

May 30, 2024

RESULT REPORT Q4 FY24 | Sector: Pharmaceuticals & Healthcare

Alkem Labs

Better margin days ahead

Result Synopsis

Alkem Q4 results were below expectation as revenues essentially flat at +1% YoY on back of 2% YoY decline in domestic sales. Notably, company did better than guided margin in H2 and Q4 margin would have been higher driven by better gross margin QoQ but for increased R&D. Management guided to similar margin performance or 50-60bps higher in FY25 as it ploughs the incremental EBIDTA into R&D and Enzene opex (US CDMO plant to start in Q4 FY25). Domestic growth is pegged at ~10% supported by rebound in acute season and volume growth in NLEM portfolio. US business to get the benefit of Suprep launch in H1 FY25 and total 6-7 launches in current fiscal. Our India and US business estimates remain mostly unchanged for FY25 and FY26 though lower than expected performance in Q4 resets the forward earnings base. FY26 estimate is cut by ~5% and we roll over to FY26 estimate with tweak in target PE to 25x from 23x (to narrow the discount to domestic peers given the better margin prognosis) even as decline in Pen G prices can lead to additional gross margin upside. Upgrade to Neutral with revised TP Rs5,400 (earlier Rs4,650) as domestic growth and margin can find support from an expected rebound in acute season and steady US performance.

Result Highlights

Revenue below estimate at 1% YoY as domestic business disappoints

India sales down 2% YoY partly we reckon on account of higher base in Q4 FY23; lags IPM in anti-infectives (-6% vs -2%), gastro (+2% vs 5%) while outperforming in anti-diabetic (+18% vs 7%)

US revenues down a rather sharp 9% QoQ marking second consecutive quarter of decline from peak of Q2 FY24

Gross margin improves ~150bps QoQ on back of lower API prices

Accelerated R&D limits margin gain to an expected 13.7% or 150bps YoY as alluded in previous quarter call

Writes off Rs415mn related to Indore plant

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	29,358	30,817	32,561	(4.7)	(9.8)	Revenues below expectation on weak India business; improved gross margin cushions margin from higher R&D spending
EBITDA	4,020	4,113	4,777	(2.3)	(15.9)	
EBITDA Margin (%)	13.7	13.3	14.7	35 bps	-98 bps	
Adjusted PAT	3,170	3,592	3,588	(11.7)	(11.6)	

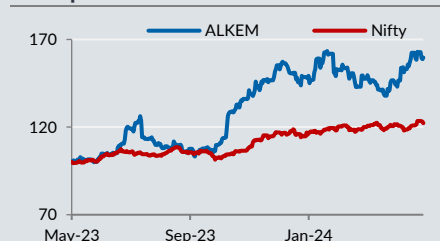
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 5,265
Target Price	: Rs 5,400
Potential Return	: +3%

Stock data (as on May 29, 2024)

Nifty	22,749
52 Week h/l (Rs)	5579 / 3307
Market cap (Rs/USD mn)	638154 / 7657
Outstanding Shares (mn)	120
6m Avg t/o (Rs mn):	1,079
Div yield (%):	1.1
Bloomberg code:	ALKEM IN
NSE code:	ALKEM

Stock performance



	1M	3M	1Y
Absolute return	9.4%	4.2%	59.6%

Shareholding pattern (As of Mar '24 end)

Promoter	56.7%
FII+DII	24.8%
Others	18.5%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	REDUCE
Target Price	5,400	4,650

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	179.1	215.6
EPS (Old)	201.9	226.3
% change	-11.3%	-4.7%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	126,676	138,976	153,809
YoY Growth	9.2	9.7	10.7
EBIDTA	22,455	25,471	30,455
YoY Growth	39.5	13.4	19.6
PAT	17,958	21,413	25,774
YoY Growth	82.5	19.2	20.4
ROE	20.0	19.3	20.0
EPS	150.2	179.1	215.6
P/E	35.1	29.4	24.4
BV	862.6	994.9	1163.7
EV/EBITDA	27.6	24.0	20.4

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	y/y (%)	q/q (%)
Revenue	29,026	29,677	34,402	33,239	29,358	1.1	(11.7)
Expenditure	25,494	25,785	26,934	26,163	25,338	(0.6)	(3.2)
- RM	12,555	11,986	13,271	13,045	11,074	(11.8)	(15.1)
- Staff Cost	5,030	5,677	5,554	5,722	5,058	0.6	(11.6)
- Other exp	7,909	8,123	8,110	7,396	9,206	16.4	24.5
Operating Profit	3,533	3,892	7,467	7,076	4,020	13.8	(43.2)
OPM(%)	12.2	13.1	21.7	21.3	13.7	152 bps	-760 bps
Other Income	687	658	632	936	882	28.4	(5.8)
Depreciation	783	724	739	696	834	6.5	19.9
Interest	290	298	303	255	269	(7.3)	5.5
PBT	3,146	3,529	7,057	7,062	3,799	20.7	(46.2)
Tax	1,440	650	332	506	629	(56.3)	24.2
PAT	1,707	2,878	6,726	6,556	3,170	85.7	(51.6)
Exceptional	997	-	577	606	234		-
Reported PAT	710	2,878	6,149	5,950	2,936	313.6	(50.7)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Guidance

- Revenue growth of 10% in domestic revenues based on rebound in acute season + volume growth in 30% NLEM portfolio. Anti-infective growth assumed at 7-8%
- Growth break up – 3% from price, 2-3% from new launches and 5% from volumes for India
- Overall EBIDTA might be at FY24 level as look to invest especially on Enzene CDMO plant in US which would come up end of FY25
- Tax rate of 13-15% for FY25 and FY26

Other highlights

- Higher expenses would be in the form of increased R&D – on clinical trials for biosimilar products
- Some part of cost improvement is already baked in the gross margin
- India revenue decline on account of high base in Q4 FY23
- Domestic biosimilar portfolio has 7 products and is 5% of domestic business
- Directly buy API of Penicillin G rather than convert 6 APA into downstream products
- Trade generics business – not seen any growth issue and improving margin every year and is at 20% of India business and growing at similar pace as Rx business
- Trade generic margin should be around corporate average +-2%
- See a positive trend of India business margin on back of stable RM prices. If Pen G price fall than margin can improve further
- Enzene – making some more investments in the business for US market. Investments made so far for India and Europe has broken even
- Around Rs300-400mn expenses related to opex on Enzene in FY25 and Rs1.3bn in FY26
- Started building order book for Enzene CMDO in US
- Revenues from Enzene should start from Q1 FY26
- About 12k field force strength in India
- Chronic should be first priority for M&A and today issue is availability of asset at right price
- Decline in US sales due to partly seasonality and some due to supply issues
- Should launch 6-7 products in FY25 in US with 7-8% growth contributed by these new products and none are from Baddi
- Responded to Baddi observations and no data integrity issues were observed.
- Suprep just launches and not commenting on the scale up
- One-off supply chain related penalties in US to the range of Rs300mn in Q4 FY25
- Would provide outlook on Enzene investments break even timeline in Q4 FY25
- Setting up medical devices segment and have just started the business catering to domestic market
- Overall capex of Rs6-7bn including Rs1bn maintenance capex. US facility capex Rs4bn
- FY27 should see Sikkim tax benefit get over and so tax rate should be 25%

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	239	239	239	239	239
Reserves	86,140	90,214	102,882	118,700	138,879
Net worth	86,379	90,453	103,121	118,939	139,118
Debt	2,094	3,897	4,023	4,023	4,023
MI	4,165	6,144	8,658	8,658	8,658
Deferred tax liab (net)	0	0	0	0	0
Total liabilities	92,639	100,494	115,802	131,620	151,799
Fixed Asset	32,412	30,061	30,313	32,313	34,313
Investments	10,833	7,183	6,171	6,171	6,171
Net Working Capital	36,302	50,226	64,169	77,987	96,167
Inventories	30,055	26,075	26,612	29,196	32,312
Sundry debtors	18,846	21,322	22,528	24,715	27,353
Cash	27,179	29,343	17,285	26,656	38,087
Other current assets	8,274	10,557	37,690	41,693	46,143
Sundry creditors	(11,734)	(11,650)	(17,481)	(19,179)	(21,226)
Other CL	(36,319)	(25,421)	(22,464)	(25,093)	(26,503)
Def tax assets	13,092	13,025	15,148	15,148	15,148
Total Assets	92,639	100,494	115,802	131,620	151,799

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	106,342	115,993	126,676	138,976	153,809
Operating profit	20,529	16,095	22,455	25,471	30,455
Depreciation	(3,040)	(3,104)	(2,993)	(3,229)	(3,502)
Interest expense	(524)	(1,074)	(1,124)	(1,130)	(1,130)
Other income	1,626	2,160	3,108	3,500	4,500
Profit before tax	18,592	14,078	21,446	24,613	30,322
Taxes	(1,640)	(2,980)	(2,117)	(3,200)	(4,548)
Adj. profit	16,952	11,098	19,330	21,413	25,774
MI	(497)	(1,256)	(1,372)	-	-
Net profit	16,456	9,842	17,958	21,413	25,774

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	18,592	14,078	21,446	24,613	30,322
Depreciation	3,040	3,104	2,993	3,229	3,502
Def tax assets (net)	(2,013)	67	(2,123)	-	-
Def tax lia	-	-	-	-	-
Tax paid	(1,640)	(2,980)	(2,117)	(3,200)	(4,548)
Working capital Δ	2,432	(11,760)	(26,002)	(4,447)	(6,748)
Other operating items	(497)	(1,256)	(1,372)	-	-
Operating cashflow	19,914	1,253	(7,174)	20,195	22,528
Capital expenditure	(3,595)	(753)	(3,245)	(5,229)	(5,502)
Free cash flow	16,320	500	(10,419)	14,966	17,026
Equity raised	911	1,226	305	(0)	0
MI	282	1,803	126	-	-
Investments	(7,870)	3,650	1,012	-	-
Debt financing/disposal	593	1,979	2,514	-	-
Dividends paid	(4,755)	(6,994)	(5,595)	(5,595)	(5,595)
Net Δ in cash	5,480	2,164	(12,058)	9,371	11,431

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

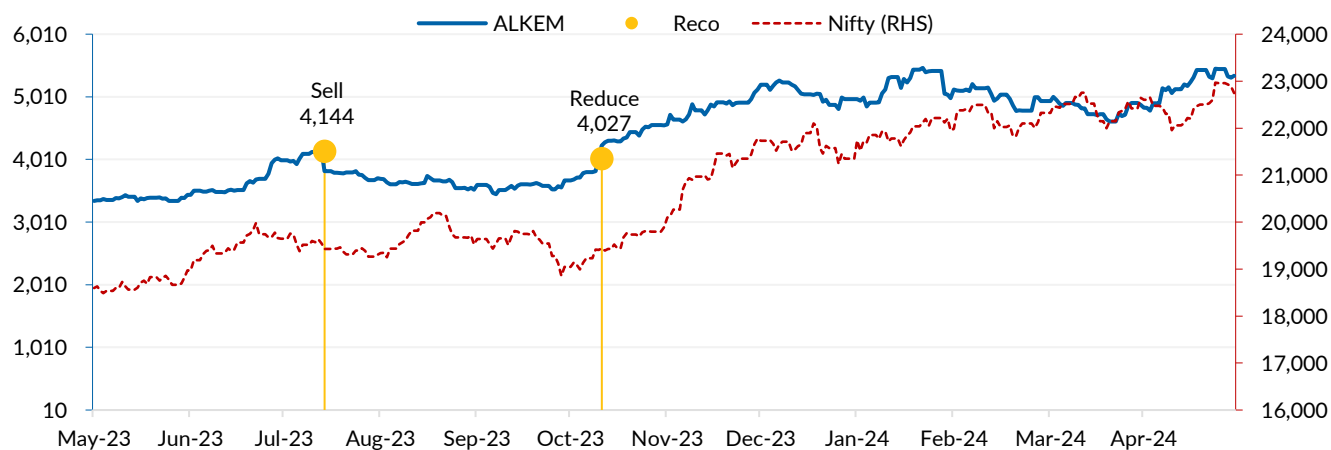
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.91	0.79	0.90	0.87	0.85
Interest burden (x)	0.97	0.93	0.95	0.96	0.96
EBIT margin (x)	0.18	0.13	0.18	0.19	0.20
Asset turnover (x)	0.92	0.92	0.96	0.92	0.89
Financial leverage (x)	1.45	1.43	1.37	1.36	1.34
RoE (%)	21.2	12.6	20.0	19.3	20.0

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	20.0	9.1	9.2	9.7	10.7
Op profit growth	5.7	(21.6)	39.5	13.4	19.6
EBIT growth	0.6	(20.7)	49.0	14.1	22.2
Net profit growth	3.8	(40.2)	82.5	19.2	20.4
Profitability ratios (%)					
OPM	19.3	13.9	17.7	18.3	19.8
EBIT margin	18.0	13.1	17.8	18.5	20.4

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Net profit margin	15.9	9.6	15.3	15.4	16.8
RoCE	22.3	15.7	20.9	20.8	22.2
RoNW	21.2	12.6	20.0	19.3	20.0
RoA	14.6	8.8	14.6	14.2	14.9
Per share ratios					
EPS	137.6	82.3	150.2	179.1	215.6
Dividend per share	30.0	50.0	40.0	40.0	40.0
Cash EPS	167.2	118.8	186.7	206.1	244.9
Book value per share	722.5	756.6	862.6	994.9	1,163.7
Valuation ratios					
P/E	38.2	64.0	35.1	29.4	24.4
P/CEPS	7.3	7.0	6.1	5.3	4.5
P/B	5.9	5.4	5.0	4.5	4.1
EV/EBIDTA	29.5	37.7	27.6	24.0	20.4
Payout (%)					
Dividend payout	8.8	21.2	9.9	13.0	15.0
Tax payout	28.9	71.1	31.2	26.1	21.7
Liquidity ratios					
Debtor days	65	67	65	65	65
Inventory days	103	82	77	77	77
Creditor days	40	37	50	50	50

Recommendation Tracker



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