

# Result Update

Q2 FY24

**Alkem Laboratories Ltd.**

Institutional  
Research

## Higher growth visibility and improved margin profile

Alkem reported revenue growth of 11.7% YoY / up 15.9% QoQ to Rs. 34,402 mn and was above market expectations of Rs. 33,650 mn. India's business reported single-digit growth of 5.0% YoY; however, there has been subdued growth in the anti-infective sector due to sporadic rainfall, and the other acute businesses continue to perform well. During the quarter, Alkem advanced by two ranks in anti-diabetic and one rank in CNS and cardiac therapy segments. We, thus, expect the chronic business growth to continue to surpass market performance. The International business achieved robust sales of 27.1% YoY during the quarter, driven by volume growth in core operations and complemented by strong performance in the non-US market. EBITDA increased 64.5% YoY / up 91.9% QoQ to Rs. 7,467 mn, while EBITDA margin stood at 21.7% (up 697bps YoY / up 859bps QoQ) in Q2FY24, owing to an expansion in gross margins by 387bps YoY to 61.4% due to softening of raw material costs. Profit after Tax stood at Rs. 6,149 mn (up 76.8% YoY / up 113.6% QoQ) in Q2FY24, above market expectations of Rs. 4,320 mn. PAT margin rose to 17.9% versus 9.7% in the previous quarter. R&D investments stood at Rs. 1,158 mn (3.4% of sales) compared to Rs. 1,305 mn (4.2% of sales) in Q2FY23. The company continues to feature among the top five companies in the Indian pharmaceutical market and has maintained its leadership position in the anti-infective segment.

## Valuation and Outlook:

Alkem recorded healthy annual revenue growth in Q2FY24 aided by growth in India business (~68% of sales), a key growth driver for the company and was aided by chronic therapies. However, the acute segment experienced a modest uptick in activity during the quarter, with intermittent monsoons initially impacting growth. Further, Alkem largely underperformed the IPM in its key therapies of Anti-Infective, Pain/ Analgesics, and Derma, while it managed to improve by two ranks in anti-diabetic and one rank in CNS and cardiac therapy segments. The company is eager to capitalize on this momentum and anticipate more robust performance in the upcoming quarters. The US business (~23% of sales) registered strong performance during the quarter, led by a slowdown in the US price erosion. As of September 30, 2023, the company filed 174 ANDAs and two new drug applications (NDA) with the USFDA and has received approvals for 140 ANDAs (including 15 tentative approvals) and 2 NDAs. Biosimilar franchise, Enzene, is steadily expanding its product portfolio in India, with one successful launch during the quarter, bringing the total count of products to seven. We, thus, expect Alkem's domestic and international businesses to witness better trends, led by improving demand, increasing market share, & softening raw material costs.

## Key Highlights

Particulars (Rs. mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	30,794	29,677	34,402	11.7%	15.9%
Gross Profit	17,724	17,692	21,131	19.2%	19.4%
Gross Margin (%)	57.6%	59.6%	61.4%	387bps	181bps
EBITDA	4,539	3,892	7,467	64.5%	91.9%
OPM (%)	14.7%	13.1%	21.7%	697bps	859bps
PAT	3,477	2,878	6,149	76.8%	113.6%
PAT Margin (%)	11.3%	9.7%	17.9%	460bps	737bps

Source: Company, BP Equities Research

## Sector Outlook

Positive

## Stock

CMP (Rs.)	4,242
BSE code	539523
NSE Symbol	ALKEM
Bloomberg	ALKEM IN
Reuters	ALKEM:BO

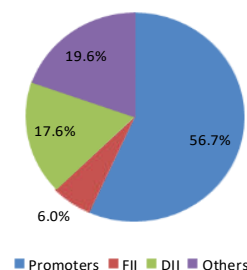
## Key Data

Nifty	19,443
52 Week H/L (Rs.)	4,300/2,940
O/s Shares (Mn)	120
Market Cap (Rs. bn)	507
Face Value (Rs.)	2

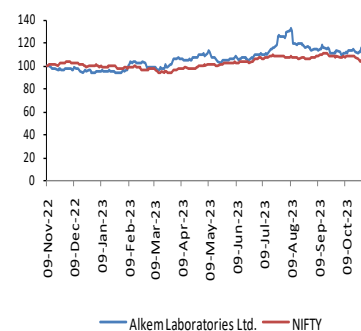
## Average Volume

3 months	187,020
6 months	192,960
1 year	151,220

## Share Holding (%)



## Relative Price Chart



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## Key Concall Highlights

### Domestic Business:

The company's domestic business reported strong annual growth driven by chronic therapies, which outpaced market growth, while acute treatments had subdued growth due to sporadic and delayed monsoons. Alkem expects to retain its high-single-digit growth guidance for India business in FY24.

### US Business:

Alkem's US revenues registered strong performance during the quarter, led by a slowdown in the US price erosion. The US pricing pressure eased to single digits vs high-teen in FY23. The company plans to launch eight new products in the US market in FY24.

### Enzene Biosciences:

In Q2FY24, Enzene biosimilars venture had sales of Rs. 800 mn and expects business to break even by FY25. The biosimilar franchise is also steadily expanding its product portfolio in India, with one successful launch during the quarter, bringing the total count of products to seven, an impressive achievement for the company.

### Trade Generic Business:

Trade generics accounted for ~20% of domestic sales and reported good performance during the quarter, led by price decline in trade generics. The company expects trade generics franchisee to remain a key driver in the growth journey within the Indian business.

### Marketing Representative Strength:

Alkem's India business MR force strength includes 12,000 employees on the ground and 5,000 managers. The productivity for acute and chronic therapies stands at ~Rs. 4.6 lakhs. 80% of the MR force works in acute treatments, and the rest 20% in chronic therapies. The company plans to increase productivity by expanding force by 10% in chronic therapies with a focus on cardiac, anti-diabetic and CNS. All these businesses are growing in strong double-digits.

### Capex Update:

The company has a capex plan of around Rs. 3,500 mn, substantially towards biosimilars in FY24.

### Other Key Highlights:

- R&D spending is estimated at ~5% of sales in FY24.
- The tax rate for FY24 will be between 12-15%.
- All manufacturing facilities supplying to the US have an EIR as of date.

*"The company expects to retain its high-single-digit growth guidance for India business in FY24."*



## Key Financials

YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	88,650	106,340	115,990	127,937	141,357
Growth %	6.2%	20.0%	9.1%	10.3%	10.5%
EBIDTA	19,450	20,540	16,090	20,747	24,402
Growth%	31.8%	5.6%	-21.7%	28.9%	17.6%
Net Profit	16,180	16,800	10,070	16,104	18,925
Growth %	40.8%	3.8%	-40.1%	59.9%	17.5%
Diluted EPS	132.6	137.6	82.3	134.6	158.3

## Profitability &amp; Valuation

EBIDTA (%)	21.9%	19.3%	13.9%	16.2%	17.3%
NPM (%)	18.3%	15.8%	8.7%	12.6%	13.4%
ROE (%)	23.4%	20.5%	11.1%	15.8%	16.6%
ROCE (%)	22.3%	19.4%	14.4%	16.4%	17.9%
P/E (x)	32.0	30.8	51.5	31.5	26.8
EV/EBITDA (x)	16.9	21.2	22.7	17.4	14.6
Net Debt/EBITDA (x)	-0.2	-0.1	-1.8	-0.1	-0.1

Source: Company, Bloomberg Estimates

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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