Alkem Laboratories Ltd. (ALL). : Strong play in Pharma domestic formulations business, "SUBSCRIBE"

7th December, 2015

Established in 1973, Alkem Laboratories Limited, a leading Indian pharmaceutical company with global operations, is engaged in the development, manufacturing of branded generics, generic drugs, active pharmaceutical ingredients (APIs) and Nutraceuticals which it markets in India and 55 countries internationally, primarily the United States. Alkem has seen strong growth under the vision, leadership and guidance of their founders, Mr. Samprada Singh and Mr. Basudeo N. Singh associated with the pharmaceutical business for over four decades). As of FY15 Alkem was the fifth largest pharmaceutical company in India in terms of domestic sales with 3.6% market share. ALL operates 14 manufacturing facilities in India, three of which are USFDA approved and also have other key approvals from international regulatory agencies such as TGA Australia and UK – MHRA among others for certain of its facilities. Alkem also conducts research and development activities at their facilities in Taloja and Bangalore in India and California and St. Louis in the United States. For FY15, its R&D amounted to 4.5% of the net revenues. As of Oct. 31, 2015, Alkem has filed 69 ANDAs in the United States of which 21 have been approved and 2 have received tentative approvals. Out the 69 ANDAs, 30 were Para IV filings including first-to-files ("FTFs"). Alkem has also filed 1 New Drug Application ("NDA") -that has received final approval. The remaining ANDAs are at various stages of the approval process.The Company's pharmaceutical business is organized into domestic (i.e Indian) and international operations. For FY15, its domestic and international operations accounted for 74.7% and 25.3% respectively of its net revenues from operations. As on sep. 30, 2015, its domestic and international operations accounted for 74.9% and 25.1% respectively. ALL operates in various therapeutic areas and has a portfolio of 736 brands as on FY15 and a portfolio of 705 brands in India as on H1FY15. ALL's most significant therapeutic areas in the domestic market are anti – infectives, gastro – intestinal, pain and analgesics, and vitamins, minerals and nutrients. These therapeutic areas accounted for 80.7% of its total sales in the domestic market for FY15 (Source: IMS SSA MAT – March 2015) and 80.3% of its total sales in the domestic market for the six months ended Sep. 30, 2015 (Source: IMS SSA MAT Sep. 2015). Its anti – infective brand Taxim was the first anti – infective brand in India to cross Rs. 1,000 mn in sales in FY 06. (Source: IMS Health). The Company's Ani – infectives segment has a market share of 11.2%. The Company's key brands in the anti – infectives category include Clavam, Taxim, Taxim – O and Xone. Its most popular anti – infective, Clavam, had a market share of 15.5% in its category and domestic sales of Rs. 2,150 mn for FY15. Moreover, Taxim is also a popular with a market share of 76.6% in its category. Its key brands in gastro – intestinal category include Pan, Pan – D, Ondem and Satrogyl –O. Pan and Sattrogyl –O had a market share of 29.5% and 55.8% respectively for the six months ended Sep. 30, 2015.

ALL has been among top ten pharmaceutical companies in India in terms of domestic sales for the past 12 years (Source: IMS Health). Domestic business has witnessed a CAGR of 17.6% over the period FY11-FY15. According to IMS Health, ALL is the third –fastest growing Company in terms of sales in FY11-15 among the ten largest pharmaceutical companies in the Indian domestic formulations market. Over the period FY13-15, topline witnessed a CAGR of 23% to touch Rs. 37.8 bn. Reported PAT registered a CAGR of 9.81% to touch Rs. 4.62 bn. At the upper end of the price band of Rs. 1050, the issue is valued at a P/E of 27x on post issue FY15 EPS. With due consideration to factors like a) market leadership in various therapeutic areas and ability to build market leading brands in the domestic market, b) extensive sales, marketing and distribution network in India, c) strong R&D capabilities with 480 scientists working on various drug products and substances, d) strong pipeline of ANDAs, e) decent past financial performance, g) positive cash flow from operations over last five years & decent ROEs, we believe the valuations are reasonable and recommend investors to "SUBSCRIBE" the issue .

Issue date	Dec. 08 - 10, 2015
Issue size	Rs. 13.49 bn. at upper end of the price band
Type of issue	Offer for sale of 12.85 mn equity Shares by Promoter selling shareholders
Face Value	Rs. 2
Price Band	Rs. 1,020 – 1,050 per share
Lot size	14 equity Shares and in multiples of 14 equity shares thereof
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%
Post issue eq. shares	119.56 mn shares
Post issue market cap	Rs. 125.5 bn at upper price band
Book Running Lead Managers	Nomura, Axis Capital, JP Morgan, Edelweiss
Registrar to the issue	Link Intime

Y/e 31 Mar (Rs. mn)	H1FY16	FY15	FY14	FY13
Revenue from operation	25,701	37,887	31,260	24,952
Growth (%)	-	21.2	25.3	23.8
EBITDA	4,871	4,101	3,625	3,752
EBITDA Margin (%)	18.9	13.1	14.5	18.6
Reported PAT	4,313	4,626	4,353	3,836
PAT margin (%)	16.7	12.2	13.9	15.4
*Post issue EPS (Rs.)	36.07	38.69	36.41	32.1
P/E (x)	-	27	29	33
Equity Capital	239.1	239.1	119.6	119.6
Networth	3,403	29,989	25,794	21,717
RoE (%)	-	15.44	16.88	17.67
Book Value (Rs.)	284	251	216	182
P/BV (x)	-	4.2	4.9	5.8

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters group	70.87	66.23
Public	29.13	33.77
Total	**100**	**100**

Research Analyst
Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com

Objects of the issue
The Objects of the offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the Offer for Sale of up to 12.85 mn equity shares. Offer for sale comprises of Promoter Selling Shareholders The Company will not receive any proceeds from the offer.

Business Strategy
1) Consolidate and further grow its domestic sales
2) Continue to grow its business in its international focus markets
3) Focus on research and development to enhance its product portfolio
4) Use of strategic international and domestic acquisitions and partnership arrangements to enhance growth

Key brands in various sales ranges for FY15

Names of Brands	No. of Brands	Sales Range (Rs. mn)
Clavam, Taxim – O, Taxim	3	Above 1,500
Pan, Pan D	2	1,000 – 1,499
Gemcal, A to Z NS, Sumo, Ondem, Xone	5	500-999
Swich, Zocef, Xone – XP, Pipzo, Hemfer, Uprise – D3, Traxol, Cheri, Enzolflam, Taximax, Indclav, Traxol - S	12	250-499

Source: Red Herring Prospectus

Competition
The Company competes with different companies depending on the market and type of products. Their main competitors in India include leading domestic players such as Torrent Pharmaceuticals Limited, Ipca Laboratories Limited and Alembic Limited and leading global players that have penetrated the domestic market such as GSK, Pfizer and Abbott, who offer branded generics. In the U.S. generics market, their principle competitors are Teva Pharmaceutical Industries Limited, Mylan N.V., Actavis PLC, Apotex Research Private Limited, Amneal Pharmaceuticals Co. India Private Limited, Sun Pharmaceutical Industries Limited, Dr. Reddy's Laboratories Limited, Lupin Limited, Zydus Cadila Healthcare Limited and Camber Pharmaceuticals Inc.

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mail : research@ajcon.net Website : www.ajcononline.com

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Research Analyst
Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division
408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:
101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40

ASHOK KUMAR AJMERA
Digitally signed by ASHOK KUMAR AJMERA
DN: CN = ASHOK KUMAR AJMERA, C = IN, S = Maharashtra, O = Personal
Date: 2015.12.07 14:39:03 +05'30'