

Ex-one-offs, Q1 delivers beat; healthy growth outlook

Q1 was aided by recovery in acute portfolio aided by COVID associated drugs. Excluding one-offs such as inventory provision of Rs380mn in the US and gratuity liability provision of Rs290mn, EBITDA margins came in at 24% Vs expectation of 22.6%. US sales (down 9% YoY at US\$82mn) was impacted due to (1) high base led by inventory stocking YoY, (2) loss in market share of acute products and (3) price erosion. India business (up 65% YoY) was 18% above expectations driven by volume led growth in acute portfolio (VMN, anti-infective). Management commentary remained upbeat on the growth trajectory in the US to be driven by bunched up launches over the next 12-15 months are expected to improve profitability with an aspirational RoCE target of 15%. On the biosimilar front, company plans to launch 2 peptides and 1 Mab, moving up the value chain, potential launches expected in FY26E. Besides, the established brands in India continue to do well ably supported by Gx and chronic segment.

Key triggers: 1) India formulations to grow in high teens for 9MFY22, 2) Building presence in chronic segments, biosimilars in India (received MA for 2 products). Expect chronic sales to double in next 3 years. 3) EBITDA margins to be ~20% despite lower gross margins led by cost savings on digital marketing and process optimization, 4) Commercialization of Indore plant in FY22 for the US market

Risks: 1) Investing in biosimilars in the US, R&D - 6% of sales

Outlook and Valuation: We believe the India business is better placed and contributes >75% of EBITDA. While Alkem has built a decent platform for growth in the US, near term growth could be challenging, in our view and offset by steady growth in domestic franchise. Further, sustenance of EBITDA margins at 20% + despite high R&D spend in the US gives a glimpse of its high profitability in the Indian segment. We project 8% earnings CAGR over FY21-23E. Stock trades at 22.5x FY23E EPS of Rs156. Maintain Buy.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	27,314	20,035	36.3	21,922	24.6
Total Expense	20,715	14,703	40.9	18,211	13.8
EBITDA	6,599	5,332	23.8	3,711	77.8
Depreciation	705	668	5.5	685	2.9
EBIT	5,893	4,664	26.4	3,026	94.8
Other Income	467	435	7.2	463	0.8
Interest	129	171	(24.8)	107	20.1
EBT	5,561	4,928	12.9	2,582	115.4
Tax	759	696	9.1	89	748.9
RPAT	4,681	4,232	10.6	2,400	95.1
APAT	5,351	4,232	26.4	3,200	67.2
			(bps)		(bps)
Gross Margin (%)	61.3	63.4	(206)	60.6	68
EBITDA Margin (%)	24.2	26.6	(245)	16.9	723
NPM (%)	17.1	21.1	(398)	10.9	619
Tax Rate (%)	13.6	14.1	(47)	3.5	1018
EBIT Margin (%)	21.6	23.3	(170)	13.8	777

CMP	Rs 3,472
Target / Upside	Rs 4,124 / 19%
NIFTY	16,238

Scrip Details

Equity / FV	Rs 239mn / Rs 2
Market Cap	Rs 415bn
	USD 5.6bn
52-week High/Low	Rs 3,559/ 2,540
Avg. Volume (no)	246,706
Bloom Code	ALKEM IN

Price Performance	1M	3M	12M
Absolute (%)	5	21	21
Rel to NIFTY (%)	2	11	(24)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	62.5	62.5	58.8
MF/Banks/FIs	33.0	33.0	35.3
FIs	4.1	4.1	5.9
Public / Others	0.5	0.5	0.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	26.2	25.9	22.3
EV/EBITDA	21.1	19.6	16.3
ROE (%)	23.4	19.7	19.0
RoACE (%)	20.8	18.5	18.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	88,650	101,546	110,756
EBITDA	19,424	20,515	23,624
PAT	15,850	16,047	18,640
EPS (Rs.)	132.6	134.2	155.9

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Exhibit 1: Revenue Mix

Rs mn	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY22E	FY21	YoY (%)
Domestic	19,097	11,550	65.3	14,732	29.6	65,858	58,209	13.1
US	6,043	6,664	-9.3	5,435	11.2	28,448	24,666	15.3
RoW	1,860	1,189	56.4	1,472	26.4	6,238	5,776	8.0
Total Sales	27,000	19,403	39.2	21,639	24.8	100,545	88,650	13.4

Source: Company, DART

Con-call Takeaways

Guidance: Management reiterated its guidance of double digit revenue growth with EBITDA margins at ~20% in FY22E. Spill-over of launches in US to ensure growth despite high single digit price erosion. Management remains upbeat on growth trajectory in the US, guided for US\$400mn revenue by FY23E. R&D spend to continue at ~6% of sales. Tax rate – 13-14% for next 3 years.

Costs and EBITDA margin: On the base of FY20, Alkem expects sustained improvement in EBITDA margin each year. It is not experiencing any meaningful inflationary pressures on the raw material front and believes regular price increase will be able to absorb the rise if any.

Capital allocation: Alkem generated free cash flow of Rs4.5bn in Q1 and guided for Rs10bn FCF generation in FY22E. The company shall continue to pay-out 25% of net profit as dividends. The expansionary capex requirements are limited currently. The company intends to retain a large part of the earnings, which may be deployed for acquisition at a later date.

Biosimilars: It is currently actively working on one monoclonal antibody for the developed market which can potentially be launched in FY26E. The biosimilar efforts of the company are driven by its subsidiary Enzene Biosciences. Biosimilar launches will first start in India and RoW where company plans to opt for a mix model of own plus out-licensing. It is also mulling options of CDMO for biosimilars. Of the total R&D spend, 12-14% is spent towards Biotech. For domestic market, Alkem has spent Rs6.5bn in Biotech focusing on oncology and osteoarthritis as key therapies.

India: India formulations is on a recovery mode and grew 65% YoY in 1Q aided by higher offtake in COVID associated drugs (Anti-infective, GI and VMN). With hospitals opening up, management expects business to grow in high teens for 9MFY22.

- Hospital based parenteral portfolio (anti-bacterial related to surgery, 40% of India sales) yet to recover fully, anticipate normalcy from 2HFY22E.
- Over the medium- to- long-term in the domestic formulation business the company intends to focus on growth in chronic segments, biosimilars and possibly OTC.
- On field activities normalized at ~85%. With PCPA at Rs4.8 Lakh, company endeavours to improve productivity in FY22E. It expects acute growth via various initiatives such as de-cluttering of brands, MR addition and focus on market share improvement in key brands.
- For Chronic segment, it is focusing on few key launches and doctor coverage expansion specially in cardio-diabetes portfolio. Overall chronic is expected to double in next 3 years.
- Trade generics continues to remain an important segment for Alkem. Management believes that despite competition from new entrants in this space, it expects to grow in high double digits over next 2-3 years.

US: US revenue reported de-growth of 9% YoY in 1Q, grew 11% QoQ at US\$82mn. 1Q sales were lower due to higher base YoY, market share loss in few products and higher price erosion.

- Company undertook an inventory provision of Rs380mn for products whose shelf life is limited. Ibuprofen (Alkem's in-licensed product) was the most impacted drug leading to lower sales.
- Instead of pursuing complex generic opportunities in injectables/inhalation, company intends to participate in select biosimilar opportunity to sustain growth once it achieves a base of US\$500mn.
- It is actively working on one Mab for US/EU which can potentially be launched in FY26E. With current development plans company doesn't expect R&D to move beyond 6% of sales.
- It's strong pipeline at 40 filings pending for approval and only 50% products commercialized from 112 approved, provides ample scope for growth. Company guided for ~15 filings and 10-12 launches in the US on an annual basis.

US Pipeline: Company filed 2 ANDAs, launched 2 products and received 5 approvals in Q1 leading to cumulative 152 filings and 40 pending for approval. The scale-up in the US has been impressive with higher margins (ex-inventory provision) indicating better filings (Dabigatran – Alkem has shared exclusivity, also recently launched gApriso-a mesalamine product). Profitability is expected to improve with scale (10-12 launches/year) and better mix.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	83,444	88,650	101,546	110,756
Total Expense	68,710	69,226	81,031	87,132
COGS	33,449	34,985	41,224	43,733
Employees Cost	15,055	16,210	18,673	20,409
Other expenses	20,205	18,031	21,134	22,990
EBIDTA	14,734	19,424	20,515	23,624
Depreciation	2,528	2,746	2,890	3,086
EBIT	12,206	16,678	17,625	20,539
Interest	651	589	540	496
Other Income	1,042	2,332	1,917	1,906
Exc. / E.O. items	0	0	0	0
EBT	12,598	18,421	19,002	21,949
Tax	1,105	2,243	2,660	3,073
RPAT	11,271	15,850	16,047	18,640
Minority Interest	222	328	295	236
Profit/Loss share of associates	0	0	0	0
APAT	11,271	15,850	16,047	18,640

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	239	239	239	239
Minority Interest	1,483	1,813	1,813	1,813
Reserves & Surplus	61,368	73,528	88,853	106,772
Net Worth	61,607	73,767	89,092	107,011
Total Debt	16,628	17,336	15,558	14,058
Net Deferred Tax Liability	(5,410)	(6,288)	(10,488)	(10,454)
Total Capital Employed	74,307	86,628	95,975	112,428

Applications of Funds

Net Block	28,984	28,159	28,269	27,683
CWIP	3,725	3,704	3,704	3,704
Investments	1,445	2,104	2,089	2,070
Current Assets, Loans & Advances	55,629	69,976	79,232	97,052
Inventories	18,188	23,124	24,128	25,186
Receivables	16,494	16,072	16,528	17,462
Cash and Bank Balances	10,922	19,905	27,042	42,415
Loans and Advances	2,784	3,481	3,685	3,877
Other Current Assets	5,543	5,606	6,060	6,323
Less: Current Liabilities & Provisions	15,477	17,315	17,318	18,081
Payables	9,541	10,694	10,432	11,006
Other Current Liabilities	5,936	6,620	6,887	7,075
<i>sub total</i>				
Net Current Assets	40,153	52,662	61,914	78,971
Total Assets	74,307	86,628	95,975	112,428

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	59.9	60.5	59.4	60.5
EBIDTA Margin	17.7	21.9	20.2	21.3
EBIT Margin	14.6	18.8	17.4	18.5
Tax rate	8.8	12.2	14.0	14.0
Net Profit Margin	13.5	17.9	15.8	16.8
(B) As Percentage of Net Sales (%)				
COGS	40.1	39.5	40.6	39.5
Employee	18.0	18.3	18.4	18.4
Other	24.2	20.3	20.8	20.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.2	0.1
Interest Coverage	18.8	28.3	32.6	41.4
Inventory days	80	95	87	83
Debtors days	72	66	59	58
Average Cost of Debt	5.1	3.5	3.3	3.4
Payable days	42	44	37	36
Working Capital days	176	217	223	260
FA T/O	2.9	3.1	3.6	4.0
(D) Measures of Investment				
AEPS (Rs)	94.3	132.6	134.2	155.9
CEPS (Rs)	115.4	155.5	158.4	181.7
DPS (Rs)	36.2	28.0	6.0	6.0
Dividend Payout (%)	38.4	21.1	4.5	3.9
BVPS (Rs)	515.3	617.0	745.2	895.1
RoANW (%)	19.4	23.4	19.7	19.0
RoACE (%)	18.0	20.8	18.5	18.6
RoAIC (%)	20.8	25.6	26.0	29.6
(E) Valuation Ratios				
CMP (Rs)	3472	3472	3472	3472
P/E	36.8	26.2	25.9	22.3
Mcap (Rs Mn)	415,084	415,084	415,084	415,084
MCap/ Sales	5.0	4.7	4.1	3.7
EV	419,090	410,727	401,811	384,938
EV/Sales	5.0	4.6	4.0	3.5
EV/EBITDA	28.4	21.1	19.6	16.3
P/BV	6.7	5.6	4.7	3.9
Dividend Yield (%)	1.0	0.8	0.2	0.2
(F) Growth Rate (%)				
Revenue	13.4	6.2	14.5	9.1
EBITDA	32.2	31.8	5.6	15.2
EBIT	32.4	36.6	5.7	16.5
PBT	32.0	46.2	3.2	15.5
APAT	48.2	40.6	1.2	16.2
EPS	48.2	40.6	1.2	16.2

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,763	15,206	13,458	20,808
CFI	(4,098)	(2,668)	(2,986)	(2,481)
CF	2,641	(3,556)	(3,334)	(2,954)
FCFF	1,665	12,538	10,472	18,327
Opening Cash	6,616	10,922	19,905	27,042
Closing Cash	10,922	19,905	27,042	42,415

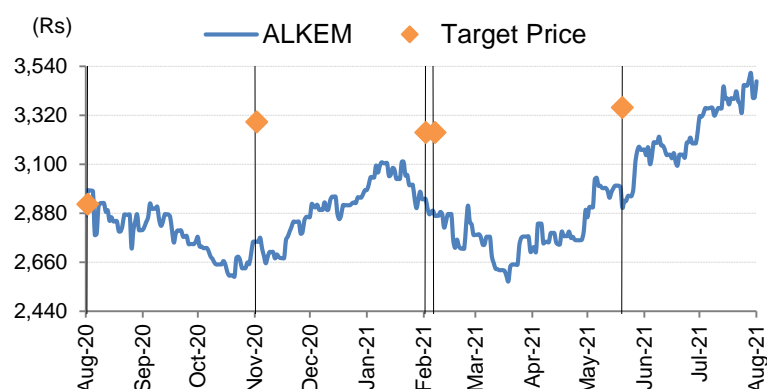
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	2,920	2,982
Nov-20	BUY	3,290	2,753
Feb-21	BUY	3,242	2,944
Feb-21	BUY	3,242	2,869
May-21	BUY	3,354	2,905

*Price as on recommendation date

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