

Institutional Equity Research

# Alkem Laboratories

Pharmaceuticals | India

Initiating Coverage | December 27, 2017

CMP* (Rs)	2,152
Upside/ (Downside) (%)	21.3
Bloomberg Ticker	ALKEM IN
Market Cap. (Rs bn)	257
Free Float (%)	33
Shares O/S (mn)	119.6

**BUY** 

Target Price: Rs2,610

## Domestic Formulations Biz – The Key Growth Driver

Alkem Laboratories (Alkem) is one of the Top-10 pharmaceutical companies in India in terms of domestic volume. Despite regulatory challenges in domestic business – which constitutes 73% of its total revenue – Alkem has outperformed the Indian Pharmaceutical Market (IPM) with 15.6% YoY growth in FY17 led by a healthy volume growth in key brands, new product launches and market share gains. On the back of strong traction in acute segment, Alkem's overall domestic formulations revenue witnessed 19.2% CAGR through FY12-17 vs. ~11-12% CAGR in IPM. Looking ahead, we expect Alkem's domestic formulations business to witness ~13.5% CAGR through FY17-20E driven by increasing focus on chronic and over-the-counter (OTC) segments, improving market share, new launches in key therapeutic segments (CNS, CVS and diabetes) and higher field force productivity.

### Steady Growth in US Sales despite Challenging Environment

The US (21% of total revenues) is an attractive generic market for Alkem given patent expiry worth US\$100bn over the next five years. Its cumulative ANDAs filing stood at 94, out of which 52 ANDAs are pending for the US FDA approvals (including Para-IVs & FTFs: 38). Looking ahead, we expect Alkem to file ~15 ANDAs and launch 8-10 products every year in the US. Alkem has delivered a robust 59% CAGR over FY12-17 in the US. Though all major generic pharmaceutical companies have been facing increased US FDA scrutiny and severe price erosion, we expect Alkem's sales to deliver 11.4% CAGR through FY17-20E led by a healthy pipeline, no pending issues with US FDA and new launches.

### EBITDA Margin to Improve; Return Ratios Remain Healthy

India business generates 85%+ of Alkem's total EBITDA margin. We expect healthy growth in India business would lead to 292bps expansion in EBITDA margin to 20% through FY17-20E driven by better product-mix, improvement in field force productivity, new product launches and positive operating leverage. Further, we expect strong FCF improvement in FY19/20E led by lower capex. Alkem's return ratios are comparable with the top Indian pharmaceutical companies owing to strong focus on high-margin domestic business and better product-mix. We estimate Alkem to deliver healthy returns ratios with RoCE at 20.8% and RoE at 19.0% by FY20E.

### Outlook & Valuation

Over the last five years, Alkem has witnessed a consistent 23.8% CAGR in revenues. Looking ahead, we remain positive on the medium to long-term growth prospects of Alkem on the back of stable revenue growth from high-margin domestic business. At CMP, the stock trades at a PE of 24.4x and 19.8x of FY19E and FY20E earnings. We expect stock to command premium over its peers on account of healthy return ratios, no pending US FDA issues, and higher exposure to India business. **We initiate coverage on the stock with a BUY recommendation and Target Price of Rs2,610, valuing the stock at 24x FY20 EPS of Rs108.7.**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	58,525	63,331	72,489	83,596
EBITDA	9,990	11,435	13,776	16,709
Adj. PAT	8,920	7,848	10,557	13,000
EPS (Rs)	74.6	65.6	88.3	108.7
P/E (x)	28.8	32.8	24.4	19.8
EV/Sales (x)	4.5	4.2	3.6	3.1
EV/EBITDA (x)	26.2	23.3	19.0	15.3
ROE (%)	20.0	15.5	18.0	19.0
ROCE (%)	19.4	18.2	19.4	20.8

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.8	16.2	34.8
Relative to Nifty	8.1	8.6	3.6

Shareholding Pattern (%)	Jun'17	Sept'17
Promoter	67.0	67.0
Public	33.0	33.0

### 1 Year Stock Price Performance



Note: \* CMP as on Dec 27, 2017

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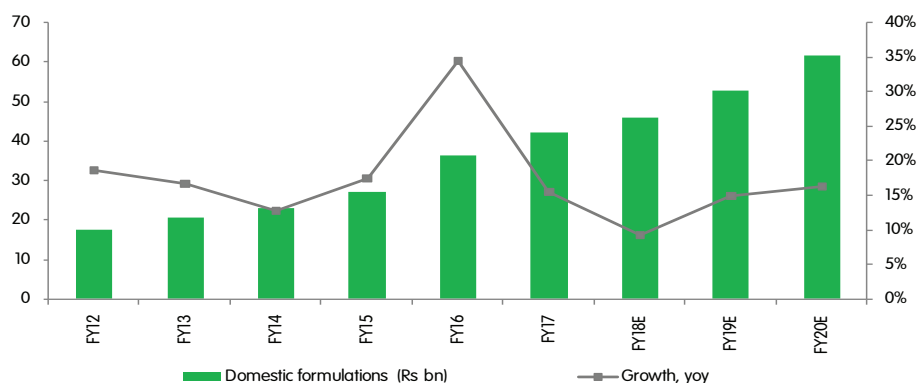
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Target Price: Rs2,610

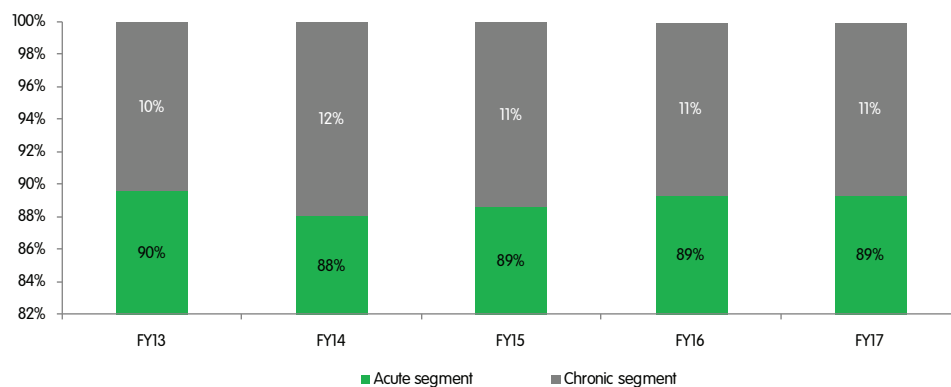
## Investment Rationale

### Domestic Formulation Biz – The Key Growth Driver

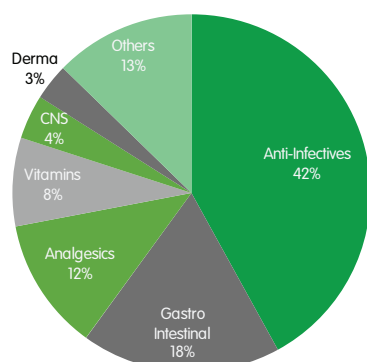
Alkem has a strong portfolio of over 700 brands in India covering major therapeutic segments with a robust pan-India sales and distribution network. It is amongst India's Top-10 pharmaceutical companies in terms of domestic sales for last 14 years and is currently the 5th largest pharmaceutical company in India in terms of market share. (Source: IMS TSA MAT Mar'17).

**Exhibit 1: Domestic Sales Performance**


Source: Company, RSec Research

**Exhibit 2: Domestic Sales Break-up: Acute vs. Chronic segment**


Source: Company, RSec Research

**Exhibit 3: Therapy-wise Break-up (FY17)**


Source: Company, RSec Research

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## Domestic Market – Chronic & Acute Segments

Alkem enjoys leadership position in acute segment (89% of India sales) i.e. Anti-infective, Gastro-intestinal, Analgesic and Vitamins. Its acute segment witnessed 20% CAGR over FY13-17 led by market share gain, volume growth and improvement in field force productivity. We expect growth of 13.5% CAGR over FY17-20E (above industry growth) driven by its leadership position in key therapies and new product launches.

Though Alkem generates lower sales in chronic segment (11% of India sales) i.e. CVS, Anti-diabetic, CNS, Dermatology and Oncology, it has been focussing on building a formidable base in chronic segment (with dedicated 1,500+ field force) in India through expanding prescription base and launching new products. In last four years (21% CAGR over FY13-17), Alkem has delivered an impressive performance in chronic segment in terms of market share gain and improvement in market rankings. Going ahead, we expect growth momentum in chronic segment to continue on account of lower base and increase in field force productivity (from Rs3mn to Rs6.5m).

Chronic segment – which accounts for ~1/3rd of total domestic market – has been growing at an impressive pace compared to the acute segment led by increasing life-style diseases and changing food habit. India is considered as the diabetes capital of the world with more than 50mn people suffering from Type-II diabetes. Also, the prevalence and diagnosis of cardiac and neurological disorders is growing at an alarming rate.

### Exhibit 4: Top-10 Brands Performance in India

MAT Oct'17 (Rs mn)		Value	Growth (%)	Contribution (%)
Clavam	Anti-Infectives	2,840	3.9	7.2
Pan	Gastro Intestinal	2,566	10.7	6.5
Pan D	Gastro Intestinal	2,267	20.5	5.8
Taxim O	Anti-Infectives	1,882	(8.9)	4.8
Taxim	Anti-Infectives	1,290	(14.2)	3.3
A To Z Ns	Vitamins	1,166	22.7	3.0
Xone	Anti-Infectives	999	(5.7)	2.5
Gemcal	Vitamins	970	0.6	2.5
Ondem	Gastro Intestinal	899	(0.5)	2.3
Sumo	Analgesics	866	(10.0)	2.2
<b>Total- Top ten drugs</b>		<b>15,745</b>		
Total domestic		39,222		
<b>Top ten drugs (% to domestic)</b>		<b>40.1</b>		

Source: AIOCD; MAT Oct'17, RSec Research

### Exhibit 5: Alkem Outperformed Industry Growth in Acute & Chronic Segment in FY17

Therapy	IPM (%) FY13-17 CAGR	Alkem (%) FY13-17 CAGR	% to India Sales FY17	Alkem Rank FY17	Alkem Market Share (%) FY13	Contribution (%) FY17
<b>Acute Segment</b>						
Anti-infective	5.6	9.4	42.0	1	10.5	12.1
Gastro intestinal	12.3	17.0	18.0	3	5.1	6.0
Analgesics	10.5	15.6	12.0	3	4.4	5.3
Vitamins	12.2	15.6	8.0	6	3.3	3.7
<b>Chronic Segment</b>						
CNS	12.2	17.1	4.0	11	1.8	2.1
Derma	18.1	31.2	4.0	18	1.0	1.5
CVS	12.0	34.6	2.0	30	0.3	0.6
Anti-Diabetes	19.6	50.2	2.0	25	0.3	0.8

Source: Company, RSec Research; IPM- Indian Pharmaceuticals Market

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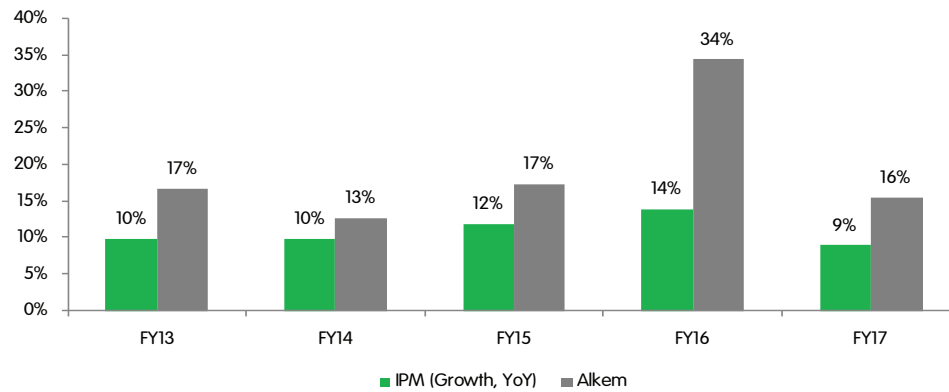
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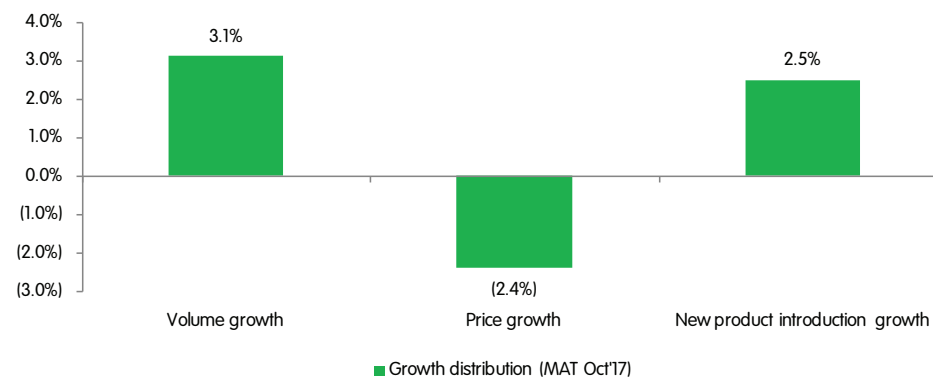
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**Exhibit 6: Domestic Market Performance: Alkem vs. Indian Pharma Market (IPM)**


Source: Company, RSec Research

**Exhibit 7: Domestic Sales Growth led by Volume Growth & New Launches**


Source: AIOCD MAT Oct'17, RSec Research

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## Domestic Market – OTC Segment at Nascent Stage, but Offers Significant Growth Opportunity

India's OTC market is pegged at Rs145bn, which is expected to grow significantly driven by rising health awareness, unhealthy lifestyle, work stress, increasing trend of self-medication and A&P campaign and celebrity endorsement etc.

Alkem forayed into domestic Indian Over-the-Counter (OTC) market, which we believe offers a significant growth opportunity owing to its strong brand building capabilities, wider distribution reach (over 7,000 stockists, 40 sales depots and 8 central warehouses) and decades-rich market insights. In FY17, Alkem partnered with Haw Par to exclusively market, sell and distribute Tiger Balm (pain balm; market size: ~Rs9bn) range of products in India. Apart from this alliance, it has already started strengthening its OTC portfolio with products in personal hygiene/lifestyle segment, gastrointestinal space and cold/cough segment.

Alkem generates OTC sales of ~Rs1.0bn and expects it to grow 3x over the 3-5 years. Tiger Balm is a key product in its OTC segment with secondary sales of ~Rs600mn. Other key OTC products are Playgard (condoms; market size: ~Rs5.0bn) and Pregakem (pregnancy detection kit; market size: ~Rs3bn).

### Exhibit 8: Alkem's OTC Portfolio in India

Brand	Product
Tiger Balm	Pain relieving balm
Pregakem	Pregnancy detection kit
Livoerb Syrup	Herbal based liver tonic
Playgard	Condoms
Honyhony	Cough syrup
UncleCool	Throat lozenges

Source: Company, RSec Research

### Exhibit 9: Alkem's OTC portfolio



Source: Company, RSec Research

FY17 was a challenging year for the Indian pharmaceutical companies due to the expansion of NLEM list, further price cuts in drugs which were a part of the earlier NLEM list, ban on Fixed Dose Combinations (FDCs), slowdown following demonetisation and GST roll-out. Despite these challenges in domestic business, Alkem has outperformed the Indian Pharmaceutical Market (IPM) with 15.6% YoY growth in FY17 led by a healthy volume growth in key brands, new product launches and market share gains. Its overall domestic formulations revenue witnessed 19.2% CAGR through FY12-17 vs. ~11-12% CAGR in IPM owing to strong traction in acute segment. Looking ahead, we expect Alkem's domestic formulations business to witness 13.5% CAGR through FY17-20E driven by increasing focus on chronic and OTC segment, market share gain, new launches in key therapeutic segments (CNS, CVS and diabetes) and higher field force productivity. Management expects potential in-licensing opportunities in Anti-infective and Anti-diabetic therapy.

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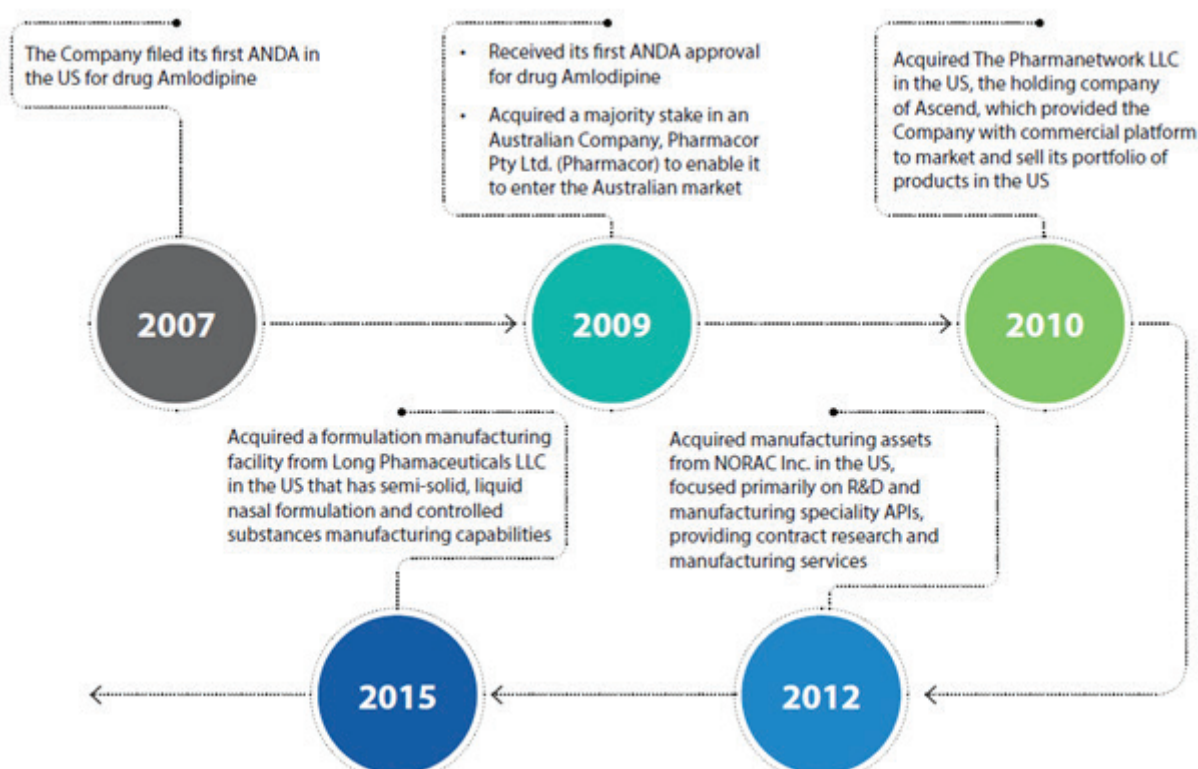
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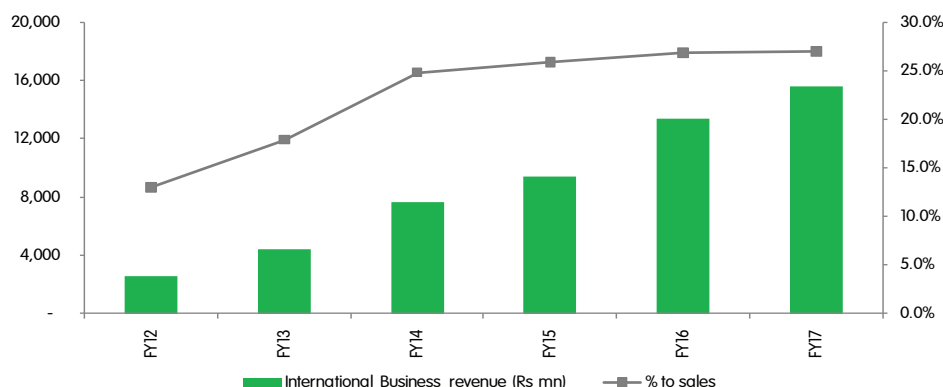
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## International Business

The US is the key focus market for Alkem's international operations, in addition to which it sells products in more than 50 international markets i.e. Australia, Europe, South East Asia, Latin America, Africa and CIS. Overall revenue share of international business has grown from 13% in FY12 to 27% in FY17 with an impressive 43% CAGR during the same period.

**Exhibit 10: Evolution of the Alkem's International Business**


Source: Company, RSec Research

**Exhibit 11: International Business**


Source: Company, RSec Research

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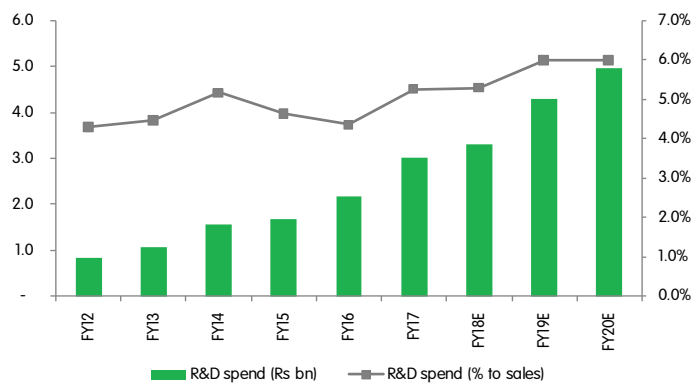
## Steady Growth in US Sales despite Challenging Environment

The US market is the 2nd largest geography for Alkem, which contributes ~21% to its total revenues. It sells products in the US under its "Ascend" brand which sold 26 products in the US market (own products- 19; in-licensed- 7) as of FY17. The US is an attractive generic market for Alkem given patent expiry worth US\$100bn over the next five years. Overall US market size stood at US\$400bn while generic drugs volume share stood at ~90%. Cumulative ANDAs filings stood at 94 (including 1 NDA), out of which 52 ANDAs are pending for approvals from the US FDA (including Para-IVs & FTFs: 38). In FY17, Alkem filed 14 ANDAs and received approval for 9 ANDAs (including 4 tentative approvals). It expects to file ~12-15 ANDAs in FY18E (1H FY18: 6 filed).

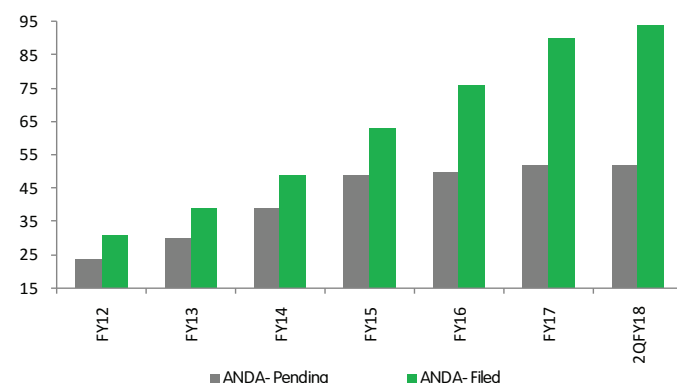
Currently, the Company is facing mid-single digit price erosion, which would offset by volume share gain in older products. Looking ahead, we expect Alkem's generic Mycophenolate Mofetil suspension (market share: 80-85%; Strength: 200mg/ml) to face incremental competition, as it is a only generic player in the US market in suspension category along with innovator Roche (brand: Cellcept). We expect overall contribution from this product to US sales to come down from 15-16% (US\$30mn) to ~5% by FY20E led by incremental competition.

Alkem has delivered a robust 59% CAGR over FY12-17 in the US sales driven by new product launches and ramp-up of market share of existing products. Currently, all major generic pharmaceutical companies have been facing increased US FDA scrutiny and severe price erosion, despite which we expect Alkem's sales to deliver 11.4% CAGR through FY17-20E led by a healthy pending pipeline, no major pending issues with the US FDA and new launches.

**Exhibit 12: With Marginal Rise (100bps) in R&D Spend, ANDA Filings Rose by 3x over FY12-17**

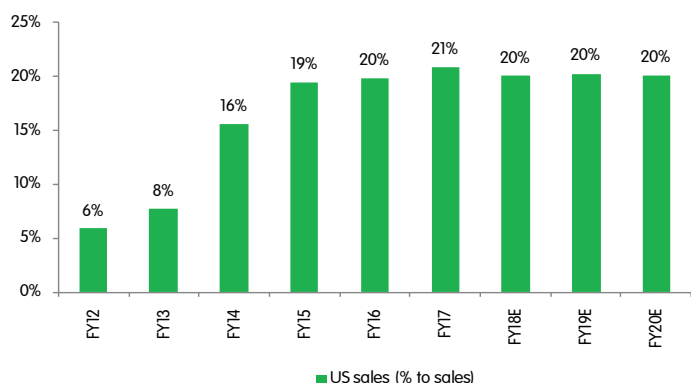


Source: Company, RSec Research

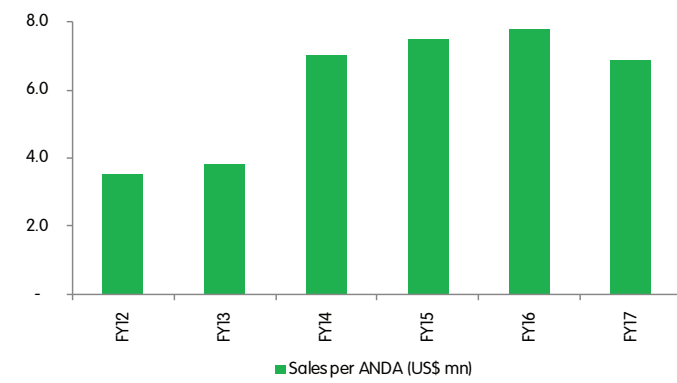


Source: Company, RSec Research

**Exhibit 13: US Sales to Contribute 20% of Sales in FY17 (vs. 6% in FY12) with Higher Sales per ANDA in the US**



Source: Company, RSec Research



Source: Company, RSec Research



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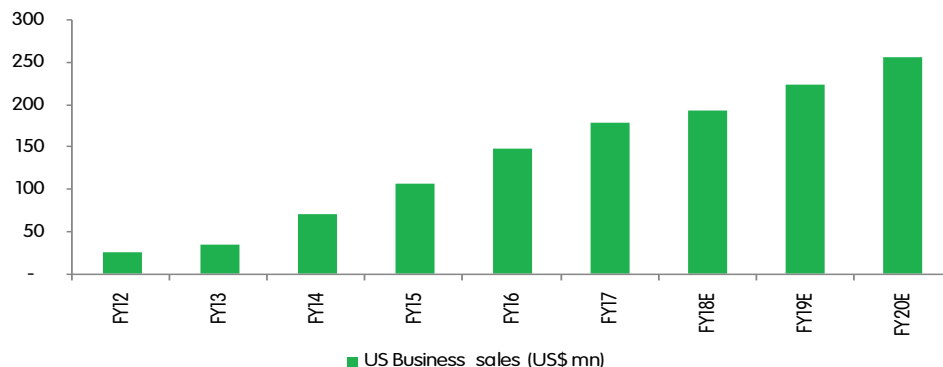
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**Exhibit 14: US Sales Clock 59% CAGR over FY12-17; Expect 11.4% Growth Through FY17-20E**


Source: Company, RSec Research

## Update on US FDA Inspections

In FY17, Alkem's three Indian facilities (2 formulation units at Daman & Baddi; 1 API unit at Ankleshwar) were inspected by the US FDA, which issued 13 observations for Daman unit and 3 observations each for Baddi and Ankleshwar units. Notably the US FDA also issued Establishment Inspection Report (EIR) to these three facilities within record time. On a positive note, unlike to other large-cap peers, Alkem has been successful in handling the US FDA's cGMP issues. In FY18, Alkem's Baddi plant received 2 observations (inspected in Sept'17) for which the Company has responded with a comprehensive CAPA (Corrective Action and Preventive Action) plan to the US FDA, while its Bioequivalence facility at Taloja (India) has successfully inspected by the US FDA with no form 483.

**Exhibit 15: Update on US FDA inspections; good track record in handling US FDA cGMP**

Facility	Type	Inspection Date	Update
California (US)	API	May-15	EIR Report received
Mandva (India)	API	Sep-15	EIR Report received in Mar-16
St. Louis (US)	Formulation	Feb-16	EIR Report received
Daman (India)	Formulation	Sept-16 – received 13 observations	EIR Report received in Dec-16
Ankleshwar (India)	API	Dec-16 - received 3 observations	EIR Report received in Mar-17
Taloja (India)	Bioequivalence facility	Jul-17	No form 483
Baddi (India)	Formulation	Sept-17 - received 2 observations	Responded with CAPA to USFDA

Source: Company, RSec Research



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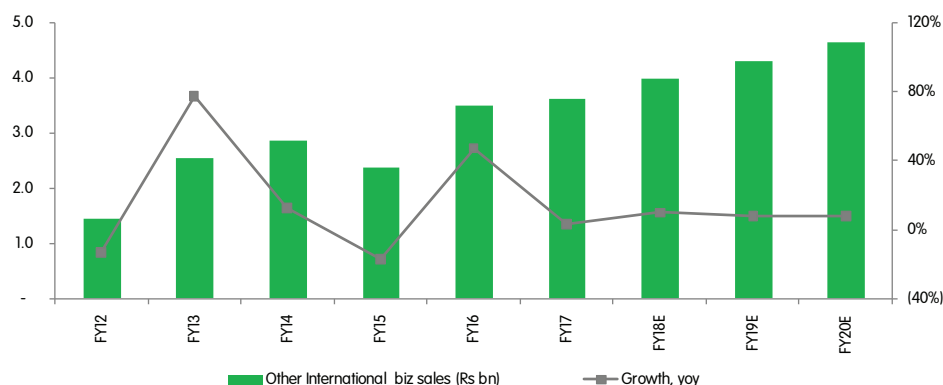
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## Other International Markets – Focus on Select Markets

Other international markets contributed 6% to total Alkem's sales in FY17. Alkem has a considerable presence in more than 50 international markets with its key markets being Australia, Philippines, Chile and Kazakhstan. Its products are sold either directly through its own subsidiaries or indirectly through partnership. Alkem reported 3.4% YoY growth in FY17 led by healthy growth in key markets, which was partially offset by the Company's decision to defocus from certain international markets.

**Exhibit 16: Other International Markets – Sales Performance**



Source: Company, RSec Research

Alkem has filed >1,400 dossiers across international markets with >800 approvals. Despite a challenging and volatile international business environment owing to changing macroeconomic scenario, increased regulatory requirements and volatile currency exchange rates, the Management envisages enormous growth opportunities through market share gain and new launches. Notably, Alkem is focusing on key select markets for sustainable growth. Other international business – which delivered 20.3% revenue CAGR through FY12-17 – is expected to clock 9% CAGR through FY17-20E.

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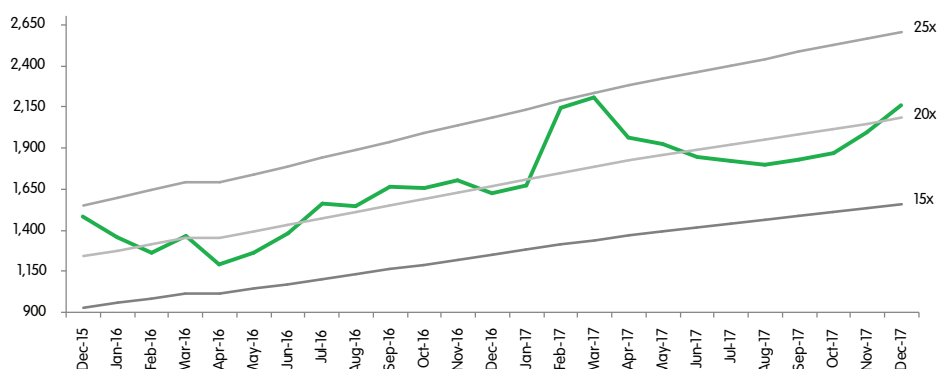
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## Key Risks

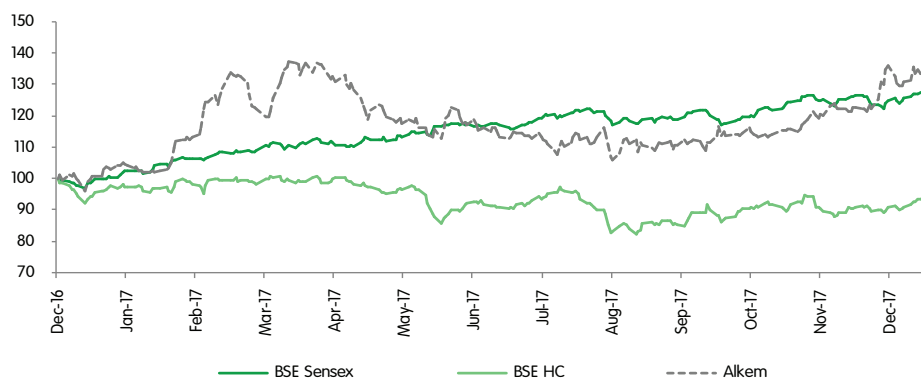
- ▶ Adverse regulatory actions leading to delay in product approval.
- ▶ Any new addition in the list of National List of Essential Medicines (NLEM) or expansion of NLEM policy could have negative impact on domestic business.
- ▶ Higher-than-expected price erosion in the US business.
- ▶ Significant volatility in currency rates.

Exhibit 17: 1 year forward PE performance



Source: RSec Research

Exhibit 18: Stock Price Movement vs. BSE HC & Sensex (1-Yr)



Source: RSec Research

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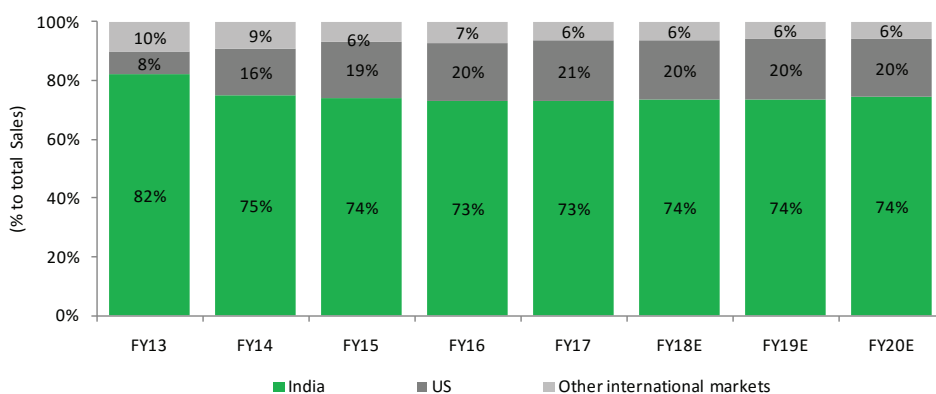
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## Financial Analysis

### Revenue to Witness 12.6% CAGR over FY17-20E

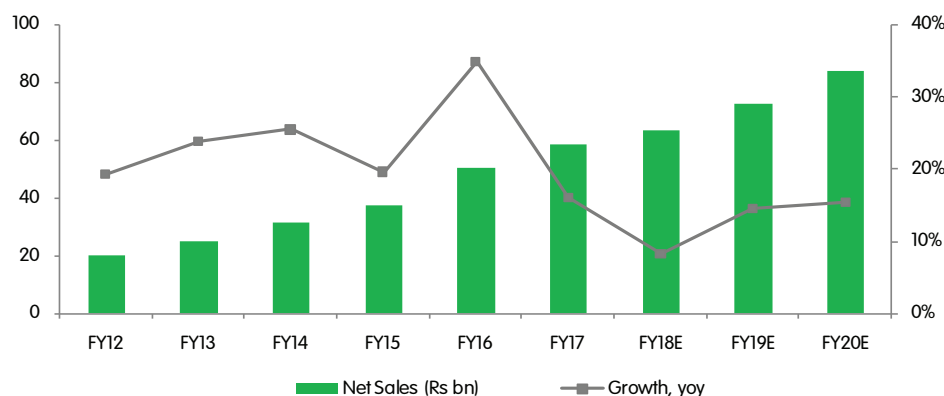
Alkem has delivered a strong 23.8% CAGR in sales through FY12-17 owing to a strong 19.2% CAGR in domestic acute business and a robust 59% CAGR in the US business led by new launches and lower base. Looking ahead, we estimate Alkem's revenue to witness 12.6% CAGR through FY17-20E on the back of: (1) healthy 13.5% CAGR in India (led by ramp-up in chronic segment, new product launches and increase in field force productivity); and (2) mid-teen growth in the US business led by rise in market share and new launches.

Exhibit 19: Revenue Break-up



Source: Company, RSec Research

Exhibit 20: Revenue to Witness 12.6% CAGR through FY17-20E



Source: Company, RSec Research

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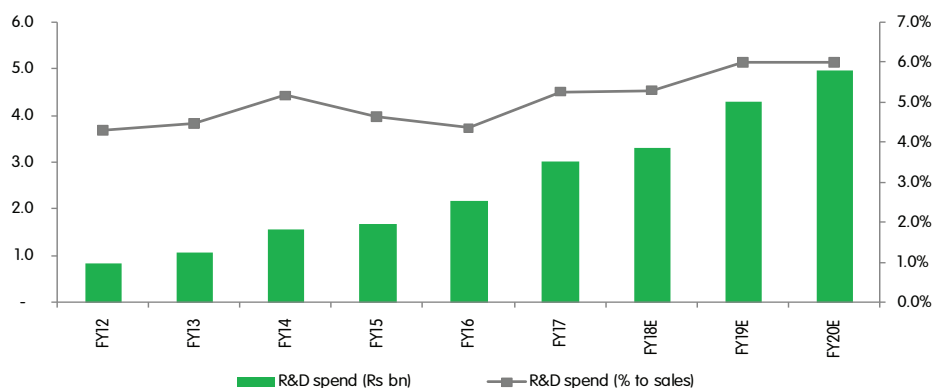
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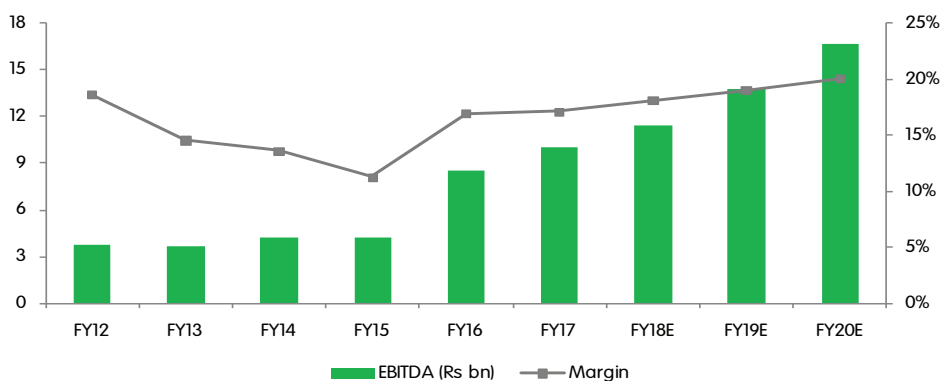
## EBITDA Margin to Improve by 292bps to 20% over FY17-20E

Domestic business is a major revenue source (73% of sales) for Alkem. The Company generates >85% of its total EBITDA margin from domestic business. Looking ahead, we expect Alkem's domestic business to witness a healthy 13.5% CAGR through FY17-20E. Alkem's R&D expenditure – as a percentage of sales – stood at 5.3% in FY17, which we peg at 6% in FY19E and FY20E.

Looking ahead, we expect Alkem's EBITDA to witness 18.7% CAGR to reach Rs16.7bn through FY17-20E. Further, despite higher R&D expenditure, we expect its EBITDA margins to expand by 292bps to 20% through FY17-20E driven by better product-mix (strong traction in cash flow sticky chronic segment), improvement in field force productivity, contribution from OTC segment in India and new launches in the US.

**Exhibit 21: R&D is pegged at 6% of Sales in FY19E/FY20E**


Source: Company, RSec Research

**Exhibit 22: EBITDA Margin to Expand by 292bps to 20% over FY17-20E**


Source: Company, RSec Research

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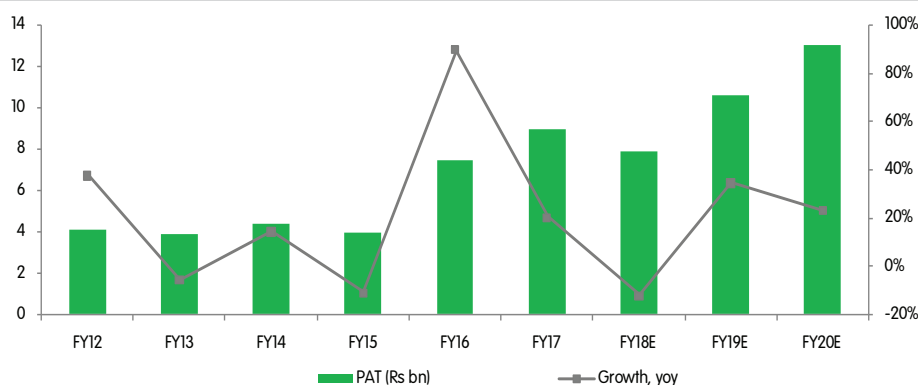
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## PAT to Deliver 13.4% CAGR Growth in FY17-20E

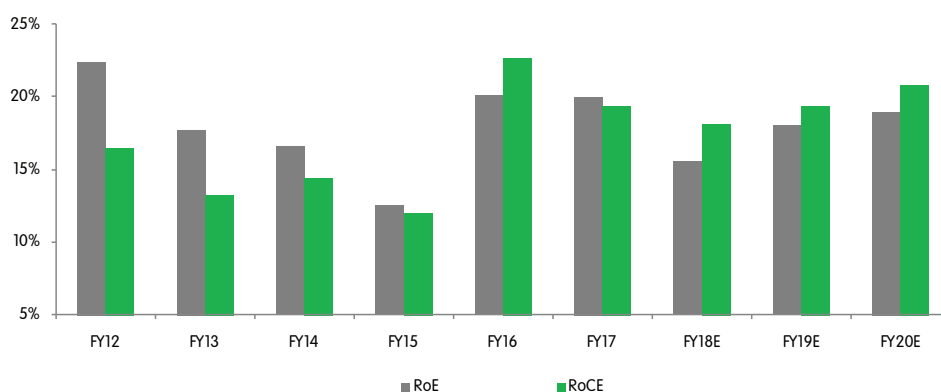
Despite strong operating performance (18.7% CAGR), Alkem's PAT is expected to witness 13.4% CAGR over FY17-20E led by higher tax rate (24% of PBT in FY18E vs. 6.2% in FY17). We expect tax rate for FY19E & FY20E (16% of PBT) would be lower than FY18E on account of new Sikkim plant with full tax benefits.

**Exhibit 23: PAT to Deliver 13.4% Growth in CAGR Term**


Source: Company, RSec Research

## Strong Balance Sheet & Healthy Return Ratios

We expect Free Cash Flow (FCF) to witness a strong improvement over FY17-20E led by lower capex in FY19E/FY20E, as envisaged by the Management. Notably, Alkem is a net debt free company. Its return ratios are comparable with the top Indian pharmaceutical companies owing to higher contribution from high-margin domestic business and better product-mix. We estimate Alkem's RoCE and RoE at 20.8% and 19.0% by FY20E.

**Exhibit 24: RoCE & RoE at 20.8% & 19.0% in FY20E**


Source: Company, RSec Research

Alkem's net D/E ratio has significantly decreased to 0.05x in FY17 from 0.24x in FY12, which, we expect to further decline to (0.09)x in FY20E.

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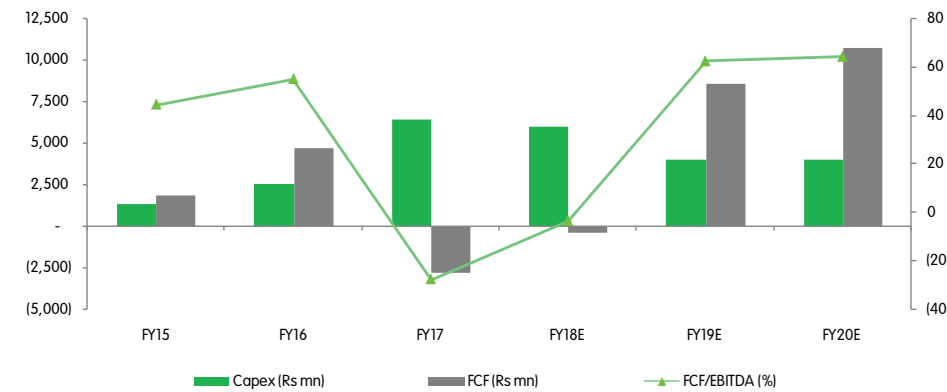
# Alkem Laboratories

Initiating Coverage | India

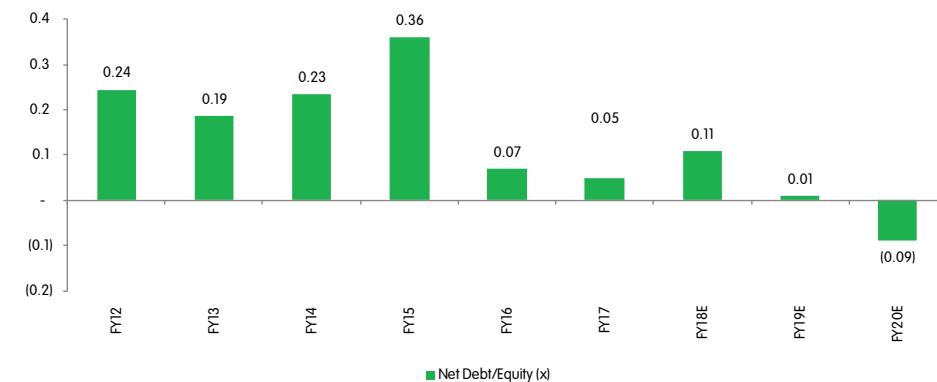
CMP* (Rs)	2,152
Upside/ (Downside) (%)	21.3
Bloomberg Ticker	ALKEM IN

**BUY** 

Target Price: Rs2,610

**Exhibit 25: We Expect Strong Improvement in FCF over FY17-20E**


Source: Company, RSec Research

**Exhibit 26: Net D/E Ratio Decreased from 0.24x in FY12 to 0.05x in FY17**


Source: Company, RSec Research

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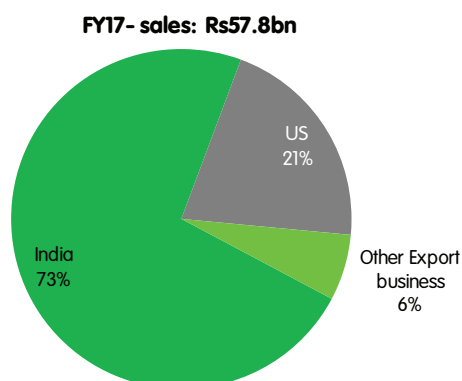
**BUY** 

Target Price: Rs2,610

## Company Background

Alkem Laboratories (Alkem) – was founded in 1973 – is a leading Indian pharmaceutical company with global operations. It features amongst India's Top-5 pharmaceutical companies in terms of domestic sales (73% of sales) and is also the largest anti-infective manufacturer. Alkem ranks amongst India's Top-3 companies in therapeutic areas of Gastro Intestinal & Analgesics. Its leading position in domestic market is supported by a comprehensive portfolio of 700+ brands, strong brand equity, 20 diversified facilities, extensive marketing and distribution network comprising of >6,500 medical representatives, >7,000 stockists and >40 sales depots and warehouses. Apart from having a strong foothold in domestic market, Alkem has also presence in >50 international markets with the US (21% of sales) being the key focus market. Its front-end presence in key international markets is spearheaded by 4 globally located R&D facilities housing >500 scientists and >1,500 product filings.

### Exhibit 27: Revenue Break-up



Source: Company, RSec Research

### Exhibit 28: Key Management

Name	Designation	Brief Profile
Samprada Singh	Chairman Emeritus	Mr. Singh – one of the co-founders of the Company – has an overall experience of over four decades in the Indian pharmaceutical industry. He is on board of directors since incorporation. He has received several prestigious awards i.e. 'Life Time Achievement Award' by Pharma Business & Technology (2000), 'Lifetime Achievement Award' at Pharma Leadership Summit (2009) etc.
Basudeo Singh	Executive Chairman	He is one of the co-founders of the Company having more than 40 years of experience in Indian pharmaceutical industry. He served as the President the Indian Drug Manufacturer's Association during 2007-09.
Dhananjay Singh	Joint MD	Mr. Singh – who joined Board in 1988 – is responsible for specific domestic business units focusing on acute and chronic therapies besides support functions i.e. legal and secretarial, purchase, distribution/logistics and HR.
Sandeep Singh	Joint MD	Mr. Singh – who joined Board in 2013 – is responsible for international business, R&D including biotech, finance, quality & compliance, api and formulation manufacturing facilities
Prabhat Agrawal	CEO	Mr. Agrawal – a CA, CFA and MBA – has been associated with Alkem since Oct'14. He has vast experience in areas i.e. corporate strategy, operations management and financial management. Prior to joining Alkem he has been associated with Hero Honda, AF Ferguson & Co, Aditya Birla Group, Frigoglass India Metalfrio Solutions.
Rajesh Dubey	President & CFO	Mr. Dubey – who has been associated with Alkem since Apr'10 – has vast experience in audit, taxation and finance. Prior to joining Alkem he was associated with Lupin.

Source: Company, RSec Research



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## Exhibit 29: Key Milestones

Year	Achievement
1973	Alkem Laboratories was incorporated
1978	Established first plant at Taloja, Mumbai
1992	Established manufacturing facility in Mandva, Gujarat. This facility was converted into an API facility in 2005
2003	Set up R&D facility for ANDA development at Taloja.
2006	Taxim drug became the first anti-infective drug in India to cross Rs 1bn in terms of domestic sales
2007	Filed first ANDA in the US (Amlodipine)
2009	Acquired Pharmacor, a generic pharma company in Australia.
2009	Received first ANDA approval in US (Amlodipine)
2010	Acquired Ascend Laboratories, a generic marketing company in the US
2011	Acquired Enzene, a company engaged in the development of bio-similar in India
2012	Acquired an API Manufacturing facility in the US
2013	Acquired an API manufacturing facility in the US
2014	Clavam (anti-bacterial) crossed Rs 2bn in terms of domestic sales in India
2014	Acquired the "Clindac-A" brand in India from Galderma SA
2015	Successfully completed Initial Public Offering
2015	Acquired a formulation manufacturing facility in the US

Source: Company, RSec Research

## Exhibit 30: Manufacturing Facilities – At a Glance

Facility	Mfg. Capacity	Major Certifications & Approvals	Focus Geography
Baddi – Unit 1 - Formulations (Immunosuppressant Block)	Tablet, Dry syrup, Capsule	USFDA (Inspection: Sept'17 with 2 observations), MHRA, TGA, INVIMA	Global markets
Baddi- Unit 1 - Formulations (General block)	Tablet- coating, Capsule	USFDA (Inspection: Sept'17 with 2 observations), MHRA, TGA, INVIMA	Global markets
Daman - Amaliya - Formulations (Cephalosporin Block)	Tab/Cap- granulation, Dry syrup	USFDA (Inspection: Sept'16; EIR received: Dec'16), MHRA, TGA, MCC	US
Daman - Amaliya- Formulations (General Block)	Tab/Cap- granulation	USFDA (Inspection- Sept'16; EIR received; Dec'16), MHRA, India-GMP, TGA, MCC, WHO	US
Ankaleshwar- APIs	APIs	USFDA (Inspection: Dec'16; EIR received Mar'17), TGA, India-GMP	Captive API plant for US
California, US - APIs	APIs	USFDA (Inspection: May'15; EIR received)	US
St Louis (Missouri), US Formulations	Liquids, nasal sprays, semi-solids/solids	USFDA (Inspection: Feb'16; EIR received)	US
Mandwa - APIs	APIs	US FDA (Inspection: Sept'15; EIR received; Mar'16), India-GMP	US, India
Sikkim – Kumrek	Formulations	WHO-GMP	India
Sikkim - Samardung	Formulations	WHO-GMP	India
Baddi- Unit 1 (Cephalosporin Block)	Formulations	INVIMA, Sudan, UAE, Malawi, Ethiopia	Global markets
Baddi – β –lactam	Formulations	WHO-GMP	India
Daman – β –lactam	Formulations	India-GMP, TGA MCC, INVIMA	Global
Daman – Kachigam	Formulations	Indian-GMP	India
Indchemie - Daman-Somnath	Formulations	ISO 22000:2005 certification	India
Indchemie - Daman-Amaliya	Formulations	WHO-GMP, Kenya FDA, Tanzania	India
Indchemie - Baddi-Beta lactum	Formulations	WHO-GMP, Kenya FDA, NAFDAC Nigeria	India
Indchemie - Baddi-General Block	Formulations	WHO-GMP, Kenya FDA, NAFDAC Nigeria	India
Indchemie - Sikkim-Kumrek	Formulations	WHO-GMP	India
Cachet - Baddi	Formulations	WHO-GMP, FSSAI, UAE, Yemen, Ethiopia, Ivory Coast, Uganda	Global

Source: Company, RSec Research

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## Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Net sales</b>	<b>58,525</b>	<b>63,331</b>	<b>72,489</b>	<b>83,596</b>
% yoy change	15.9	8.2	14.5	15.3
Adjusted RM cost	22,215	24,062	27,275	30,750
Employee expenses	10,039	10,802	12,202	14,090
Other expenses	13,239	13,713	14,929	17,074
Total operating expenditure	48,536	51,896	58,712	66,886
<b>EBIDTA</b>	<b>9,990</b>	<b>11,435</b>	<b>13,776</b>	<b>16,709</b>
EBIDTA margin (%)	17.1	18.1	19.0	20.0
Depreciation	1,012	1,276	1,451	1,557
<b>EBIT</b>	<b>8,978</b>	<b>10,160</b>	<b>12,325</b>	<b>15,153</b>
Other income	1,120	1,131	1,188	1,247
Interest costs	452	765	728	663
<b>PBT</b>	<b>9,646</b>	<b>10,526</b>	<b>12,784</b>	<b>15,737</b>
Taxes	600	2,526	2,045	2,518
Tax rate (%)	6.2	24.0	16.0	16.0
<b>Adjusted PAT</b>	<b>8,920</b>	<b>7,848</b>	<b>10,557</b>	<b>13,000</b>
% yoy change	20.3	(12.0)	34.5	23.1
<b>Reported PAT</b>	<b>8,920</b>	<b>7,848</b>	<b>10,557</b>	<b>13,000</b>
% yoy change	20.3	(12.0)	34.5	23.1
<b>Adjusted EPS (Rs)</b>	<b>74.6</b>	<b>65.6</b>	<b>88.3</b>	<b>108.7</b>

## Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	239	239	239	239
Reserves & Surplus	44,437	50,415	58,382	68,217
Shareholders Funds	44,676	50,654	58,621	68,456
Total Loans	6,595	10,548	10,048	9,148
Other long term liabilities	113	113	113	113
Deferred tax liability	5	5	5	5
Minority interest	1,152	1,304	1,486	1,704
<b>Total Liabilities</b>	<b>52,541</b>	<b>62,623</b>	<b>70,272</b>	<b>79,426</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	16,103	20,303	23,103	25,903
Less: Acc. Depreciation	1,581	2,857	4,308	5,865
Net Block	14,522	17,446	18,795	20,038
Capital Work-in-Progress	2,993	4,793	5,993	7,193
Goodwill on consolidation	3,448	3,448	3,448	3,448
Investments	2,750	2,750	2,750	2,750
Current Assets	29,098	34,927	40,685	47,985
Cash and cash equivalents	1,666	1,282	5,536	10,994
Bank balances	2,326	2,326	2,326	2,326
Loans & Advances	245	253	290	334
Others	24,861	31,066	32,533	34,330
Current liabilities	13,140	13,906	14,873	15,789
Net Current Assets	15,959	21,021	25,812	32,196
Net Deferred Tax	6,963	6,963	6,963	6,963
Other non-current assets	5,906	6,201	6,511	6,837
<b>Total Assets</b>	<b>52,541</b>	<b>62,623</b>	<b>70,272</b>	<b>79,426</b>

Institutional Equity Research

# Alkem Laboratories

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Bloomberg Ticker	ALKEM IN

**BUY** 

Target Price: Rs2,610

## Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Profit before tax	9,646	10,526	12,784	15,737
Depreciation	1,012	1,276	1,451	1,557
Interest provided	610	765	728	663
Change in Working Capital	(3,639)	(4,447)	(347)	(728)
Tax Paid	(2,640)	(2,526)	(2,045)	(2,518)
Others	(1,292)	-	-	-
<b>Cash Flow from Operations</b>	<b>3,698</b>	<b>5,593</b>	<b>12,571</b>	<b>14,711</b>
(Inc.)/ Dec. in Fixed Assets	(6,448)	(6,000)	(4,000)	(4,000)
Others	3,589	(1,295)	(499)	(524)
<b>Cash Flow from Investing</b>	<b>(2,859)</b>	<b>(7,295)</b>	<b>(4,499)</b>	<b>(4,524)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	1,134	3,953	(500)	(900)
Dividend Paid (Incl. Tax)	(863)	(1,870)	(2,590)	(3,165)
Interest provided	(636)	(765)	(728)	(663)
<b>Cash Flow from Financing</b>	<b>(366)</b>	<b>1,318</b>	<b>(3,818)</b>	<b>(4,729)</b>
Net change in cash and cash equivalents	473	(384)	4,254	5,458
<b>Opening cash and cash equivalents</b>	<b>1,271</b>	<b>1,666</b>	<b>1,282</b>	<b>5,536</b>
<b>Closing cash and cash equivalents</b>	<b>1,744</b>	<b>1,282</b>	<b>5,536</b>	<b>10,994</b>
Add/Less: Exchange diff. on cash & cash equiv.	(78)	-	-	-
<b>Net Closing cash and cash equivalents</b>	<b>1,666</b>	<b>1,282</b>	<b>5,536</b>	<b>10,994</b>

## Key Ratio

Y/E March	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratio (x)</b>				
P/E	28.8	32.8	24.4	19.8
P/CEPS	25.9	28.2	21.4	17.7
P/BV	5.8	5.1	4.4	3.8
Dividend yield (%)	0.7	0.6	0.8	1.0
EV/Sales	4.5	4.2	3.6	3.1
EV/EBITDA	26.2	23.3	19.0	15.3
EV / Total Assets	5.0	4.3	3.7	3.2
<b>Per Share Data (Rs)</b>				
Adj EPS	74.6	65.6	88.3	108.7
Cash EPS	83.1	76.3	100.4	121.8
DPS	15.0	13.0	18.0	22.0
Book Value	373.7	423.7	490.3	572.6
<b>Returns (%)</b>				
RoCE	19.4	18.2	19.4	20.8
RoE	20.0	15.5	18.0	19.0
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	3.6	3.1	3.1	3.2
Inventory / Sales (days)	75	75	75	75
Receivables (days)	45	68	60	50
Payables (days)	56	48	45	43

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## Alkem Laboratories

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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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