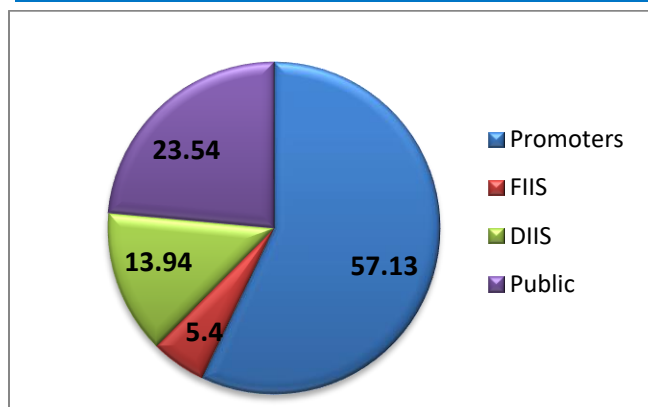




VALUE PARAMETERS

Face Value (Rs.)	2.00
EPS (TTM)	148.71
52-Week High/Low	4070/2540
M.Cap (Rs. in Cr.)	40,480.4
P/E Ratio (TTM)	23.15
Sector P/E	31.05
P/B Ratio (calc at CMP)	4.60
Dividend Yield (%)	0.87
Book value/share	748

SHAREHOLDING PATTERN



FINANCIAL PERFORMANCE

	ACTUAL	FORECAST	
	FY Mar-21	FY Mar-22	FY Mar-23
Sales (Rs. m)	8850.5	10,320	11,330
EBITDA (Rs. m)	2007.9	2030	2290
EBITDA margin	22.7	19.67	20.21
PAT (Rs. m)	1601.7	1790	1880
EPS (Rs)	132.58	149	157
ROE	23.9	22.2	20
ROCE	22.55	19.1	17.5
DPS	27.8	28	29

Our Recommendation: As per the present scenario of increasing demand for generic and specialty drugs in domestic and US markets, strong financials, upcoming launch of biosimilar products, we estimate the company will outperform in coming quarters. Thus, we recommend BUY in price range Rs. 3350-3400 with target price 3800 (Upside 13%).

Investment Rationale:

- Alkem is India's leading generic and specialty pharmaceutical companies. Alkem is a significant player in branded and generic drugs segment. Company has wide ranging presence across acute and chronic therapeutic segments with substantial brand share in the Central Nervous System, Gastro-intestinal, Anti-diabetic, Anti-osteoporosis, Anti-malarial, Cardiovascular, Immunosuppressants, and Nutraceutical segments. Alkem is the leading player in Indian market in Anti-infective and Pain Management segments. Company has 20 manufacturing facilities at multiple locations in India and the United States of America.
- The company has been the No. 1 in anti-infectives with 10% market share player in India for over 15 years. It is the No. 3 gastrointestinal and vitamins company in India. It is No. 5 in the Indian Pharma Market (IPM) as on Mar-2020.
- Company is the industry leader for Anti-Infectives in India and is expected to grow by 1.5x industry growth in the overall acute segment. The company can double its chronic business every 3 years on the back of growth in Cardiac and Anti-Diabetes segment. CNS continues to remain a strong hold (Rank 5 in IPM).
- 33% of company's revenue is generated via offshore sales with US sales constitutes 28% of total sales. Alkem remains a significant player in Acute therapies which has 76% contribution to total sales. Therapy wise, Anti-infectives (35% of sales) is the largest contributor to overall sales, followed by Gastrointestinal (19%) and Vitamins (15%). Alkem has been industry leader in Anti-Infectives.
- Alkem Lab's Consolidated December 2021 Net Sales at Rs 2,618.98 crore, up 12.98% YoY basis from Rs. 2,318.05 crore in December 2020. Quarterly Net Profit stood at Rs. 525.66 crore in December 2021 up 16.56% from Rs. 450.96 crore in December 2020. EBITDA stands at Rs. 551.97 crore in December 2021 down 11.76% from Rs. 625.51 crore in December 2020. EPS has increased to Rs. 43.96 in December 2021 from Rs. 37.72 in December 2020.

Risks:

- Weak anti-infective season critical to growth.
- Delay in ANDA approvals due to regulatory action.
- US FDA action about inspection.
- Unfavorable price regulation by NPPA in India.
- Slower launch of biosimilar products.

Financials and Valuations

Income Statement (Rs. Cr)

	FY16	FY17	FY18	FY19	FY20	FY21
Net Sales	5047.93	5852.5	6431.2	7357.2	8344.4	8850.5
Change (%)	33.2	15.9	9.9	14.4	13.4	6.1
Expenditure	4194.7	4853.6	5402.8	6240.1	6848.4	6842.6
EBITDA	853.3	999	1056.6	1117.1	1496	2007.9
EBITDA Margin (%)	16.9	17.1	16.4	15.2	17.9	22.7
Depreciation	93.3	101.2	143	193.2	234.8	274.6
EBIT	759.9	897.8	913.6	923.9	1261.2	1733.3
Interest. and Finance Expenses	71.2	45.2	55.3	54.6	65.1	58.9
Other Income	239.7	112	96	87.7	104.2	186.7
PBT before extraordinary expenses	928.4	964.6	954.2	957	1300.4	1861.1
Extraordinary expense Items	0	0	0	-2.3	-40.6	-19
PBT after extraordinary expenses	928.4	964.6	954.2	954.7	1259.8	1842.1
Current Tax	176.2	60	287.6	181	110.5	224.3
Tax Rate (%)	19.0	6.2	30.1	19.0	8.8	12.2
Less: Minority Interest	11.4	12.6	7.5	13.1	22.2	32.8
Reported PAT	740.9	892	630.9	760.6	1127.1	1585
Adjusted PAT	841.9	892	704	762.9	1140.7	1601.7
Change (%)	63.8	6.0	-21.1	8.4	49.5	40.4
Margin (%)	16.7	15.2	10.9	10.4	13.7	18.1

Balance Sheet (Rs. Cr)

	FY16	FY17	FY18	FY19	FY20	FY21
Equity Share Capital	23.9	23.9	23.9	23.9	23.9	23.9
Total Reserves	3668.1	4443.7	4839.9	5415.4	6136.8	7352.8
Net Worth	3692	4467.6	4863.8	5439.3	6160.7	7376.7
Minority Interest	95	115.2	121.6	132.6	148.3	181.3
Total Loans	5,876	6,539	8,920	9,026	16,628	17,336
Capital Employed	4375.6	5237.3	5879	6474.8	7971.7	9291.6
Net Fixed Assets	10,310	13,945	18,733	21,056	23,063	22,339
Goodwill on Consolidation	418.5	402.6	410.3	424.8	601.7	559.1
Capital WIP	172.4	299.3	381	493	363	393.3
Total Investments	508.6	553	444.3	323.6	261.4	332.8
Current Assets, Loans, and Advances	2887.8	3222.5	3901.2	4153.5	5478.4	6892.3
Inventory	909.4	120.6	1442.2	1500	1818.8	2312.4
Account Receivables	567.5	713.6	1080.5	1248.4	1649.4	1607.2
Cash and Bank Balance	780.9	399.3	576.8	661.6	1092.2	1990.5
Loans and Advances	630	903.6	801.7	743.7	918	982.2
Current Liability and Provisions	1158.9	1330.8	1786.6	1733.4	1971.6	2227.7
Account Payables	580.5	741.4	960.7	962.3	954.1	1069.4
Other Current Liabilities	390.8	362.8	551.7	443.6	610.8	670.9
Provisions	187.7	226.6	274.2	327.5	406.7	487.4
Net Current Assets	1728.8	1891.7	2114.5	2420.2	3506.8	4664.7
Deferred Tax assets	516.2	696.3	655.6	707.6	932.6	1107.9
Appl. of Funds	4375.6	5237.3	5879	6474.8	7971.7	9291.6

Ratios

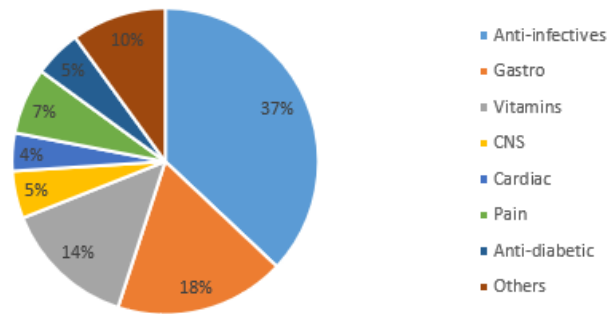
	FY16	FY17	FY18	FY19	FY20	FY21
Basic (INR)						
Efficiency Ratios						
EPS	62.03	74.62	52.78	63.61	94.28	132.58
BV/Share	309	374	407	455	515	617
DPS	12.7	6.0	15.0	15.0	17.9	27.8
Payout (%)	24.7	9.7	34.3	28.5	22.5	24.9
EBITDA margin	16.9	17.1	16.4	15.2	17.9	22.7
Valuation (x)						
P/E	22.03	29.58	37.46	27.54	24.70	20.91
P/BV	10.7	8.8	8.0	7.1	6.2	5.3
EV/Sales	7.8	6.8	6.0	5.2	4.6	4.5
EV/EBITDA	45.5	39.4	37.3	35.2	26.3	19.2
Dividend Yield (%)	0.4	0.2	0.5	0.5	0.5	0.9
Return Ratios (%)						
RoE	22.47	22.18	13.69	15.02	19.82	23.9
RoCE	23.09	21.31	17.86	16.49	18.71	22.55
Working Capital Ratios						
Asset Turnover (x)	1.3	1.2	1.3	1.3	1.1	1.35
Inventory (Days)	66	75	82	74	80	95
Debtor (Days)	40	45	61	62	72	66
Creditor (Days)	42	46	55	48	42	44
Leverage Ratio (x)						
Debt/Equity ratio	-0.1	0.1	0.1	0.0	0.1	0.0

Cash Flow Statement (Rs. Cr)

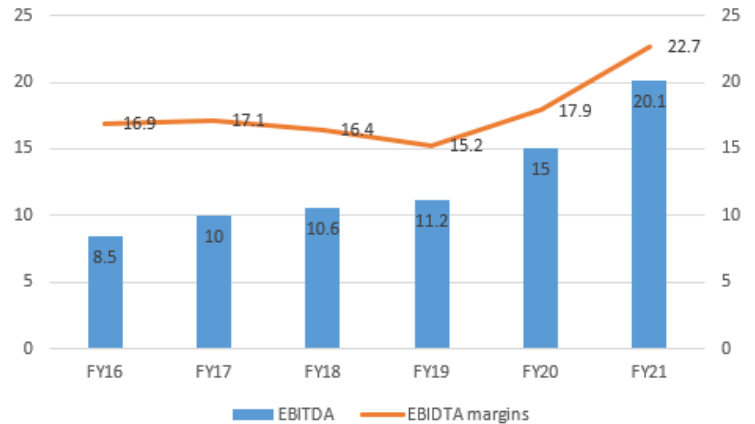
	FY16	FY17	FY18	FY19	FY20	FY21
Profit before Tax	928.4	964.6	926	954.7	1259.8	1842.1
Depreciation	93.3	101.2	143	193.2	252.8	274.6
Interest and Finance Charges	-59.9	-59.2	-23.4	13.4	1.9	-31.2
Direct Taxes Paid	-198.2	-264	-203.2	-251.1	-283.4	-400.7
(Inc.)/Dec. in Working Capital	10.1	-262.6	-573.2	-140.3	-647.2	-341.2
Cash Flow from Operations	773.7	480.1	269.2	769.8	583.9	1343.6
Others	-47.8	-9	-3.2	9.8	1.2	-78.7
Cash Flow from Operations incl. EO	725.8	471.1	266	779.7	585.1	1264.9
(Inc.)/Dec. in FA	-253.5	-634.4	-6,77	-5,26.9	-347.7	-184.5
Free Cash Flow	472.4	-163.3	-411	252.7	237.4	1080.5
Purchase/Sale of Investments	32.5	0	86.8	123.5	45.8	0.3
Others	407.4	348.4	233	87.1	-439.5	-814.4
Cash flow from Investments	186.4	-285.9	-357.2	-316.4	-741.4	-998.5
Inc./Dec. in Debt	-671.4	12.1	357.4	-105.7	603.1	139.7
Interest Paid	-71.3	-63.6	-55.3	-54.6	-65.1	-53.6
Dividend Paid	-184.5	-86.3	-217.6	-218.6	-439.6	-334.8
Others	0	0	109.8	64.9	-19.3	-23
Cash flow from Financing Activity	-9,27.3	-1,37.9	84.6	378.9	79.1	-271.8
Inc./Dec. in Cash	-15.1	47.3	-6.6	84.3	-77.1	-5.4
Opening Balance	139.6	12.7	166.7	166.7	24.9	17.6
Add/(less) Forex diff. in Cash and Cash eq.	2.5	-7.7	6.7	-2	4	
Closing Cash and Cash equivalent	127	166.6	166.7	249	176	170.5
Bank Balances	653.9	232.6	410.1	412.6	916.3	1819.9
Total Cash and Cash equivalent	780.9	399.2	576.7	661.6	1092.2	1990.5

Financial story in charts

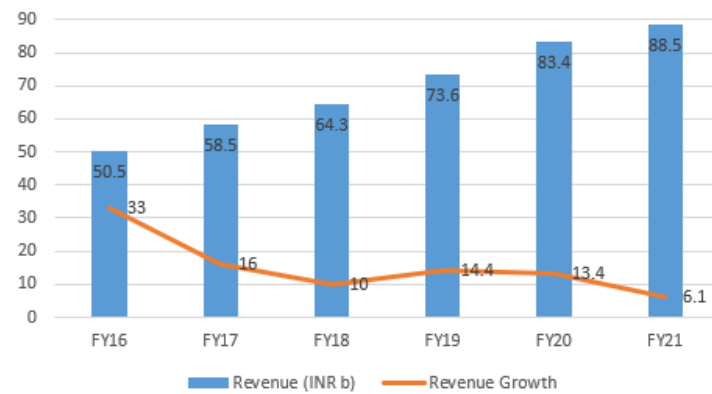
Anti-Infectives is the Alkem's biggest therapy drug, contributing 37% to sales.



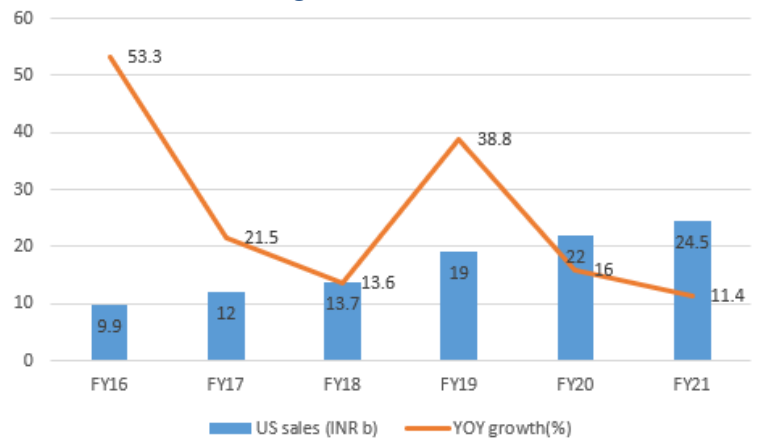
EBITDA & EBITDA margins



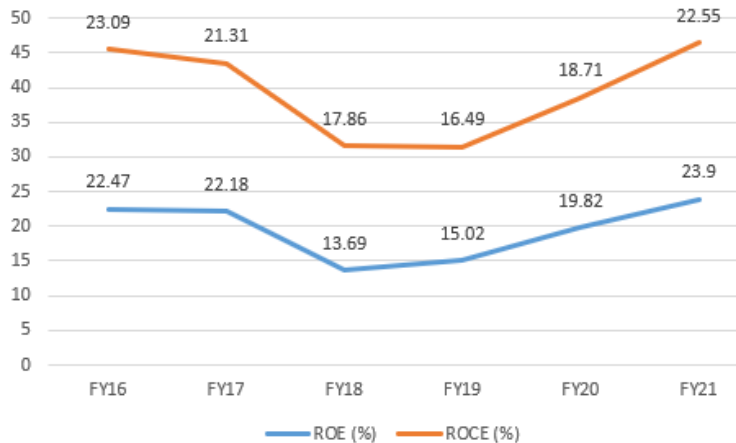
Revenue & Revenue Growth



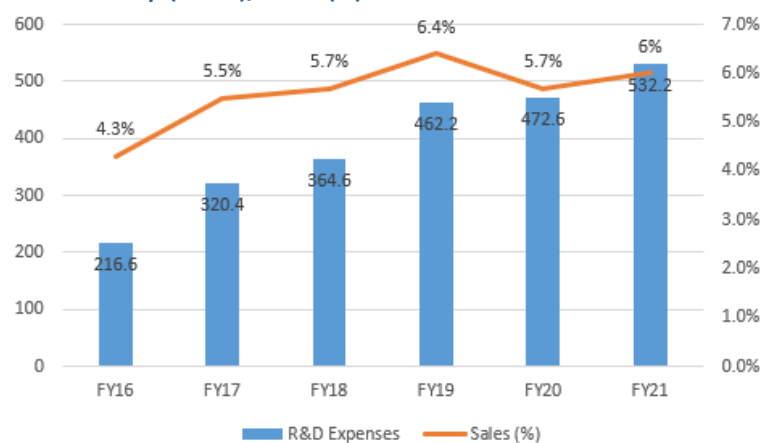
Sales in US & YOY growth



ROE & ROCE



R&D exp (Rs. Cr)/ Sales (%)



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