6%	1.7%	2.1%
Dr. Reddy's	1.1%	1.5%	4.1%	4.9%	2.7%	3.5%
Torrent	1.9%	1.0%	3.9%	4.5%	2.7%	2.9%
Lupin	5.1%	3.8%	2.3%	2.4%	1.7%	2.1%
Ipca	0.7%	0.8%	1.2%	0.8%	4.4%	6.0%
Cadila	0.6%	0.5%	4.1%	3.2%	0.0%	0.0%
Glenmark	1.6%	2.2%	0.0%	0.0%	0.0%	0.0%
<b>Unlisted companies</b>						
Aristo	6.4%	8.6%	4.2%	4.1%	1.9%	1.6%
Mankind	5.8%	6.8%	3.3%	3.7%	2.2%	2.6%
Macleods	6.5%	6.1%	1.2%	1.4%	1.8%	2.1%
Emcure	2.7%	3.1%	1.5%	1.6%	2.2%	2.1%
Micro	2.0%	1.7%	1.1%	0.9%	2.5%	3.2%
Intas	0.6%	0.8%	1.4%	1.6%	1.6%	1.9%
<b>MNC</b>						
Abbott*	5.3%	4.0%	7.2%	9.6%	4.8%	4.0%
GSK	6.1%	4.8%	2.8%	1.0%	6.1%	3.8%
Sanofi India	0.8%	0.6%	0.9%	1.3%	3.5%	2.8%
Janssen	0.0%	0.0%	0.0%	0.0%	2.0%	3.2%

Source: AIOCD AWACS, HSIE Research

*Alkem's AI grew at 8.0% CAGR vs 5.7% for IPM over FY16-20*

*Top 10 molecules accounts for ~77% of AI revenues*

*Alkem's biggest molecule - Amoxicillin + Clavulanic Acid (Rs 4.1bn)*

### Anti-Infectives

- Alkem has highest market share in Anti-Infectives (2<sup>nd</sup> largest therapy in India) with ~10.3% market share in FY20 and has gained ~80bps share in the past 4 years.
- The company is a market leader in *Cephalosporins* with a market share of ~16% in the Rs 70bn market. Cephalosporins contribute to >55% of its total Anti-Infective revenues.
- Alkem's growth in Cephalosporins is at 5.0% CAGR, outperforming the category average by ~50bps over FY16-20.

#### Exhibit 13: Anti-Infectives: Out-performance in 8 out of top 10 molecules

Top 10 molecules (Rs mn)	Brand Name	MAT Mar'20	Growth - 4yr CAGR		Mkt. share	
			Alkem*	IPM	FY16	FY20
Amoxicillin + Clavulanic Acid	Clavam, Indclav, Lactoclaav (CACH)	4,106	10.7%	8.3%	15.7%	17.1%
Cefixime	Taxim O, Traxol O	2,349	4.6%	3.1%	23.6%	25.1%
Ceftriaxone	Xone, Traxol	2,052	12.5%	3.9%	15.9%	21.8%
Ceftriaxone + Tazobactam	Xone XP, Swich XP, Traxol T, Cachtax TZ	1,259	6.8%	7.5%	34.8%	33.9%
Cefotaxime	Taxim	1,252	-5.3%	-5.5%	76.5%	77.1%
Piperacillin + Tazobactam	Pipzo, Revotaz, Revotaz Trio, Capritaz	1,222	10.8%	3.4%	18.1%	23.8%
Cefpodoxime	Swich, Kefmax	896	13.1%	7.8%	7.7%	9.4%
Cefuroxime	Zocef, Zenoxim	805	4.3%	9.3%	12.8%	10.6%
Meropenem	Merosure, Zaxter	792	30.1%	8.2%	5.0%	10.4%
Ceftriaxone + Sulbactam	Traxol S, Xone SB	691	21.2%	11.0%	10.6%	15.1%

Source: AIOCD AWACS, HSIE Research

*Alkem's GI grew at 12.2% CAGR vs 7.4% for IPM over FY16-20*

*Top 10 molecules accounts for 90% of the GI revenues*

*Alkem's biggest molecule - Pantoprazole (Rs 3.1bn)*

### Gastro Intestinal

- Alkem ranks third in Gastro segment with ~5.6% market share. It has gained ~90bps share in the past 4 years.
- The company is a market leader in *Prazoles* (a class of Anti-Ulcerant acid pump inhibitors used to treat acid reflux, acid regularization and heart-burn) with a market share of ~17% in the ~Rs 20bn market. Prazoles contributes ~36% of Alkem's Gastro revenues.
- Alkem's growth in Prazoles is at 11.7% CAGR, outperforming the category average by ~450bps over FY16-20.

#### Exhibit 14: Gastro: Out-performance in 7 out of top 10 molecules

Top 10 molecules (Rs mn)	Brand Name	MAT Mar'20	Growth - 4yr CAGR		Mkt. share	
			Alkem*	IPM	FY16	FY20
Pantoprazole	PAN, PNZ, Acdof	3,103	11.3%	8.7%	26.1%	28.8%
Domperidone + Pantoprazole	PAN D, PNZ D, Piker D	2,590	12.4%	10.8%	25.0%	26.5%
Ondansetron	Ondem, Emitino, Emitiva, Edgon	1,195	9.2%	3.2%	27.5%	34.5%
Satranidazole + Ofloxacin	Satrogyl O, Satromax O	259	7.0%	7.0%	100.0%	100.0%
Bacillus Clausii	Novogermina	226	NA	16.6%	0.0%	9.4%
Lactulose	Emty, Emty PEG	191	NA	11.0%	0.0%	5.5%
Aluminium + Dimethicone + Magnesium	PAN MPS, New Sorbacid, Nuloc MPS, Omee MPS, Alcid MPS, Nucool, Nucool MPS, Sorbacid	185	9.9%	5.1%	6.4%	7.7%
Domperidone + Esomeprazole	Esokem D, Yees D, Odepraz D, Esomepraz DSR	169	216.0%	18.7%	0.1%	4.7%
Domperidone + Rabeprazole	Peptard D, Rapeed D	144	14.1%	8.5%	1.5%	1.8%
Levosulpiride + Pantoprazole	PAN-L	134	2.4%	2.8%	11.1%	10.9%

Source: AIOCD AWACS, HSIE Research

## Alkem Labs: Initiating Coverage

*Alkem's Vitamins grew at 8.6% CAGR vs 7.6% for IPM over FY16-20*

*Top 10 molecules contribute to ~87%+ of the revenues*

*Alkem's biggest molecule – Multi-vitamins & minerals (Rs 1.9bn)*

### Vitamins/ Minerals/Nutrients

- Alkem is among the top 5 players in terms of market share in this therapy with ~5.0% market share in FY20. However, its market share has largely remained flat (+10bps) in the past 4 years.
- The company ranks 2<sup>nd</sup> in *Calcium Products* with a market share of ~10% in the ~Rs 23bn market. Calcium Products contribute to ~39% of Alkem's total Vitamins & Nutrients revenues.
- Alkem's growth in Calcium Products is at 7.6% CAGR, marginally underperforming the category average by 30bps over FY16-20.

#### Exhibit 15: Vitamins/ Supplements: Outperformance in 6 out of top 10 molecules

Top 10 molecules (Rs mn)	Brand Name	MAT Mar'20	Growth - 4yr CAGR		Mkt. share	
			Alkem*	IPM	FY16	FY20
Multivitamins + Minerals	A to Z NS, A to Z Gold, A to Z Woman	1,861	16.5%	7.5%	8.9%	12.4%
Calcium + Calcitriol + Zinc	Gemcal, Bonestat, Statbone	989	1.3%	1.5%	54.1%	53.7%
Vitamin D3 (Cholecalciferol)	Uprise D3, DV 60 K	863	5.8%	7.6%	15.0%	14.0%
Calcium + Cholecalciferol	Gemcal D3, New Zecal, Cavit, Zecal Max, New Gemcal Mom	395	14.2%	7.1%	5.1%	6.7%
Calcium + Calcitriol + Zinc + Magnesium + Vitamin K & Combinations	Gemcal Plus	271	9.5%	6.5%	29.3%	32.8%
Calcium + Calcitriol + Vitamin K	Gemcal DS SG, Bonestat K2	213	3.1%	-1.4%	26.8%	32.1%
Methylcobalamin Combinations	Homocheck, Trinerve	180	4.4%	5.3%	2.1%	2.0%
Multivitamins Without Minerals	A to Z NS	174	17.1%	10.8%	10.9%	13.6%
Vitamin E + Omega Fatty Acids	Codesoft	139	5.7%	-0.8%	47.0%	60.6%
Calcium + Cholecalciferol + Vitamin B12 + Folic Acid + Pyridoxine	Gemcal XT	124	NA	58.3%	0.0%	8.9%

Source: AIOCD AWACS, HSIE Research

*Alkem's Pain/ Analgesics grew at 10.2% CAGR vs 7.8% for IPM over FY16-20*

*Top 10 molecules contribute to 90% of the revenues*

*Alkem's biggest molecule – Paracetamol (Rs 1.1bn)*

### Pain/ Analgesics

- Alkem ranks 6<sup>th</sup> with ~3.7% market share in FY20, having marginally gained +30bps in the past 4 years.
- ~54% of Alkem's Pain portfolio comprises of Non-steroidal anti-rheumatics which is growing at 2.7% CAGR and underperforming the category by 400bps. However, the balance portfolio (Non-narcotics & Anti-pyretics and others) grew at 26.2% CAGR and has massively out-performed by 1,650bps over FY16-20.

#### Exhibit 16: Pain/ Analgesics: Outperformance in 7 out of top 10 molecules

Top 10 molecules (Rs mn)	Brand Name	MAT Mar'20	Growth - 4yr CAGR		Mkt. share	
			Alkem*	IPM	FY16	FY20
Paracetamol	Sumo L, Hospimol, Hospimol UB, P U C	1,095	27.4%	12.0%	5.3%	8.9%
Diclofenac + Paracetamol + Serratiopeptidase	Enzoflam, Lysoflam, Muscodac	776	7.8%	3.5%	52.4%	61.7%
Nimesulide + Paracetamol	Sumo	750	-1.3%	1.1%	47.3%	43.0%
Ibuprofen + Paracetamol	Fenceta Plus, Fenceta, Flexib	116	5.4%	7.4%	3.1%	2.9%
Collagen And Combinations	Theal	115	NA	57.2%	0.0%	9.0%
Nimesulide + Paracetamol + Serratiopeptidase	Sumoflam	112	-8.6%	-9.0%	89.9%	91.7%
Hyaluronic Acid	Ha-Kem	87	61.4%	13.7%	6.7%	27.3%
Mefenamic Acid + Paracetamol	Sumo L Plus, Fenceta M	87	16.8%	14.3%	5.5%	5.9%
Tolperisone	Tolkem	61	23.2%	6.4%	7.8%	14.0%
Aceclofenac + Paracetamol	Fenceta Nove, Aldigesic P	55	17.3%	9.1%	1.2%	1.6%

Source: AIOCD AWACS, HSIE Research

## Chronic franchise is shaping up well

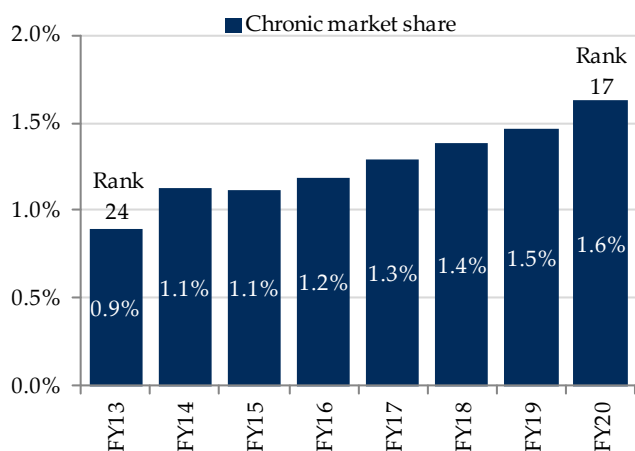
**Chronic portfolio: 1.6% market share in FY20 (+70bps in 7 yrs)**

**Entered among top 5 players in CNS space**

**Market share and ranks improved in all three therapies**

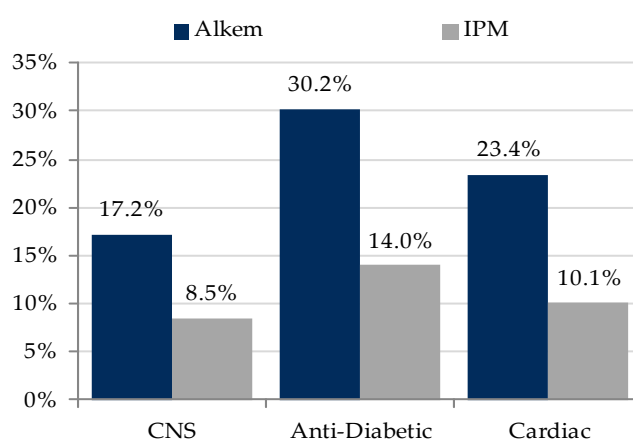
- Alkem’s overall share in chronic segment is at 1.6%. It has gained ~70bps over the last 7 years. It has improved its ranks across key therapeutic segments – cardio, diabetes and CNS by launching new products and gaining market share in most of its top 10 molecules in each of these therapies.
- Cardiac – 66% of the portfolio is in the fast growing molecules. Strong presence in Sartans and combinations. 15 new products launched in last 3 years.
- CNS – Strong presence in *Anti-Epileptics* category (among top 6) with market share of 3.4% in Rs 39bn market. Anti-epileptics is the largest (45% IPM share) and one of the fastest growing class (10.3% CAGR) within the CNS space.

**Exhibit 17: Alkem has consistently gained market share in chronic**



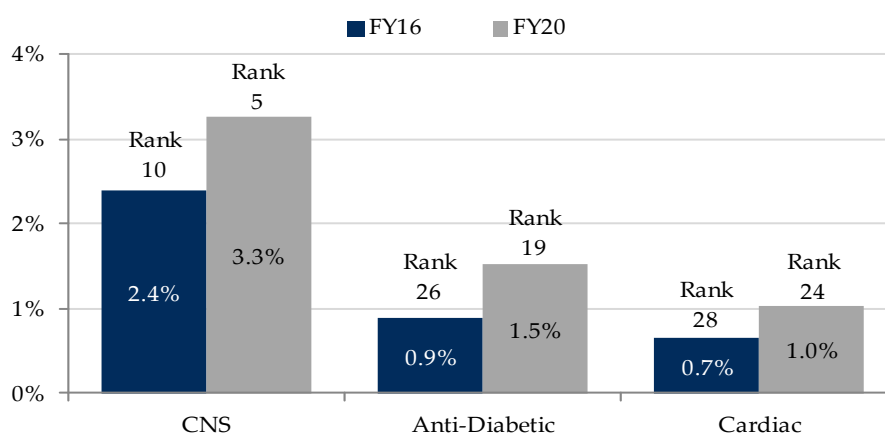
Source: AIOCD AWACS, HSIE Research

**Exhibit 18: CNS, Anti-Diabetics and Cardiac have grown faster than IPM (4-yr CAGR)**



Source: AIOCD AWACS, HSIE Research

**Exhibit 19: ...resulting in higher market share and improved ranks for Alkem**



Source: AIOCD AWACS, HSIE Research

## The big gets bigger...

*Sun, Lupin, Glenmark, Alkem, and USV are likely beneficiaries*

Our analysis of top six therapies which accounts for almost 65% of IPM suggests that bigger companies with leading brands have performed better than the category average and therefore are likely to gain market share further.

We analysed the sales performance of top three molecules and top 3 brands within those molecules for six key therapies over the last four years.

**Exhibit 20: Performance of top three brands within top three molecules of six largest therapies**

Therapy	Corporates	Mar-20	4 yr CAGR	Therapy	Corporates	Mar-20	4 yr CAGR
<b>Cardiac</b>				<b>Anti-infectives</b>			
Rosuvastatin		9,875	12%	Amoxicillin + Clavulanic Acid		23,953	8%
Rosuvastatin	Sun	2,870	14%	Augmentin	Gsk	4,652	10%
Rozavel	Sun	1,150	12%	Clavam	Alkem	3,803	12%
Roseday	Usv	879	12%	Moxikind Cv	Mankind	2,447	7%
Atorvastatin		8,777	0%	Itraconazole		9,953	51%
Atorva	Zydus	1,414	2%	Candiforce	Mankind	2,011	40%
Storvas	Sun	1,113	-2%	It-Mac	Macleods	1,035	113%
Aztor	Sun	1,016	-3%	Canditral	Glenmark	599	20%
Telmisartan		8,332	9%	Cefpodoxime		9,551	8%
Telma	Glenmark	2,915	13%	Monocef O	Aristo	1,639	10%
Telmikind	Mankind	725	23%	Gudcef	Mankind	1,189	17%
Tazloc	Usv	618	8%	Cepodem	Sun	931	7%
<b>Anti-diabetes</b>				<b>Gastro</b>			
Glimepiride + Metformin		24,964	12%	Pantoprazole		10,765	9%
Glycomet Gp	Usv	5,073	11%	Pan	Alkem	3,044	11%
Gluconorm-G	Lupin	2,498	16%	Pantop	Aristo	2,076	13%
Gemer	Sun	2,121	8%	Pantocid	Sun	1,811	7%
Human Premix Insulin		10,383	4%	Domperidone + Pantoprazole		9,971	11%
Mixtard	Abbott	5,612	2%	Pan D	Alkem	2,554	12%
Huminsulin	Lupin	1,806	2%	Pantocid Dsr	Sun	1,674	9%
Insugen	Biocon	1,119	7%	Pantop D Sr	Aristo	1,042	24%
Voglibose + Metformin + Glimepiride		8,565	25%	Domperidone + Rabeprazole		7,996	9%
Glycomet Trio	Usv	1,429	26%	Razo D	Dr. Reddys	900	14%
Glimisave Mv	Eris Ls	789	30%	Cyra D	Systopic	837	22%
Trivolib	Sun	678	9%	Rablet-D	Lupin	731	8%
<b>Respiratory</b>				<b>Vitamins</b>			
Montelukast + Levocetirizine		8,871	14%	Multivitamins + Minerals		15,063	7%
Montair Lc	Cipla	1,730	21%	Zincovit	Apex	2,281	5%
Montek-Lc	Sun	1,381	14%	A To Z Ns	Alkem	1,456	16%
Monticope	Mankind	737	13%	Bevon	Emcure	1,393	15%
Formoterol + Budesonide		6,890	14%	Methylcobalamin Comb		9,015	5%
Foracort	Cipla	3,350	14%	Renerve Plus	Eris LS	884	9%
Budamate	Lupin	1,349	13%	Nuhenz	La Renon	785	21%
Formonide	Zydus	882	11%	Nurokind Plus	Mankind	548	8%
Paracetamol + Phenylephrine + Chlorpheniramine		5,817	8%	Protein Supplements		7,601	7%
Sinarest	Centaur	2,339	9%	Pediasure	Abbott	852	4%
Febrex Plus	Indoco	908	7%	Protinex	Danone	607	52%
Wikoryl	Alembic	737	11%	D Protin	British Biological	594	2%

Source: HSIE Research, AIOCD AWACS



## Strong execution in the US to continue

85%+ portfolio is oral solids

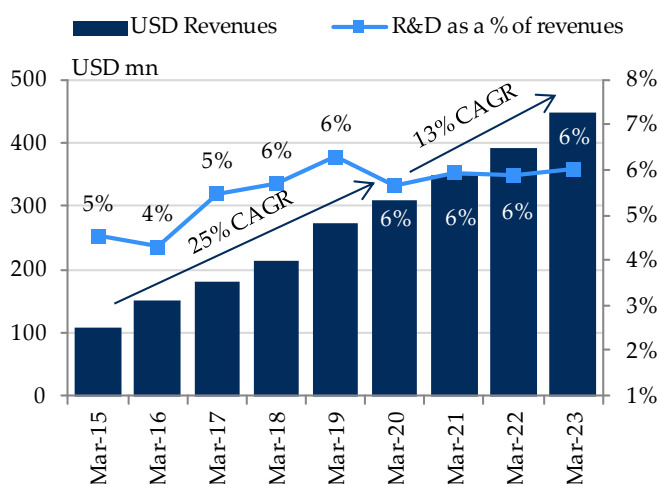
Healthy pipeline of 56 pending ANDAs

R&D to remain capped at 6% of sales

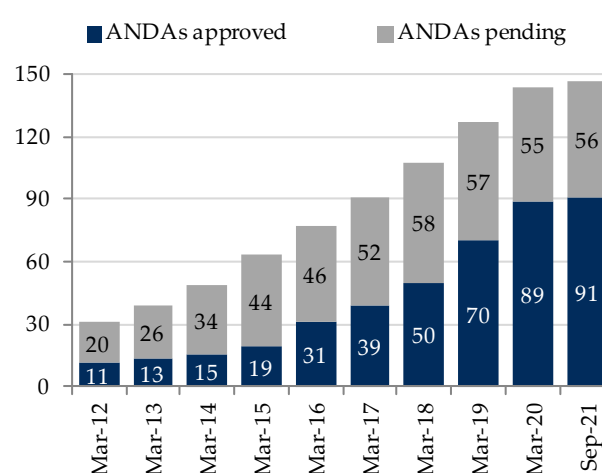
- Despite being a late entrant, Alkem has demonstrated good execution in the US (fair market share in the products launched). US revenues (USD309mn in FY20) grew at 23.3% CAGR over the last 5 years.
- Alkem’s pipeline includes 56 pending ANDAs and ~85%+ are in the oral solid category. It plans to file 15+ ANDAs every year.
- We expect new product launches (10-12 per year) to offset base business erosion (mid-single digit) and drive 13% revenue CAGR over the next three years.
- R&D expenses are expected to be at 5-6% of the sales.
- Key formulation plants – Baddi, Daman, St Louis and API plants – Ankleshwar, Mandva, California have received EIRs.

**Exhibit 21: US revenues to grow at 13% CAGR over FY20-23e, R&D to remain at 5-6% of sales**

**Exhibit 22: New product approvals have picked up pace in the past few years**



Source: Company, HSIE Research

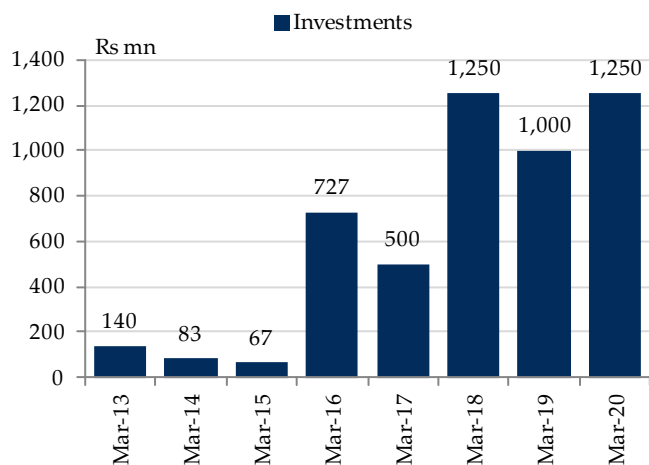


Source: Company, HSIE Research

## Biosimilars foray adds a longer term growth avenue

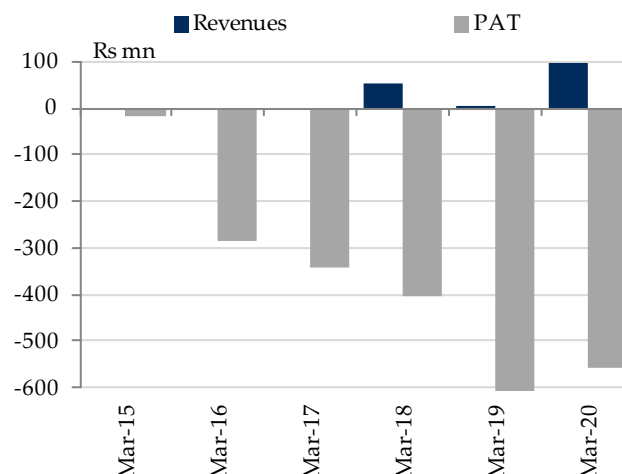
- Alkem has invested ~Rs5bn in biosimilar/biotech space through Enzene Bioscience (99.9% stake) over the last five years. It has build capabilities in manufacturing monoclonal antibody (mAbs).
- Enzene’s pipeline includes 8-10 biosimilars. It plans to launch 3 products (two peptides, one mAb) in India by end of FY21. The annual operating spends on biosimilars is ~Rs800mn.
- Alkem plans to enter RoW markets in the medium term via out-licensing deal. For the regulated markets like US, the company does not have visibility until FY25. In the near term, it could explore CDMO opportunities.

Exhibit 23: Biosimilars/biotech investments amount to Rs5bn...



Source: Company, HSIE Research

Exhibit 24: ...however, monetization of this is sometime away



Source: Company, HSIE Research

## Q2FY21 result highlights

Revenues recovered from Q1 and grew by 20% QoQ led by recovery in India and good growth in RoW

GMs declined QoQ by 300bps – higher trade generics biz

R&D spends came in at 5.9% of sales, to remain capped at 6%

EBITDA margins expanded by ~550bps YoY as lower other expenses (-550bps, savings in marketing, travel) more than offset a rise in staff costs (130bps YoY)

India – Acute was flat, chronic grew at slower rate and trade generics grew at 20%+

US – lack of launches led to sequential decline

RoW – 8%+ growth was driven by healthy growth in Chile and Kazakhstan

Exhibit 25: Quarterly Financial Snapshot

Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Net Sales	23,364	22,194	5.3	19,403	20.4
EBITDA	6,005	4,526	32.7	5,332	12.6
Other income	355	314	13.1	435	(18.3)
Depreciation	702	564	24.5	668	5.1
Interest	180	178	1.6	171	5.5
PBT	5,478	4,098	33.7	4,928	11.2
Tax	662	293	125.8	696	(4.8)
Minority	95	97	(2.3)	12	700.8
Adjusted PAT	4,721	3,708	27.3	4,220	11.9
Extra ordinary income/ (exp.)	0	0	NA	0	NA
Reported PAT	4,721	3,708	27.3	4,220	11.9

Source: Company, HSIE Research

Exhibit 26: Margin Analysis

Margin Analysis	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)
Material Expenses % Net Sales	39.5	39.9	-42	36.63	290
Employee Expenses % Net Sales	18.5	17.2	129	19.68	-118
R&D Expenses % Net Sales	5.9	5.5	45	5.90	-0
Other Expenses % Net Sales	11.9	17.4	-551	11.18	71
EBITDA Margin (%)	25.4	20.0	542	26.61	-120

Source: Company, HSIE Research

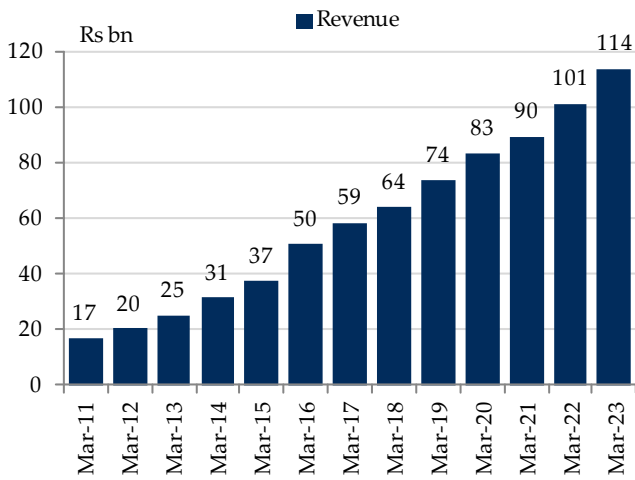
Exhibit 27: Segmental Performance Analysis

Segment Performance (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Domestic Business	15,574	15,503	0.5	11,550	34.8
International Business	7,790	6,691	16.4	7,853	(0.8)
US Formulations	6,258	5,276	18.6	6,664	(6.1)
RoW	1,532	1,415	8.3	1,189	28.8
Net sales	23,364	22,194	5.3	19,403	20.4
Other operating income	264	446	(40.8)	632	(58.2)
Total Revenues	23,628	22,640	4.4	20,035	17.9

Source: Company, HSIE Research

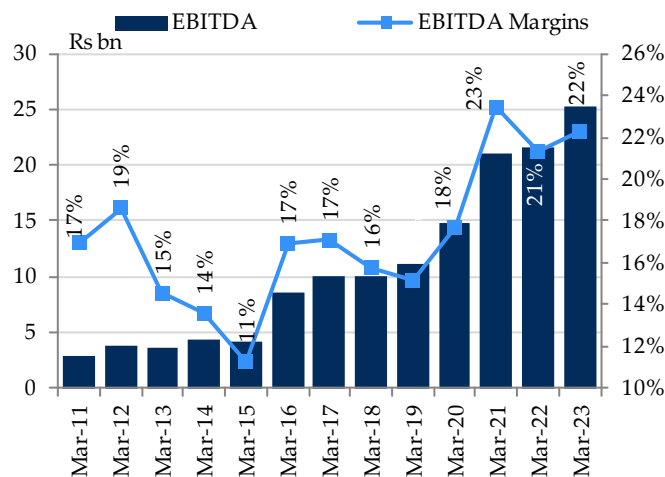
## Financial Metrics

**Exhibit 28: We expect revenues to grow at 11% CAGR over FY20-23e**



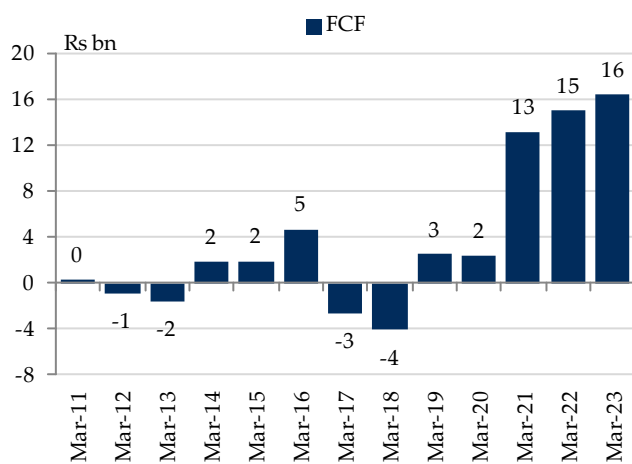
Source: Company, HSIE Research

**Exhibit 30: We expect EBITDA margins to improve to 22-23% in the next three years...**



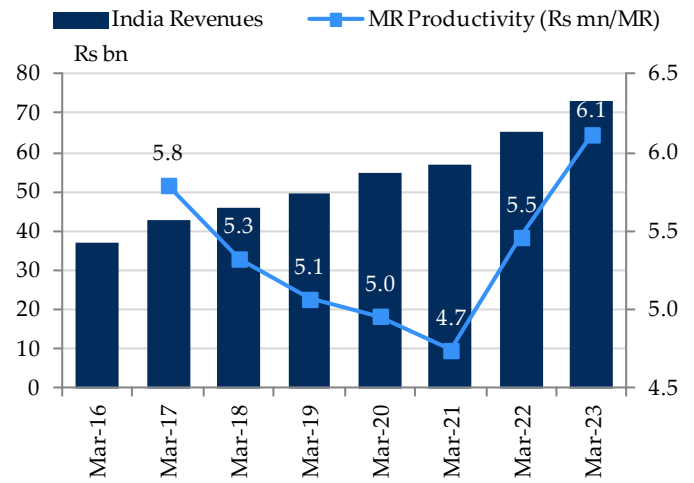
Source: Company, HSIE Research

**Exhibit 32: FCF generation to increase to Rs44bn+ over the next three years**



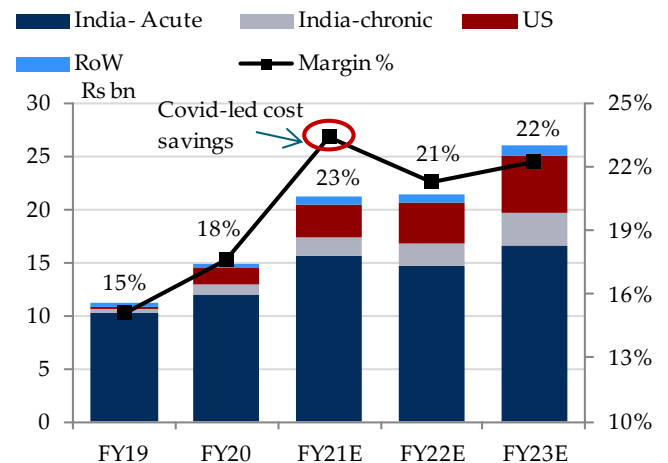
Source: Company, HSIE Research

**Exhibit 29: MR productivity is likely to improve with recovery in India business**



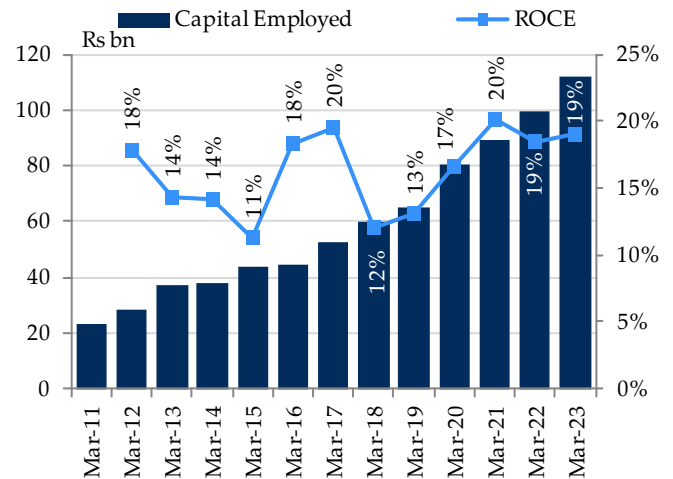
Source: Company, HSIE Research

**Exhibit 31: ...primarily led by higher share of chronic, US revenues and cost savings (digital initiatives)**



Source: Company, HSIE Research

**Exhibit 33: ROCEs to improve from 17% in FY20 to 19% in FY23e**



Source: Company, HSIE Research

## Valuation and risks

- Alkem ranks 7<sup>th</sup> in IPM with ~3.4% share (MAT Sept'20). India business accounts for almost 2/3<sup>rd</sup> of revenues and ~85%+ of profits. The outlook for India business remains strong as they consolidate their position in acute therapies and gain market in chronic segment. US business is expected to grow at 13% CAGR over next three years driven by new launches.
- Higher profit contribution from chronic portfolio, improving MR productivity and rising scale in US generics will drive margin expansion of ~460bps over FY20-23e.
- We rate Alkem a BUY with TP of Rs3,315/sh. Our TP is based on a target PER of 22x Sep 22e EPS, which is ~15% discount to Torrent's implied PER of 26x on Sep 22 EPS. The stock has underperformed the sector by 10% in past one year and trades at 20.3/19.7/17.0x FY21/22/23e EPS which is ~13% discount to its 5 year historical average PER.

**Exhibit 34: The stock is trading at 13% discount to its five year average PER**



Source: Bloomberg, HSIE Research

## Risks

- India - Expansion of NLEM (national list of essential medicines) coverage, capping of trade margins, slowdown in IPM can adversely impact growth
- US - Regulatory risk at plants, higher price erosion, delay in product approvals and launches in US can dampen growth expectation

## Peer set Comparison

Domestic	M.Cap (Rs bn)	CMP (Rs./ Sh)	RECO	TP	EV/EBITDA (X)			ROE			PER(X)			CAGR (FY20-23E)	
					21E	22E	23E	21E	22E	23E	21E	22E	23E	EPS	Revenue
<b>Alkem</b>	<b>329</b>	<b>2,753</b>	<b>BUY</b>	<b>3,315</b>	<b>16.1</b>	<b>15.2</b>	<b>12.6</b>	<b>23.9</b>	<b>20.8</b>	<b>20.7</b>	<b>20.3</b>	<b>19.7</b>	<b>17.0</b>	<b>19.8%</b>	<b>10.9%</b>
Aurobindo	457	780	BUY	1,015	8.8	7.9	6.8	18.2	16.5	15.4	14.0	13.2	12.2	10.7%	8.2%
Cadila	443	432	ADD	445	14.2	13.0	11.6	17.9	17.3	17.2	21.3	19.5	17.4	16.3%	7.5%
Cipla	637	790	BUY	900	14.4	13.0	11.0	14.7	14.7	15.0	25.7	22.6	19.3	30.2%	11.4%
Dr. Reddy's	815	4,903	ADD	5,390	15.8	13.4	11.7	17.4	18.2	17.9	26.2	21.5	18.7	16.6%	14.4%
Lupin	416	917	BUY	1,120	17.3	12.4	10.0	9.3	13.4	15.6	35.2	22.1	16.8	36.5%^	10.4%
Sun	1,222	509	ADD	565	14.3	12.7	10.9	4.8	12.3	12.4	22.3	20.2	17.7	18.0%	6.9%
Torrent	433	2,557	ADD	2,675	18.9	17.1	14.7	25.6	26.4	29.2	34.7	30.7	25.2	20.3%	8.7%
Glenmark	144	512	NR	NA	9.3	8.6	7.9	13.3	13.2	13.9	16.4	14.6	12.3	14.8%	8.4%
Ipca Labs	296	2,337	NR	NA	19.9	19.4	17.0	25.6	21.4	20.0	27.4	26.6	23.5	27.6%	14.7%
Eris Lifesciences	71	516	NR	NA	17.1	15.3	13.8	24.0	23.9	24.9	20.9	18.8	16.2	13.8%	12.1%

Source: Bloomberg, HSIE Research; \*DRRD ratios are ex-gRevlimid for which we have assigned an NPV of Rs 384/share, ^PBT growth for Lupin

## Financials

### Consolidated Income Statement

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	50,479	58,525	64,012	73,572	83,444	89,573	1,01,092	1,13,705
Growth (%)	35%	16%	9%	15%	13%	7%	13%	12%
Raw material	19,639	22,215	23,828	29,450	33,449	35,030	38,890	43,208
Gross Profit	30,841	36,310	40,184	44,122	49,994	54,543	62,202	70,497
Gross Margins	61%	62%	63%	60%	60%	61%	62%	62%
Employee cost	8,611	10,039	11,916	13,625	15,055	16,510	18,279	19,597
Other expenses	13,697	16,282	18,179	19,350	20,205	17,031	22,366	25,584
Total expenses	22,308	26,320	30,094	32,975	35,260	33,541	40,645	45,181
Growth (%)	37%	18%	14%	10%	7%	-5%	21%	11%
EBITDA	8,533	9,989	10,090	11,147	14,734	21,002	21,557	25,316
Growth (%)	102%	17%	1%	10%	32%	43%	3%	17%
Margins (%)	17%	17%	16%	15%	18%	23%	21%	22%
Depreciation	933	1,012	1,430	1,932	2,528	2,766	2,910	3,208
Other income	2,397	1,120	1,154	877	1,042	1,371	1,447	1,578
Interest	712	452	553	546	651	746	694	673
PBT	9,284	9,646	9,261	9,546	12,598	18,860	19,400	23,013
Tax	1,762	600	2,876	1,810	1,105	2,457	2,522	3,452
Effective tax rate (%)	19%	6%	31%	19%	9%	13%	13%	15%
Recurring PAT	7,414	8,923	6,310	7,604	11,271	16,197	16,678	19,361
Extraordinary items	0	0	0	0	0	0	0	0
MI/share of Profit/loss in JV	108	124	75	131	222	206	200	200
Reported PAT	7,414	8,923	6,310	7,604	11,271	16,197	16,678	19,361

Source: Company, HSIE Research

### Consolidated Balance Sheet

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	239	239	239	239	239	239	239	239
Reserves and surplus	36,681	44,437	48,399	54,154	61,368	73,515	86,024	1,00,545
Shareholders funds	36,920	44,676	48,638	54,393	61,607	73,754	86,263	1,00,784
Minority Interest	950	1,152	1,216	1,326	1,483	1,689	1,889	2,089
Total debt	6,575	6,595	9,976	9,441	17,227	13,861	11,359	9,358
Total Liabilities	45,311	53,563	61,492	67,307	82,635	91,623	1,01,830	1,14,550
Net fixed assets	10,310	13,945	18,733	21,056	23,063	23,797	24,386	24,679
Capital work-in-progress	1,724	2,993	3,810	4,930	3,630	3,630	3,630	3,630
Total non-current assets	27,660	36,673	36,524	39,921	44,473	45,203	45,861	46,225
Investments	2,742	2,780	3,458	2,279	1,699	1,799	1,899	1,999
Inventories	9,094	12,060	14,422	14,999	18,188	19,632	22,157	24,922
Debtors	5,675	7,136	10,805	12,484	16,494	15,951	18,003	20,249
Cash & bank balance	7,809	3,993	5,768	6,616	10,922	15,912	23,514	32,114
Loans and Advances	99	154	379	308	280	322	370	425
Other current assets	2,269	2,867	5,300	5,358	7,197	7,197	7,197	7,197
Total current assets	27,687	29,007	40,132	42,161	54,960	60,995	73,321	87,086
Creditors	5,805	7,414	9,607	9,623	9,541	7,117	9,694	10,903
Provisions	1,047	1,244	1,239	1,265	1,847	1,947	2,047	2,147
Total current liabilities & provisions	10,036	12,118	15,165	14,775	16,799	14,575	17,352	18,762
Net current assets	17,651	16,889	24,967	27,387	38,162	46,420	55,968	68,325
Total net assets	45,311	53,563	61,492	67,307	82,635	91,623	1,01,830	1,14,550

Source: Company, HSIE Research

### Consolidated Cash Flow

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Profit Before Tax	9,284	9,646	9,261	9,546	12,598	18,860	19,400	23,013
Depreciation	933	1,012	1,430	1,932	2,528	2,766	2,910	3,208
Cash flow before WC	9,140	9,976	10,425	11,710	15,157	22,373	23,004	26,894
WC changes	101	-3,639	-5,732	-1,425	-6,472	-3,268	-1,947	-3,757
Taxes paid	1,982	2,640	-2,032	-2,511	-2,834	-2,457	-2,522	-3,452
Cash flow from operations	7,258	3,698	2,661	7,773	5,851	16,648	18,534	19,685
Capex	-2,535	-6,344	-6,770	-5,269	-3,476	-3,500	-3,500	-3,500
Cash flow from investing	2,023	-2,859	-3,572	-3,142	-7,414	-3,496	-3,568	-3,571
Equity capital issues	0	0	1	0	0	0	0	0
Share premium on Issue	0	0	0	0	0	0	0	0
Borrowings (net)	126	1,640	146	-71	-2,004	-239	0	0
Short term borrowing (net)	-6,840	-506	3,428	-987	7,841	-3,127	-2,501	-2,001
Interest paid	-713	-636	-553	-546	-651	-746	-694	-673
Dividends paid	-1,845	-863	-2,176	-2,186	-4,396	-4,049	-4,170	-4,840
Cash flow from financing	-9,273	-366	845	-3,789	791	-8,161	-7,365	-7,515
Net change in cash	8	473	-66	842	-771	4,990	7,602	8,600
Effect of exchange rate	25	-77	67	-20	40	0	0	0
Beginning cash	1,238	1,271	1,666	1,667	2,491	1,759	6,750	14,351
Closing cash	1,271	1,666	1,667	2,490	1,759	6,750	14,351	22,951
Free cash flow	4,724	-2,646	-4,109	2,504	2,374	13,148	15,034	16,185

Source: Company, HSIE Research

### Key Ratios

Year to March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>PROFITABILITY (%)</b>								
GPM	61.1	62.0	62.8	60.0	59.9	60.9	61.5	62.0
EBITDA Margin	16.9	17.1	15.8	15.2	17.7	23.4	21.3	22.3
APAT Margin	14.7	15.2	9.9	10.3	13.5	18.1	16.5	17.0
RoAE	22.2	21.9	13.5	14.8	19.4	23.9	20.8	20.7
RoACE	18.3	19.6	12.1	13.1	16.6	20.1	18.5	19.0
<b>EFFICIENCY</b>								
Tax Rate (%)	19.0	6.2	31.1	19.0	8.8	13.0	13.0	15.0
Fixed Asset Turnover (x)	4.4	3.7	2.9	2.8	2.7	2.6	2.7	2.7
Inventory (days)	66	75	82	74	80	80	80	80
Debtors (days)	41	45	62	62	72	65	65	65
Other Current Assets (days)	12	14	22	21	23	21	19	17
Payables (days)	42	46	55	48	42	29	35	35
Other Current Liab & Provns (days)	11	12	12	11	13	12	11	10
Cash Conversion Cycle (days)	65	73	89	89	110	116	110	110
Debt/EBITDA (x)	0.8	0.7	1.0	0.8	1.2	0.7	0.5	0.4
Net D/E (x)	0.1	0.1	0.2	0.1	0.3	0.1	(0.0)	(0.1)
Interest Coverage (x)	10.7	19.9	15.7	16.9	18.8	24.4	26.9	32.8
<b>PER SHARE DATA (Rs)</b>								
EPS	62.0	74.6	52.8	63.6	94.3	135.5	139.5	161.9
Dividend	12.7	15.0	13.0	16.0	25.0	33.9	34.9	40.5
Book Value	308.8	373.7	406.8	454.9	515.3	616.9	721.5	842.9
<b>VALUATION</b>								
P/E (x)	36.41	30.26	42.79	35.50	23.95	16.67	16.19	13.94
P/BV (x)	7.3	6.0	5.6	5.0	4.4	3.7	3.1	2.7
EV/EBITDA (x)	32.3	27.5	27.6	24.8	19.4	13.2	12.4	10.1
EV/Revenues (x)	5.5	4.7	4.3	3.8	3.4	3.1	2.6	2.3
OCF/EV (%)	2.6	1.3	1.0	2.8	2.0	6.0	6.9	7.7
FCF/EV (%)	1.7	(1.0)	(1.5)	0.9	0.8	4.7	5.6	6.3

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco.	Target
9-Nov-20	2,753	BUY	3,315

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential



**Disclosure:**

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