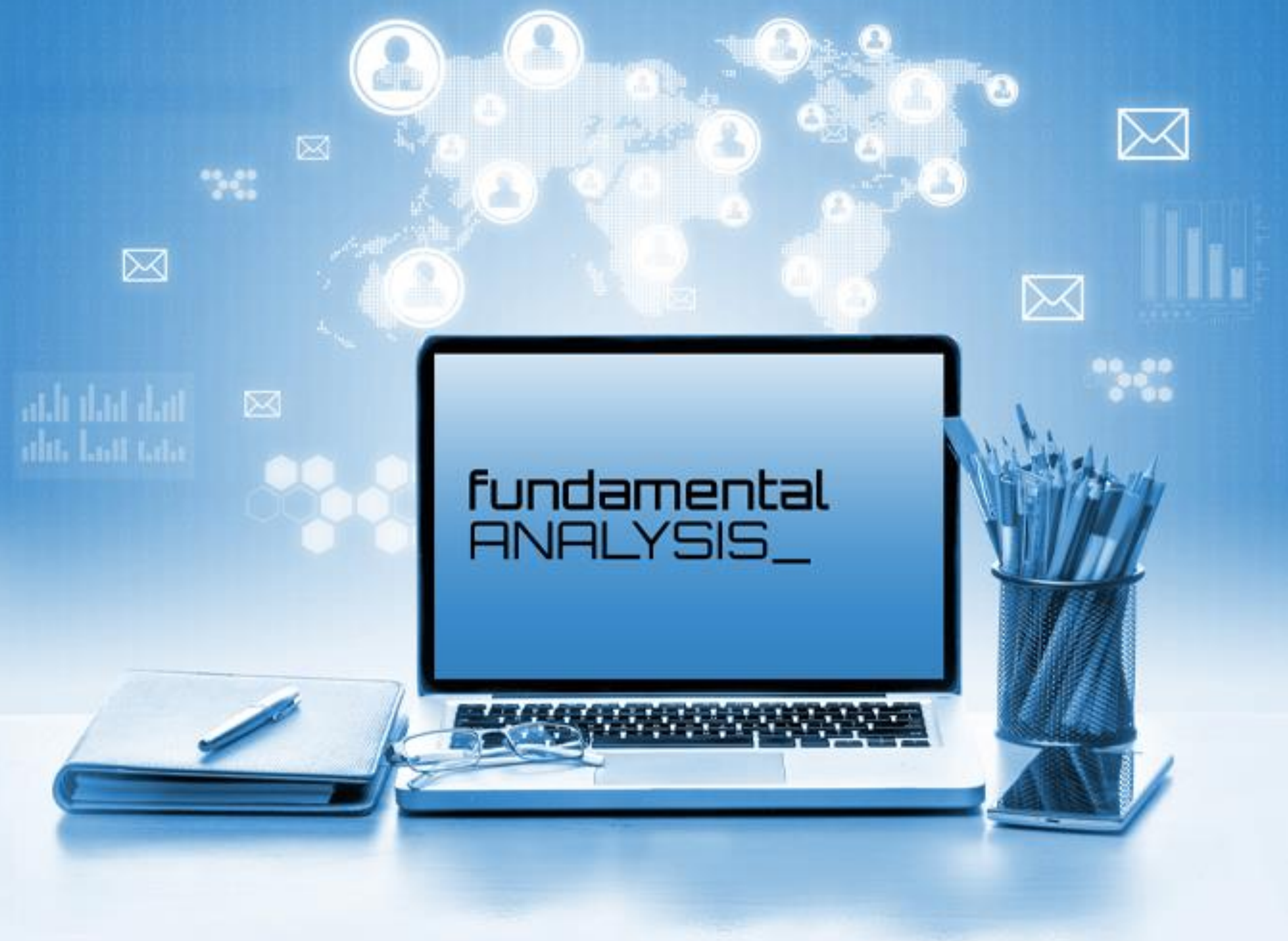
Stock Update

Alkem Laboratories Ltd.

Apr 24, 2023



RETAILRESEARCH

HDFC securities
Click. Invest. Grow.
20 YEARS

Alkem Laboratories Ltd.

HDFC securities Click. Invest. Grow. 20 YEARS

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 3409	Buy on dips at Rs 3409-3430 & add more on dips to Rs 3015	Rs 3769	Rs 3995	2-3 quarters

HDFC Scrip Code	ALKLABEQNR
BSE Code	539523
NSE Code	ALKEM
Bloomberg	ALKEM IN
CMP Apr 21, 2023	3409
Equity Capital (Rs cr)	23.9
Face Value (Rs)	2
Equity Share O/S (cr)	11.95
Market Cap (Rs cr)	40744
Book Value (Rs)	786
Avg. 52 Wk Volumes	209112
52 Week High	3463
52 Week Low	2835

Share holding Pattern % (Mar, 2023)	
Promoters	57.16
Institutions	21.13
Non Institutions	21.71
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Kushal Rughani

kushal.rughani@hdfcsec.com

Our Take:

Alkem Laboratories is the fifth largest player in the domestic formulation market with a market share of 4.1% as of March, 2023. Alkem is the No. 1 Anti-infective (~10% market share) player and it is at no. 3 in gastrointestinal and vitamins (VMN) segment in India. Company has 12 brands with annual sales of more than Rs 100cr each, 4 brands features amongst the top 50 pharmaceutical brands and 6 brands features in top-100 brands in India while 14 brands feature amongst the top 300 pharmaceutical brands in India. Alkem continues to remain the industry leader for Anti-Infective in India and expects to grow by 1.5x industry growth in the overall acute segment. Domestic formulations business contributed to ~71% of total revenues. It has consistently outperformed industry over the past few years.

Company derives 60-65% of its domestic revenues from acute segment. Alkem's overall share in chronic segment is at ~2%. It has improved its ranks across key therapeutic segments - cardiac, anti-diabetes and CNS by launching new products and gaining market share. US business has seen 14% CAGR in revenue led by steady base business and new launches over FY18-22. We estimate 14% CAGR in US sales over FY23-25E. Alkem has strong net cash of Rs 1900 Crores as on Dec-2022.

We like Alkem's volume driven growth in India aided by strong brands and deep penetration, which is reflected in its domestic revenue growth that is in-line/higher than broader market despite the high acute exposure. India's drug pricing authority has allowed a price hike of around 10.7% on Drug Price Control Order (DPCO) products owing to the increasing cost of raw materials in the last year. In Mar-2023, NPPA approved 12.12% hike in the prices of essential drugs, which are regulated under the Drug Price Control Order. This was the second consecutive double-digit hike for NLEM drugs.

In Mar-2023, IPM registered 19% YoY growth led by robust growth of 50% each in respiratory and anti-infective, 22% in pain management, 13% in Cardiac, 11% each in VMN and CNS. Alkem reported 32.6% growth in Mar-2023, with 22.5% growth in the last three months (i.e. Q4FY23). Anti-infective therapy recorded 30% growth, Pain management at 23%, anti-diabetic at 37%, gynaecology at 23% and Gastro-Intestinal at 14.5% in the last 3 months.

Alkem's revenue grew 6.7% YoY at Rs 8696cr during 9MFY23, due to 5.3% revenue growth in its domestic business (9MFY22: higher base; +34.5% YoY). EBITDA margin declined to 14.4% in 9MFY23 (FY22: 19.3%), due to adverse product mix and weak operating leverage. Gross margin was impacted by a significant rise in input costs coupled with higher-than-expected price erosion in US market. GM slipped 330bps

YoY while EBITDA margin was down 660bps at 14.4% for 9MFY23. We expect margin to improve given moderating input costs and price increase in domestic portfolio.

Valuation & Recommendation:

Alkem's chronic business continues to grow better than market growth rate, leading to improvement in its market share and ranking in therapy segments of CNS, anti-diabetic, cardiology and dermatology. International Business mainly led by US, delivered a healthy performance on the back of new product launches and market share gains in the existing products. Company looks to outperform in the chronic segment on the back of 1) new product launches including in-licensed products 2) improved sales force productivity and 3) by building strong brands.

Alkem has filed a total of 169 ANDAs and 2 new drug applications (NDA) with the US FDA and has received approvals for 129 ANDAs (including 14 tentative approvals) and 2 NDAs as on Dec-2022. It has cGMP compliant manufacturing facilities and own front end to distribute and market its products. We expect 11.3% CAGR in revenue led by 11.5% growth in India business and 11% growth in US business over FY23-25E. Higher contribution from chronic portfolio, improving MR productivity, falling RM costs and rising revenue from US could lead to margin expansion of 250bps over the next two years. Healthy revenue and steady margin of around 17-18% could lead to strong 21% CAGR in PAT over the same period.

Alkem has strong position in anti-infective, gastro-intestinal and pain segments and is a leader in acute therapeutic area. Alkem has built a decent platform for growth in the US with its diversified manufacturing base (6 FDA approved facilities, including 2 in the US), pipeline of 54 ANDAs (~75 products approved) and front-end presence. US business targets 15+ filings and 10+ launches every year.

Earlier, on Nov 25, 2020 we had recommended a buy on Alkem Labs with base case price target of Rs 3020 and bull case target of Rs 3223. The stock had achieved base case target and then the call got expired (link). On Jan 12, 2022 we had recommended buy on Alkem Labs with base case price target of Rs 4030 and bull case target of Rs 4311 (link).

We remain positive on the long-term outlook considering the company's strong branded portfolio in the domestic market with sustainable growth, robust B/S and healthy return ratios and scale up of US generic business. We feel investors can buy the stock in the band of Rs 3409-3430 and add on decline to Rs 3015 (20x FY25E EPS) for base case target of Rs 3769 (25x FY25E EPS) and bull case target price of Rs 3995 (26.5x FY25E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenues	3041	2619	16.1	3079	-1.2	8,344	8,865	10,634	11,520	12,764	14,271
EBITDA	599	499	20.2	454	32.0	1474	1943	2053	1756	2110	2507
Depreciation	78	78	1.2	77	1.3	253	275	304	317	340	379
Other Income	45	54	-15.3	51	-10.7	104	233	163	178	191	211
Interest Cost	27	11	157.1	25	8.9	65	59	52	103	75	62
Tax	79	-70	-213.7	55	44.7	110	224	164	244	326	430
APAT	455	526	-13.5	331	37.4	1127	1585	1646	1234	1518	1802
EPS (Rs)						94.3	132.6	137.7	103.2	127.0	150.7
RoE (%)						19.4	23.4	20.6	13.7	15.3	16.1
P/E (x)						36.2	25.7	24.8	33.0	26.8	22.6
EV/EBITDA (x)						27.6	20.9	19.8	23.1	19.3	16.2

(Source: Company, HDFC sec)

Q3FY23 result update

Alkem reported strong numbers in the quarter. Revenue grew 16% YoY at Rs 3041cr. Gross margin slipped 300bps YoY at 58.9%. EBITDA margin improved 70bps YoY at 19.7%. Other expenses were up just 2.3% YoY at Rs 667.5cr. PBT for the quarter was up 16.2% YoY at Rs 539cr. Net profit declined 13.5% YoY at Rs 454.7cr (due to tax reversal in base quarter).

Domestic formulations revenue grew 9.7% YoY at Rs 1992cr. Company outperformed the IPM in vitamins, pain management and anti-infective areas. Outperformance in chronic therapies was driven by anti-diabetes, CNS during the quarter.

US sales registered 33% YoY growth to Rs 761cr led by good season after two quarters of subdued performance. Other International markets business grew 17% at Rs 232cr. R&D expenses stood at Rs 130cr or 4.3% of revenue as compared to Rs 145cr or 5.5% of revenue in Q3FY22.

Total revenue grew 20% YoY during FY22. US business declined 5.5% while other international markets revenue rose 34%. However, Alkem's revenue grew 6.7% yoy to Rs 8696cr during 9MFY23, due to 5.3% revenue growth in its domestic business (9MFY22: higher base; +34.5% YoY). EBITDA margin contracted 660bps at 14.4%, Net profit declined 40% YoY at Rs 939cr. PBT for the quarter declined 31.7% YoY at Rs 1093cr.

EBITDA margin declined to 14.4% in 9MFY23 (FY22: 19.3%), due to adverse product mix and a weak operating leverage. Company's EBITDA margin remained higher at 21.9% in FY21, as against the historical average of 17-18%, due to COVID-led saving on travelling and marketing expenses.

Gross margin was impacted by significant rise in input costs coupled with higher-than-expected price erosion in US market. GM slipped 330bps YoY while EBITDA margin was down 660bps at 14.4% for 9M FY23.

Company filed 2 ANDAs with the US FDA and received 3 approvals. As on Dec-2022, the company has filed a total of 169 ANDAs (including 2 NDAs) with the US FDA and has received 129 approvals (including 14 tentative approvals and 2 NDAs).

Alkem's biosimilar franchise, Enzene Biosciences, raised $50 mn in Jan 2023 from Alkem and other investors. Alkem partnered with Eight Roads Ventures and F-Prime Capital. The newly raised funds will be used to enhance manufacturing capabilities and drive expansion plans both in India and in the US. It has built a highly experienced 400-person team under the leadership of Dr. Himanshu Gadgil, CEO at Enzene Biosciences.

During the quarter, the company generated healthy cash flows in excess of Rs 500cr, which helped further strengthen balance sheet with strong net cash position of Rs 1900cr. Board declared special dividend of Rs 25 per share and Rs 15 per share as interim dividend (total dividend of Rs 40) for FY23. EPS for the quarter stood at Rs 38 and it stood at Rs 76.4 for 9MFY23.

Conference call Highlights

- EBITDA margin guidance is still 15-15.5%, as revenue would spill over to Q4.
- FY24 EBITDA margin would be 100-150bps more than that in FY23.
- Domestic business will grow sequentially; Q4 revenue would be higher than in Q3.
- Cost-efficiency measures are a continuous process, the benefit to be seen from FY24.
- RoW markets grew 17%, driven by Chile and Kazakhastan.
- During the quarter, the company generated cash in excess of Rs 500 Crores, which has helped further strengthen balance sheet with strong net cash position of Rs 1900 Crores as on Dec-2022.
- Enzene investments till date by Alkem have been Rs 915cr and other investors has been Rs 161cr.
- Expect gross margin to remain around 58-58.5%
- R&D - Most of the budget will be on small molecules and will be within 5.5%
- There was positive forex impact of ~Rs 50cr in the quarter.

India business

- India growth as per secondary market at 16.5%. Primary sales growth at 10% YoY; Trade Gx at 5-6% and branded at 12-13%. Trade Gx market growth has slowed but it is not expected to continue.
- Trade Gx for Q3 and for 9M was at ~20% of domestic sales.
- In Q4, a sizeable spillover is expected in revenue recognition. High single digit growth for FY23 is easily achievable.
- In acute therapies Alkem gained market share. Chronic therapies such as anti-diabetes and neuro/CNS gained ranks.
- The company has set up a team for Sacubitril+valsartan and management expects to do well.
- VMN, Pain had high bases in Jan-23 due to the Omicron variant, leading to lower growth for the month, but other therapies did well.
- New NLEM pricing would have Rs 40cr per quarter impact for Alkem.
- Its brand-named portfolio has grown much faster than its generics portfolio.
- Revenue split between acute and chronic products for the domestic branded business was at ~80:20.
- Trade generics contributed ~20% of domestic revenue, the manufacturing of these products remain completely outsourced.
- Trade generics business continue to have a good brand recall from customers, stockiest, and doctors.
- Management is confident of growing faster than its competition in trade generics despite the entry of new players in the market.
- Cardiac - Alkem will now start to focus on mass-market products like sartans, statins, etc. which are 65% of the market. Niche products like anti-coagulants was the focus till now.
- Alkem expects to be in the top-10 in anti-diabetes area in the 3-4 years.

US Market

- Q3 was driven by seasonality. Q4 should see reversal but would be better than Q1/Q2
- The company filed two ANDAs and received three approvals (incl. one temporary) in Q3. St. Louis facility was inspected in Nov-22, received EIR.
- Supply challenges for the exclusive product for the US market continued in Q3. Competition hasn't come but the company intends to try to resolve the supply issue.
- Price erosion continues in lower double digits for 9MFY23.
- Supply challenges in one of the key products (dabigatran) that was seen in Q2 remains. There has been little contribution in Q3. It's a supply chain challenge for Alkem.

Enzene Biosimilar

- Adalimumab was launched in the domestic market taking the tally to four commercial launches by Enzene.
- Approval received for Cetuximab, the fifth biosimilar for the Indian market.

- Most of the Enzene's budget for R&D would be for small molecules. R&D costs would be maintained at 5.5% of sales
- Total investment stood at Rs 915cr by Alkem; other investors have invested Rs 161cr. Enzene recorded Rs 90-95cr revenue for 9MFY23 incl. income from CDMO and market sales by Enzene.

Business outlook

Alkem Laboratories is one of India's largest generic pharmaceutical companies with global operations. Company has a global footprint in over 40 countries with the US being the key international market. In the past two decades, the Company has consistently secured a place among the top 10 domestic pharmaceutical companies. Alkem is the fifth largest player in the domestic formulation market with a market share of 4.1%. It is one of the prominent names in India in the acute therapy areas of Anti-infective, Gastro-intestinal, Pain management, and Vitamins/Minerals/Nutrients. Company has a growing presence in the chronic therapy areas of Neuro/CNS, Cardiac, Anti-diabetes, and Dermatology.

Company also has six R&D centres with a team of 500+ scientists and has filed more than 160 ANDAs with the US FDA and over 1,100 product registrations in various international markets. Company has also made significant investments in the areas of biotechnology through its subsidiary Enzene Biosciences. Due to Alkem's continuous efforts on R&D, the company has been able to regularly develop and launch new products, which is crucial in the competitive pharmaceutical industry.

Company's product portfolio includes key-brands like Clavam (Anti-infective), Pan, Pan-D (Gastro) and Taxim-O (Anti-infective), which feature among the top 50 pharmaceutical brands in India. Other marquee brands are A To Z Ns (Vitamins), Xone, Taxim (Anti-infective), Gemcal (Vitamins) etc.

Within India, its manufacturing facilities are mainly located in Daman, Baddi, Indore, and Sikkim. Alkem added 3,000+ MRs over the last 2-3 years to increase MR strength to ~11,000 vs ~9,000 during pre-covid period. 75% of them are for Acute segment and 25% for Chronic segment.

R&D spend in FY22 was at Rs 567cr, implying ~5.3% of sales (vs ~5.8% in FY21). About Rs 100cr was towards biosimilars and the remaining was largely towards development of products for US market. Company expects R&D spend to remain at 5-5.5% of sales in the medium term. All the manufacturing facilities supplying to the US market have an Establishment Inspection Report (EIR).

Triggers:

Despite pricing pressure, US business delivered growth

Alkem's US portfolio (22% of sales) delivered revenue growth of 7.5% YoY in 9MFY23 (FY22: -5.6%; FY21: +12%), on account of new launches. It was despite higher competition and higher price erosion. As on Dec-2022, Alkem had 54 ANDAs awaiting final approvals (total filings at 169) with moderate complexity, including para IV/first-to-file filings. Consistent launches and the development of differentiated products will be the key to limit price erosion to a low-single digit, and boost margin expansion over the medium to long-term. EBITDA margin declined to 14.4% in 9MFY23 (FY22: 19.3%), due to adverse product mix and a weak operating leverage. Company's EBITDA margin remained higher at 21.9% in FY21, as against the historical average of 17-18%, due to COVID-19-led saving on travelling and marketing expenses.

Domestic business registered 13% CAGR in FY18-22

Despite an acute-heavy portfolio and ~25% of portfolio under NLEM, Alkem has registered CAGR of 13% over FY18-22 in the domestic market. Company has consistently picked high-growth molecules within a therapy and expanded the market, and is among market leaders in most formulation groups its present in. We expect 11% CAGR in domestic revenue led by higher volumes and new launches. Despite being a late entrant in several molecules, Alkem has garnered industry-leading market share on the back of its strong supply chain and high compliance. Alkem's domestic operations accounted for 70% of the consolidated revenue during 9MFY23. The company is building its chronic portfolio in the fast-growing therapies such as neuro/central nervous system, cardiac and anti-diabetes through consistent product launches and investments in marketing initiatives to scale-up brands.

Recent update

In Mar-2023, IPM registered 19% YoY growth led by robust growth of 50% each in respiratory and anti-infective, 22% in pain management, 13% in Cardiac, 11% each in VMN and CNS. For Mar-23, among the top-20 companies, JB Chemicals (up 35.4% YoY), FDC (up 34.3% YoY), Alkem (up 32.6% YoY), Mankind (up 31% YoY), Macleods (up 30% YoY), and Alembic (up 27.5% YoY) all recorded higher growth rates than the IPM. Alkem reported 32.6% growth in Mar-2023, and 22.5% growth in the last three months (i.e. Q4FY23). Anti-infective therapy recorded 30% growth, Pain management at 23%, anti-diabetic at 37%, gynaecology at 23% and Gastro-Intestinal at 14.5% in the last 3 months.

India's drug pricing authority has allowed a price hike of around 10.7% on Drug Price Control Order (DPCO) products owing to the increasing cost of raw materials, which is expected to help the company to maintain its gross margin to some extent. In Mar-2023, NPPA approved 12.12% hike in the prices of essential drugs, which are regulated under the Drug Price Control Order. This is the second consecutive double-digit hike for NLEM drugs. This augurs well for the domestic focused players like Alkem Labs.

Closure of US FDA Inspection at Indore facility

US FDA has issued an Establishment Inspection Report (EIR) for the Company's manufacturing facility at Indore which was inspected from 01st July, 2022 to 07th July, 2022. In response to Form 483 issued by the US FDA containing one observation, the company had submitted a detailed corrective and preventive action (CAPA) plan to the regulator within the stipulated timelines. The inspection has been closed by the US FDA.

US FDA pre-approval inspection at St. Louis, USA

In Nov-2022, US FDA had conducted a Pre-Approval inspection at the Company's manufacturing facility located at St. Louis, USA from 31st October, 2022 to 09th November, 2022. At the end of the inspection, the company received Form 483 with three (3) observations. There is no data integrity observation. This Pre-Approval Inspection is part of the routine business operations and the Company shall submit to US FDA within the stipulated timeline, a detailed response to close out the said observations.

US FDA Inspection at St. Louis, USA

In Sep-2022, US FDA had conducted a Pre-Approval inspection at the Company's manufacturing facility located at St. Louis, USA from 06th September, 2022 to 14th September, 2022. At the end of the inspection, the Company has received Form 483 with two (2) observations. There is no data integrity observation. This Pre-Approval Inspection is part of the routine business operations and the Company shall submit to US FDA within the stipulated timeline, a detailed response to close out the said observations.

Update on US FDA inspections

Facility	Capability	Last inspection	Status post last inspection
St. Louis (US)	Formulations	November 2022	Inspection is closed. EIR# received in December 2022
Taloja (India)	Bioequivalence Centre	October 2022	Successfully closed inspection without any observations.
Indore	Formulations	July 2022	Received 1 observation. The Company has already submitted a detailed response to the US FDA on the corrective and preventive actions it is taking to address them.
Baddi (India)	Formulations	February 2020	Inspection is closed. EIR# received in March 2020
Daman (India)	Formulations	August 2019	Inspection is closed. EIR# received in October 2019
California (US)	APIs	August 2018	Inspection is closed. EIR# received in October 2018
Ankleshwar (India)	APIs	December 2016	Inspection is closed. EIR# received in March 2017
Mandva (India)	APIs	September 2015	Inspection is closed. EIR# received in March 2016

EIR – Establishment Inspection Report

Alkem Laboratories sold 8% stake in Enzene Biosciences for Rs 161.5cr

Company has entered into a Securities Subscription Agreement and Shareholders' Agreement on Dec 23, 2022 with Enzene Biosciences Limited, a subsidiary of the Company (Enzene), Eight Roads Ventures India Healthcare IV, L.P. and F-Prime Capital Partners Life Sciences Fund VI LP in connection with an acquisition of a minority stake by Eight Roads Ventures and F-Prime Capital in Enzene. They will pick up 8% stake in Enzene at Rs 161.48cr. Enzene Biosciences had reported revenue of Rs 32.7cr and Rs 87.2cr in FY21/FY22 respectively. The funds will be used for capacity expansion in India and the US.

It is engaged in the business of (i) research & development, manufacturing and out licensing of biosimilar products; and (ii) contract development and/or contract manufacturing for biosimilars, novel biologics, within India and/or outside India. After having commercialized three products in Indian market, Enzene has launched Adalimumab in the third quarter. Company has also received approval for Cetuximab, which would be a fifth Biosimilar product in Indian market. There is good traction on CDMO side and expect CDMO segment to make a meaningful contribution to Enzene in the coming years.

NLEM update

Around 20-25% of Alkem's domestic portfolio is under price control as against Indian Pharmaceutical Market (IPM) of 15%. The addition of medicines/formulations to the affordable drug list under the National List of Essential Medicines is likely to subject to medications to the price ceiling issued under Drug Pricing Control Order, inhibiting Alkem's growth in the domestic market. A high proportion of revenue under price control leads to Alkem's limited ability to pass on any sharp increases in raw material prices in the form of higher selling prices.

The 2022 revision of the National list of Essential Medicines (NLEM) came after seven years. It was announced in Sep-2022. Most drugs that have been brought into the NLEM include anti-infective, anti-diabetics, and anesthetics. 34 new drugs were added to and 26 dropped from an updated list of essential medicines, and this would reduce patients' out-of-pocket expenditure. Medicines that feature in the NLEM are called scheduled drugs. National Pharma Pricing Authority (NPPA) fixes the prices of these drugs based on the wholesale price index inflation. For other drugs, companies are allowed to take a maximum hike of up to 10 per cent annually.

FY22 business update

Alkem recorded a solid performance with 30% growth in domestic business led by both prescription and trade generic business. As per secondary sales growth reported by IQVIA, the company grew 27.6% as compared with the Indian Pharmaceutical Market (IPM) growth of 18.2%. Strong volume growth in acute therapy areas, partially helped by COVID-19 tailwinds, contributed to strong performance. Most of mega brands continued to outperform in their respective markets thereby. Total revenue grew 20% YoY during FY22. US business declined 5.5% while other international markets revenue rose 34%.

Chronic portfolio also continues to grow at robust pace, grew almost 2 times faster than the market. The trade generic business achieved strong growth on a high base. The Pulmocare division, catering to the respiratory segment, also made a promising start, growing faster than the therapy growth rate.

US business recorded sales of US$ 318 million, a year-on-year decline of 4%. While several new products were launched during the year, some of which had limited competition, significant pricing pressure completely offset the impact of these new launches. Company remains confident of medium to long-term prospects underpinned by the steady pace of ANDA filings. During the year, the company filed 14 ANDAs with the US FDA and received 21 approvals. It has fairly strong product pipeline of more than 160 ANDAs filed with the US FDA with nearly half of them yet to be commercialised.

In terms of regulatory inspections, among all its manufacturing facilities supplying to the US, the St. Louis facility received three observations in recently concluded US FDA inspection, have an Establishment Inspection Report (EIR) as of date. Apart from the US, other international markets delivered robust growth of 34.8% with healthy performances in our focus markets.

Biosimilar and CDMO

Company launched three biosimilar products in FY22 which are witnessing good traction. The company has a pipeline of few more products to be launched over the next few years. It expects biosimilar business to be one of the key growth engines in the next 3-4 years. Company expects to enter regulated market in the next 2-3 years through strategic partnership to share development and marketing expenses. Company is looking for CDMO opportunity with Indian and global companies. It has signed two deals in CDMO business and products are in clinical stage (targeting Chronic, oncology and other segments).

Domestic Formulations Business

Therapy	Rank	Contribution (%)	Market Share (%)	Growth	Industry Growth
Anti-Infectives	1	39	13	33.8	35.0
Gastro-Intestinal	3	18	7	22.2	17.4
Vitamins (VMN)	2	11	5	30.0	16.4
Pain/Analgesics	3	10	5	22.0	21.5
CNS	8	4	2	18.0	11.0
Anti-diabetic	17	4	2	25.8	7.5
Cardiac	27	3	1	8.0	10.5
Dermatology	18	3	2	20.0	10.0
Gynaecology	10	4	3	21.0	16.8
Respiratory	17	3	2	55.0	44.0
Urology	20	1	1	41.3	15.3

Brand	Molecule	Therapy	Rank in Molecule Category	Market Share (%)
Clavam	Amoxicilin+Clavulanic Acid	Anti-Infectives	2	17.5
Pan	Pantoprazole	Gastro-Intestinal	1	31.0
Pan-D	Domperidone+Pantoprazole	Gastro-Intestinal	1	28.0
A to Z NS	Multivitamins	VMN	2	12.0
Taxim-O	Cefixime	Anti-Infectives	2	12.0
Xone	Ceftriaxone	Anti-Infectives	2	17.0
Taxim	Cefotaxime	Anti-Infectives	1	82.0
Gemcal	Calcitriol Combination	Pain/Analgesics	1	20.0
Pipzo	Piperacilin + Tazobactam	Anti-Infectives	1	18.3
Ondem	Ondansetron	Gastro-Intestinal	1	29.0

Biosimilar outlook

The demand for biotech drugs is growing at a brisk pace owing to their improved efficacy over existing drugs. Being more affordable than biologics, biosimilars expand patient access to critical medicines, much like generic medications. During the year, the biotech subsidiary Enzene launched three products in India and on boarded multiple new companies as customers for its CDMO services. These companies will be provided with contract development and manufacturing services to help them bring new therapies to the market as quickly and efficiently as possible. Enzene also signed several out-licensing agreements with some of the leading international companies to develop and commercialise products in key markets across the globe.

A biologic drug is a product that is produced from living organisms or contains components of living organisms. Biologic drugs include a wide variety of products derived from humans, animals, or microorganisms by using biotechnology. A biosimilar product is a biologic product that is approved based on demonstrating that it is highly similar to a FDA-approved biologic product, known as a reference product, and has no clinically meaningful differences in terms of safety and effectiveness from the reference product.

Indian Pharmaceutical Market (IPM)

Indian Pharmaceutical Market has grown over 10 times in the last two decades to reach about US$ 42 billion in 2020 compared to US$ 4.2 billion in 2000. It is further expected to grow at a CAGR of around 12% to reach US$ 130 billion by 2030. IPM is almost equally split between domestic consumption and exports. Domestic consumption is expected to grow at 10-11% over the coming decade. This will be mainly driven by favourable demographic trends and rising household income, with increased affordability and preference for high-quality drugs in the growing middle-class.

Increasing demand for newer and improved treatments, rising insurance coverage, and changes in lifestyle and food habits leading to growing chronic ailments are the other market growth drivers. Impetus from the Government towards the improvement of healthcare infrastructure in the country through increased budgetary allocations and incentives to the healthcare companies to invest in additional capacities through PLI schemes to promote self-sufficiency (Atmanirbhar) should also help the IPM to grow over the next decade.

Key Risks

- Adverse pricing regulations by the National Pharmaceutical Pricing Authority (NPPA) in India on prices of key products could impact revenue, margin and profitability.
- Company has strong presence in the acute segment which is seasonal in nature. However, the company has increased its presence in chronic area in the last 3 years.
- Elevated price erosion in the US generic business could hurt the performance though pricing pressure has moderated. Also Incremental competition in existing key products in US business may impact growth.
- Delay in approvals/launches or surprise competition in niche products may lead to lower growth in the US business.
- Any adverse action upon inspection of its US dedicated facilities could hinder revenues growth.
- Delay in launching biosimilar products or Inability to monetize the investments made in this segment may impact earnings.
- Higher RM prices may impact its overall margin, as the company could find difficult to fully pass on increases. The volatility in API and input prices could impact profitability.
- Company derives around 20% of revenue from international markets and hence, the company faces risk of currency fluctuations.
- Disruption in the trade generics business due to regulatory action could be a key risk to the stock since this accounts for 15-20% of overall domestic sales. Further, any slowdown in IPM growth and delay in new launches could affect earnings.

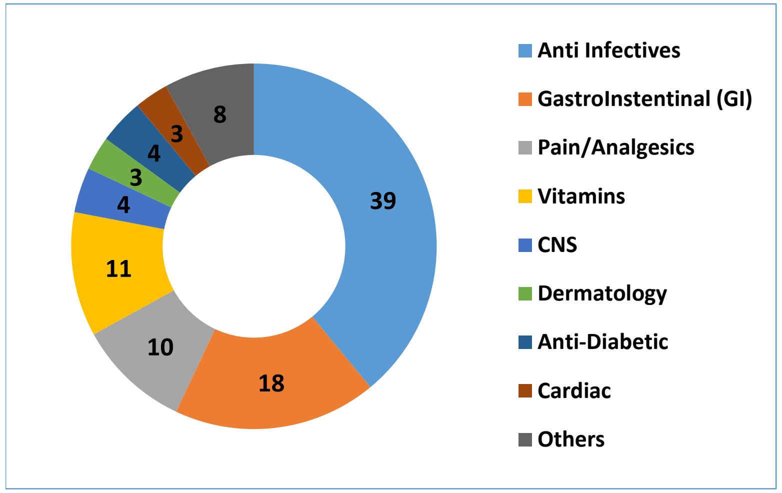
Company Background

Incorporated in 1973, Alkem manufactures branded formulations, generic formulations, active pharmaceutical ingredients and nutraceuticals. Its major markets include India, US, Australia, Philippines and Chile. Company has a field force of around 13,000 medical representatives in India. Alkem has access to more than 7,000 stockiest, over 40 sales depots and more than 11 warehouses in India. It has 19 manufacturing facilities, 17 of which are in India and 2 in the US. These facilities are all regularly audited and approved by various regulatory agencies like the US FDA, WHO, MHRA (UK), TGA (Australia), ANVISA (Brazil), and MCC (South Africa). Company has six technologically advanced world-class R&D centres with a team of over 500 scientists and has filed more than 160 ANDAs with the US FDA and over 1,100 product registrations in various international markets. Company has also made significant investments in the areas of biotechnology through its subsidiary Enzene Biosciences. Alkem is one of the prominent names in India in the acute therapy areas of Anti-infective, Gastro-intestinal, Pain management, and Vitamins/Minerals/Nutrients. Company has a growing presence in the chronic therapy areas of Neuro/CNS, Cardiac, Anti-diabetes, and Dermatology.

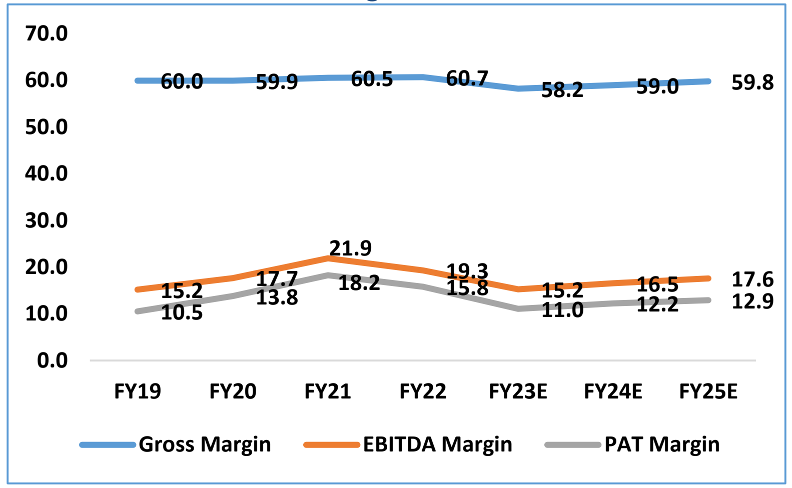
Alkem Laboratories Ltd.

HDFC securities
Click. Invest. Grow.
20 YEARS

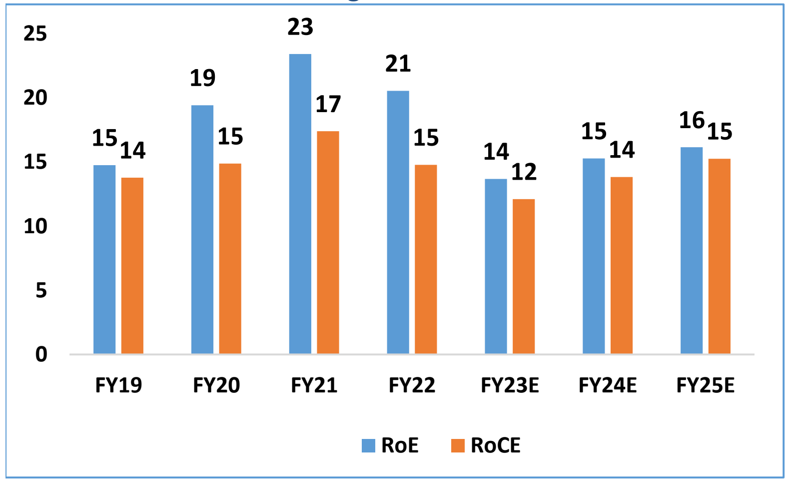
Domestic Revenue Mix



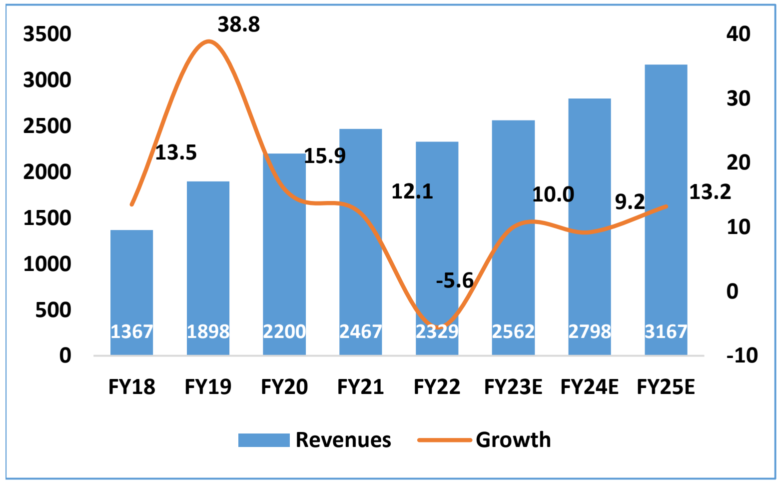
Margin Trend



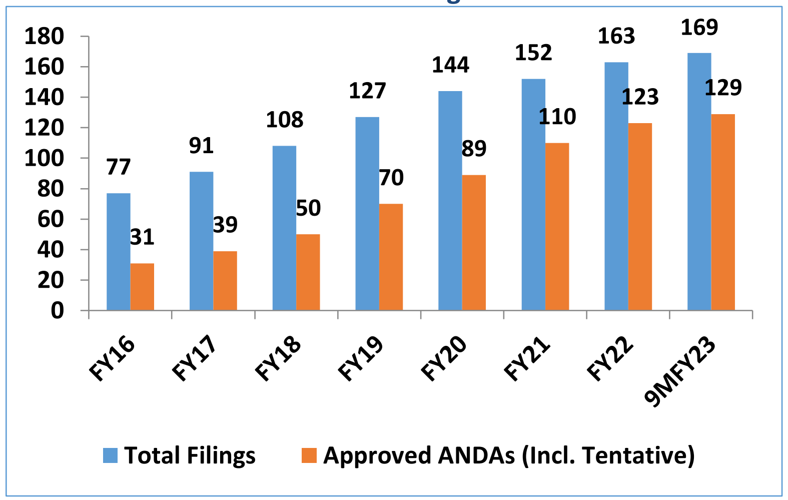
Strong return ratios



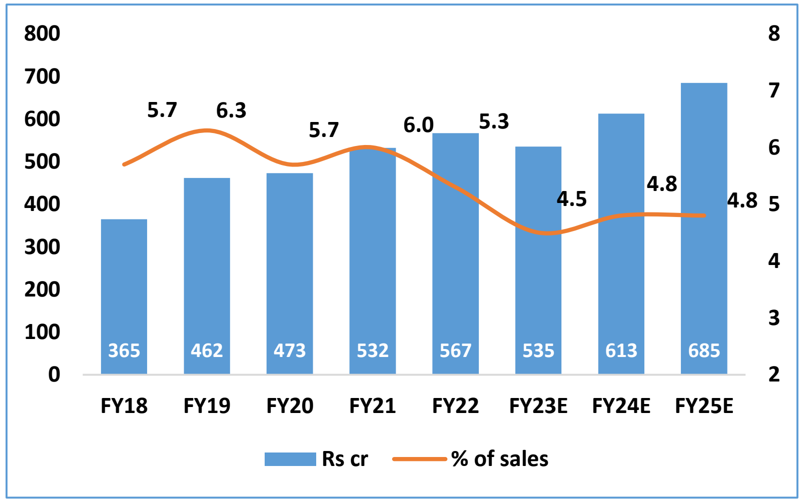
US Business



ANDA Filings



R&D Trend



RETAILRESEARCH

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	**7357**	**8344**	**8865**	**10634**	**11520**	**12764**	**14271**
Growth (%)	14.9	13.4	8.5	20	8.3	10.8	11.8
Operating Expenses	6242	6870	6923	8581	9764	10655	11763
EBITDA	**1115**	**1474**	**1943**	**2053**	**1756**	**2110**	**2507**
Growth (%)	10.5	32.2	31.8	5.7	-14.5	20.1	18.9
EBITDA Margin (%)	**15.2**	**17.7**	**21.9**	**19.3**	**15.2**	**16.5**	**17.6**
Depreciation	193	253	275	304	317	340	379
EBIT	922	1221	1668	1749	1442	1770	2129
Other Income	88	104	233	163	178	191	211
Interest expenses	55	65	59	52	103	75	62
PBT	955	1258	1845	1858	1513	1883	2275
Tax	181	110	224	164	244	326	430
PAT	**761**	**1127**	**1585**	**1646**	**1234**	**1518**	**1802**
Growth (%)	20.6	48.2	40.6	3.8	-25	23.1	18.7
EPS	**63.6**	**94.3**	**132.6**	**137.7**	**103.2**	**127**	**150.7**

Balance Sheet

As at March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS							
Share Capital	24	24	24	24	24	24	24
Reserves	5415	6137	7353	8614	9364	10461	11811
Shareholders' Funds	**5439**	**6161**	**7377**	**8638**	**9388**	**10485**	**11835**
Long Term Debt	231	159	28	9	21	31	40
Long Term Provisions & Others	214	233	329	407	417	454	474
Minority Interest	133	148	181	210	210	210	210
Total Source of Funds	**6017**	**6701**	**7915**	**9264**	**10036**	**11182**	**12561**
APPLICATION OF FUNDS							
Net Block	2599	2876	2627	2627	2910	3008	3093
Goodwill & Intangible Assets	380	399	559	615	403	403	403
Deferred Tax Assets (net)	768	967	1108	1309	1341	1371	1399
Long Term Loans & Advances	215	199	296	1083	1135	1208	1284
Total Non Current Assets	**3962**	**4441**	**4590**	**5633**	**5790**	**5991**	**6179**
Current Investments	228	170	179	139	165	390	761
Inventories	1500	1819	2312	3006	2809	3049	3335
Trade Receivables	1248	1649	1607	1885	2029	2238	2483
Short term Loans & Advances	31	29	19	20	25	31	40
Cash & Equivalents	662	1092	1991	2579	2655	2730	2890
Other Current Assets	535	728	823	807	891	985	1089
Total Current Assets	**4204**	**5505**	**6929**	**8435**	**8576**	**9424**	**10597**
Short-Term Borrowings	671	1504	1673	2571	1851	1610	1385
Trade Payables	962	955	1070	1173	1358	1439	1581
Other Current Liab & Provisions	430	602	742	911	956	1004	1054
Short-Term Provisions	127	184	120	151	164	179	195
Total Current Liabilities	**2149**	**3244**	**3604**	**4805**	**4329**	**4232**	**4215**
Net Current Assets	2055	2260	3325	3631	4246	5191	6383
Total Application of Funds	**6017**	**6701**	**7915**	**9264**	**10036**	**11182**	**12561**

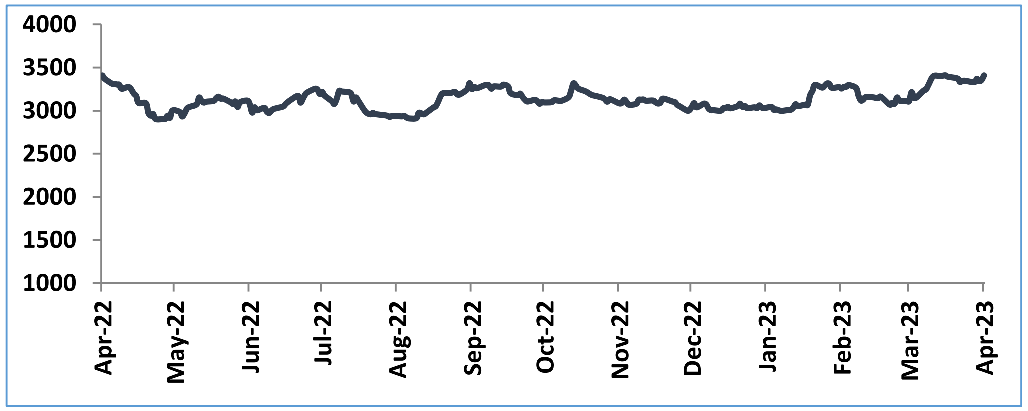
Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	955	1260	1842	1845	1515	1885	2277
Non-operating & EO items	-88	-104	-233	-163	-178	-191	-211
Interest Expenses	55	65	59	52	103	75	62
Depreciation	193	253	275	304	317	340	379
Working Capital Change	-84	-606	-277	-530	-539	-870	-1031
Tax Paid	-251	-283	-401	-397	-244	-326	-430
OPERATING CASH FLOW (a)	**780**	**585**	**1265**	**1111**	**973**	**913**	**1046**
Capex	-527	-363	-185	-328	-389	-438	-463
Free Cash Flow	253	222	1080	783	584	475	583
Investments	123	-482	-1047	-1270	-84	-103	-104
Non-operating income	88	104	233	163	178	191	211
INVESTING CASH FLOW (b)	**-317**	**-741**	**-998**	**-1435**	**-296**	**-350**	**-356**
Debt Issuance / (Repaid)	-105	569	90	826	23	48	30
Interest Expenses	-55	-65	-59	-52	-103	-75	-62
FCFE	93	726	1111	1557	504	448	551
Share Capital Issuance	11	15	33	28	0	0	0
Dividend	-229	-440	-335	-422	-521	-461	-497
FINANCING CASH FLOW (c)	**-378**	**79**	**-271**	**379**	**-601**	**-489**	**-530**
NET CASH FLOW (a+b+c)	85	-77	-5	55	76	75	160

Key Ratios

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Margin	60	59.9	60.5	60.7	58.2	59	59.8
EBITDA Margin	15.2	17.7	21.9	19.3	15.2	16.5	17.6
EBIT Margin	12.5	14.6	18.8	16.4	12.5	13.9	14.9
APAT Margin	10.5	13.8	18.2	15.8	11	12.2	12.9
RoE	14.8	19.4	23.4	20.6	13.7	15.3	16.1
RoCE	13.8	14.9	17.4	14.8	12.1	13.8	15.3
Solvency Ratio							
Net Debt/EBITDA (x)	0	0.3	-0.2	-0.1	-0.5	-0.7	-0.9
D/E	0.2	0.3	0.2	0.3	0.2	0.2	0.1
Net D/E	0	0.1	-0.1	0	-0.1	-0.1	-0.2
PER SHARE DATA							
EPS	63.6	94.3	132.6	137.7	103.2	127	150.7
CEPS	79.8	115.4	155.5	163.1	129.7	155.4	182.4
BV	454.9	515.3	617	722.5	785.2	877.1	990
Dividend	16	25	30	34	43	38	41
Turnover Ratios (days)							
Debtor days	62	72	66	65	64	64	64
Inventory days	73	73	85	91	89	87	85
Creditors days	80	69	76	68	74	72	73
VALUATION							
P/E	53.6	36.2	25.7	24.8	33	26.8	22.6
P/BV	7.5	6.6	5.5	4.7	4.3	3.9	3.4
EV/EBITDA	36.5	27.6	20.9	19.8	23.1	19.3	16.2
EV / Revenues	5.5	4.9	4.6	3.8	3.5	3.2	2.8
Dividend Payout	25.1	26.5	22.6	24.7	41.7	29.9	27.2

One Year Price Chart



KUSHAL MAHENDRA RUGHANI

Digitally signed by KUSHAL MAHENDRA RUGHANI
Date: 2023.04.24 08:00:35 +05'30'

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193