Angel Broking
Service Truly Personalized

January 3, 2017

Alkem Laboratories

Relieving pain

Alkem Laboratories is a Mumbai based pharma company engaged in manufacturing and marketing of generic drugs, APIs and neutraceutical products. Company sells its drugs in India and ~50 countries including the US. It has 16 manufacturing facilities of which 14 are in India and two in the USA.

Strong domestic business– Alkem is the 5th largest pharma company in India in terms of domestic revenues. Its acute segment contributes 88% of domestic revenue while chronic business contributes 12%. In the acute business, company is ranked #1 in anti-infective segment and #3 each in pain and Gastro intestinal segments. Alkem is currently a small player in the chronic segment but it is expanding this business rapidly.

Domestic business to continue its outperformance vs. industry: Alkem is expected to continue its outperformance vs. industry due to strong growth in its acute and chronic segments. Both segments are expected to grow at CAGR of 16% and 30% respectively in next 3 years due to higher sales of major brands and market share gains. We expect domestic sales to grow at 15.8% CAGR to ₹5,620cr in FY19E, vs. domestic industry growth of ~14% in next 3 years.

US revenue to double with increased ANDA monetization: Alkem's ANDA pipeline increased 2.5x from 31 ANDAs in FY12 to 76 ANDAs in H1FY17. ANDA approvals also grew by 2.8x during the same period. In next three years company expects increased ANDA launches on the back of approval to 2/3rd of its pipeline. This will to double its US revenue from ₹991cr in FY16 to ₹1,919cr in FY19E.

Improving operating performance: Alkem's operating performance is expected to improve with better sales mix (increasing exports) and market share gains in chronic segment. The company has already seen margin improvement and with rising profitability of US business, we estimate 70-100bps margin expansion.

Outlook and Valuation: The stock at the CMP of ₹1,620 is available at P/E of 15.5x of FY19E EPS of ₹105, which is at ~15% discount to average P/E (18.4x) of the peer group. In our view this discount is unwarranted considering 1) Strong earnings momentum (CAGR of 22.3% in PAT from FY16-FY19E vs. CAGR of 18.3% from FY11-FY16), 2) Improving RoE (average 21.5% RoE from FY17E-FY19E) and 3) Increasing ANDA pipeline and near term launches in the US. **We rate Alkem 'Buy' with a price target of ₹1,989 (19.0x of FY19E earnings).**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	3,743	4,992	6,043	6,893	8,114
% chg	*19.7*	*33.3*	*21.1*	*14.1*	*17.7*
Net Profit	392	684	973	1,062	1,251
% chg	*(10.0)*	*71.9*	*44.5*	*9.2*	*17.8*
OPM (%)	11.3	17.0	18.7	19.3	19.4
EPS (₹)	**32.8**	**56.3**	**81.4**	**88.8**	**104.7**
P/E (x)	49.5	28.8	19.9	18.2	15.5
P/BV (x)	6.5	5.5	4.5	3.8	3.3
RoE (%)	13.1	19.2	22.7	20.9	21.0
RoCE (%)	8.0	17.6	20.3	20.5	21.1
EV/Sales (x)	5.2	3.8	3.1	2.7	2.3
EV/EBITDA (x)	46.2	22.3	16.8	14.2	11.8

Source: Company, Angel Research; Note: CMP as of January 2, 2017

BUY

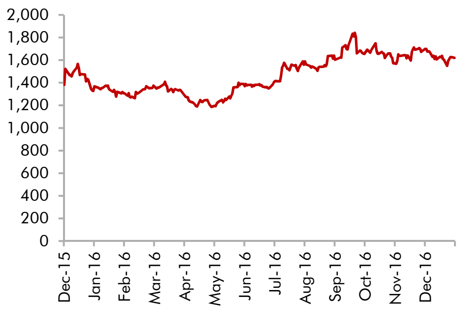
CMP	₹1,620
Target Price	₹1,989
Investment Period	12 Months

Stock Info	
Sector	Pharma
Market Cap (₹ cr)	19,397
Net Debt (₹ cr)	80
Beta	0.2
52 Week High / Low	1,853/1,175
Avg. Daily Volume	36,397
Face Value (₹)	2
BSE Sensex	26,595
Nifty	8,180
Reuters Code	ALKE.BO
Bloomberg Code	ALKEM IN

Shareholding Pattern (%)	
Promoters	66.9
MF / Banks / Indian FIs	3.3
FII / NRIs / OCBs	3.7
Indian Public / Others	26.1

Abs. (%)	3m	6m	1yr
Sensex	(4.6)	(2.1)	1.7
Alkem	(2.5)	18.7	8.2

Price Chart



Source: Company, Angel Research

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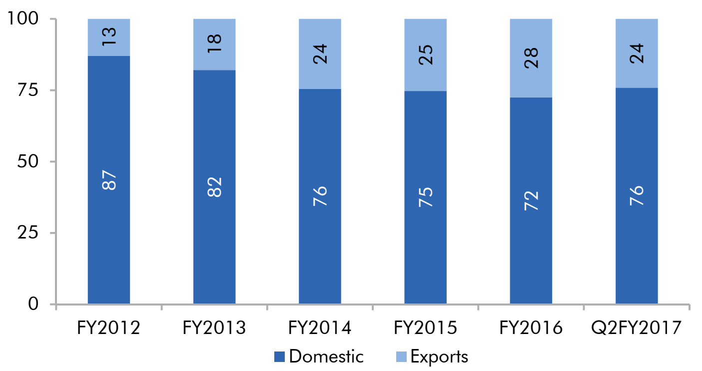
Company background

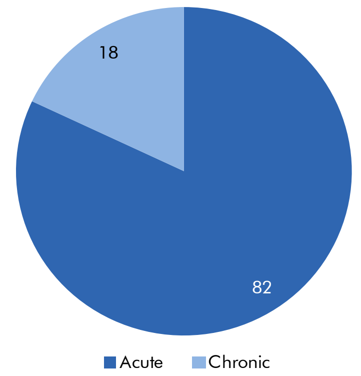
Alkem is a leading Indian pharmaceutical company with major operations in India and the USA. It is the fifth largest pharmaceutical company in India in terms of domestic sales and a market leader in anti-infective therapeutic segment. Alkem was founded in 1973 and produces branded generics, generic drugs, active pharmaceutical ingredients, which are then sold in its end markets. For FY2016, Alkem generated 73% revenue from domestic operations and rest 27% from international operations. It has a portfolio of more than 800 brands in India and a pipeline of 76 abbreviated new drugs applications (ANDA) of which 34 are approved as of September Q2FY2016.

Exhibit 1: Evolution of business mix (%)



Source: Company, Angel Research

Exhibit 2: Domestic business mix



Source: Company, Angel Research

Alkem has total 16 manufacturing facilities, 14 in India and 2 in USA – all approved by regulatory authorities such as USFDA, UK MHRA, TGAAustralia, WHO, etc.

Exhibit 3: Manufacturing facilities

Facility	Regulatory approval	Geographical Focus
Baddi	USFDA, UK-MHRA, WHO-GMP	India + US + Global
Sikkim	WHO-GMP	India
#Daman	USFDA, UK-MHRA, Indian GMP	India + US + Global
#Mandva	Indian GMP, USFDA	India + US
*Ankaleshwar	Indian GMP, USFDA, TGA-Australia	US
California	USFDA	US
St. Louis	USFDA	US

*Source: Company, Angel Research; Note: * Ankaleshwar facility was inspected by USFDA authorities and received 3 observations on the facility. # Daman and Mandva Facilities have received the Establishment Investigation Report from the USFDA.*

Exhibit 4: Key milestones in corporate history

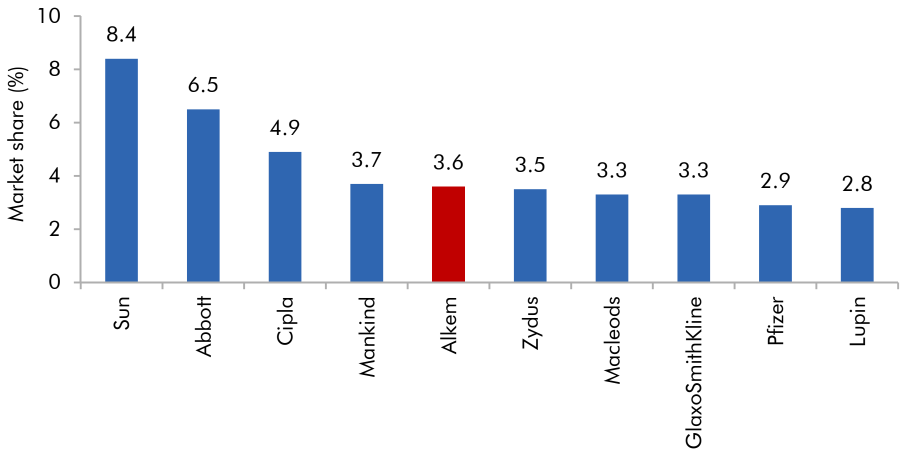
1973	Incorporation of the company
1978	Established Taloja manufacturing facility
1992	Established Mandva manufacturing facility
2003	Set up of Taloja R&D facility for ANDA development
2007	Filed its first ANDA in the US
2009	Received its first ANDA approval Acquisition of Pharmacor Pty Ltd
2010	Acquisition of Ascend Laboratories
2011	Acquisition of Enzene
2012	Acquisition of an API Manufacturing facility in the USA.
2014	Acquisition of "Clindac-A" brand from Galderma S.A.
2015	Acquisition of formulation 1) manufacturing facility in the US 2) 51% stake in Indchemie Health Specialities and Cachet Pharma IPO and listing

Source: Company, Angel Research

Investment Rationale

Strong player in domestic market: Alkem Laboratories is a 5th largest pharmaceutical company in India in terms of domestic sales. The company in FY16 recorded domestic revenue of ₹3,618cr and held market share of ~3.6%. Alkem has a comprehensive portfolio of more than 800 brands, which covers all major domestic therapeutic segments and in some of the segments, it is ranked in top three market positions. It holds #1 position in Anti-infective segment and is ranked #3 in Gastro-Intestinal and Pain/Analgesics segments. It also holds 7.9% share of overall prescriptions in India.

Exhibit 5: Alkem is one of the top 5 domestic pharma players



Source: Company, Angel Research

The company has some mega brands such as Clavam, Taxim, Pan, Gemcal, Ondem, Xone, Enzoflam, Taximax, etc., which are from various therapeutic segments. 5 of its brands feature in top 50 brands in the Indian pharmaceutical industry; while a total 14 brands feature in list of top 300 brands. The three brand franchisees, namely Clavam, Pan and Taxim add ~₹800cr in its domestic revenue (~22% of annual domestic revenue), which shows strength of its mega brands.

Exhibit 6: Major brands and their sales in FY15

Brand name	Market share (%)	Sales in ₹ cr
Clavam	15.5	215
Taxim-O	19.7	151
Taxim	76.6	151
Pan	28.9	145
Pan-D	26.0	129
A to Z NS	4.4	73
Gemcal	12.7	69
Sumo	38.4	66
Xone	10.4	62

Source: Company, Angel Research

Significantly outperforming the domestic pharma market: Alkem, in last seven years, has outperformed the domestic pharma industry due to 1) strong brand strength 2) leadership position in key therapeutics segments 3) good relationships with doctors and 4) effective execution of its sales strategy.

The company currently employs ~6000 Medical Representatives (MR) in India. Its average net revenue per MR was ₹49lakh in FY15 but significantly improved to ₹60lakh in FY16, which is now at par with the industry (~₹55Lakh-₹60Lakh per MR). Over the last few years, the company has increased its field force aggressively to improve its chronic business revenue where its sees strong business opportunities.

Alkem has a strong sales network, which is supporting its strong performance in the domestic markets. Besides 6,000 MRs, it also has 40 sales depots, 49 clearing and forwarding agents, 19 consignees and eight central warehouses covering over 7,000 stockists. The company also tracks its stock in real time throughout Pan-India, which also helps to ensure consistent supply of the drugs in the country.

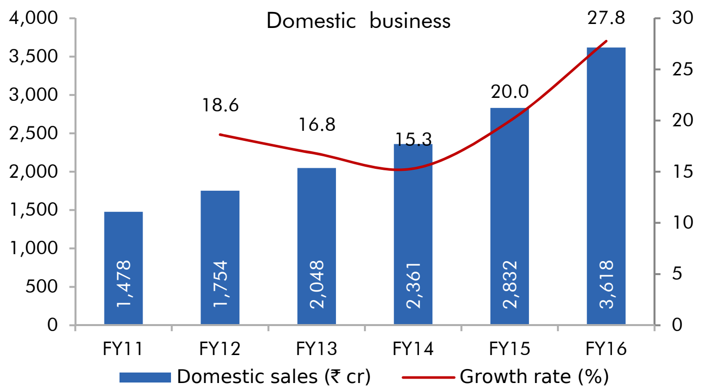
Aided by this infrastructure, company has been outperforming the industry growth by ~400-500bps over FY12-FY16. During this period, company reported a CAGR of 20% in domestic revenue compared to industry growth of ~13%.

Exhibit 7: Market share in key segments FY16

Segment	Industry size (₹ cr)	Market share (%)	Rank
Anti-infective	11,338	11.60	1
GI	9,679	5.70	3
Pain /analgesics	6,971	5.10	3
Vitamin/minerals /nutrients	6,921	3.70	5
Gynecology	4,759	2.60	9
Respiratory	7,156	1.50	19
Neuro/CNS	5,366	1.90	13
Derma	5,952	1.50	15
Cardiac	10,304	0.60	31

Source: Company, Angel Research

Exhibit 8: CAGR of 20% from FY11-FY16



Source: Company, Angel Research

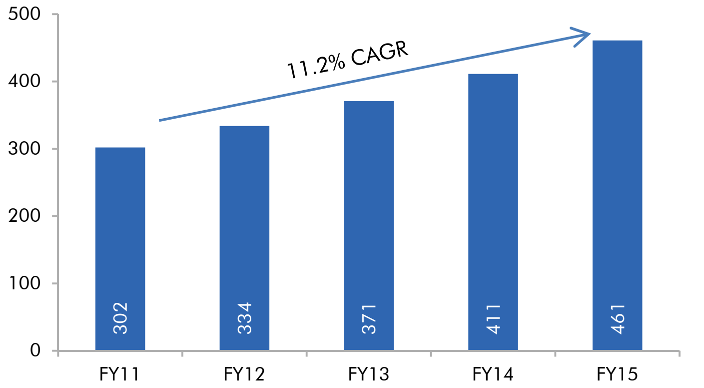
Chronic therapies to lead the industry growth: Currently the domestic formulations industry is valued at ~₹868billion, which has been growing at a compounded annual growth rate of ~13% since 2012. The industry is expected to continue growing at the same rate to reach ~₹1,400billion in 2020, largely due to the rising healthcare spending, increasing medical facilities, increasing penetration of medical insurance, change in lifestyle, etc. This is going to drive the overall market size of the pharmaceutical industry in India. The domestic formulation can be further divided in two sub-segments i.e. Acute and Chronic.

1) **Acute** – The diseases which last for short duration with quicker onset such as bacterial infections, injuries, flu, burns, etc.

2) **Chronic** – The diseases which last for long duration such as heart disease, diabetes, stroke, cancer, HIV/AIDs, etc.

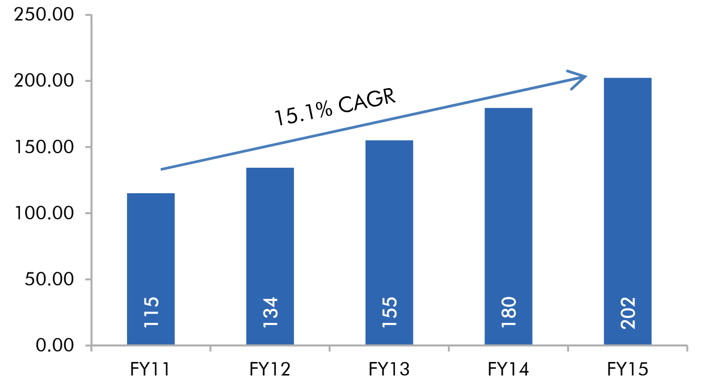
The acute segment has the highest share in the domestic formulations market (~70%) and is growing at a rate of ~11%. The chronic segment (30% of the total industry) is growing rapidly at 15% as the overall disease profile of the country is moving towards the long duration diseases due to rapid change in the lifestyle of people. Going forward, chronic segment is expected to exhibit high growth rate, whereas acute segment is expected to hold the high market share and continue to grow.

Exhibit 9: Acute segment size (₹ bn) and growth (%)



Source: Company, Angel Research

Exhibit 10: Chronic segment size (₹bn) and growth (%)



Source: Company, Angel Research

Growth drivers of domestic formulations are:

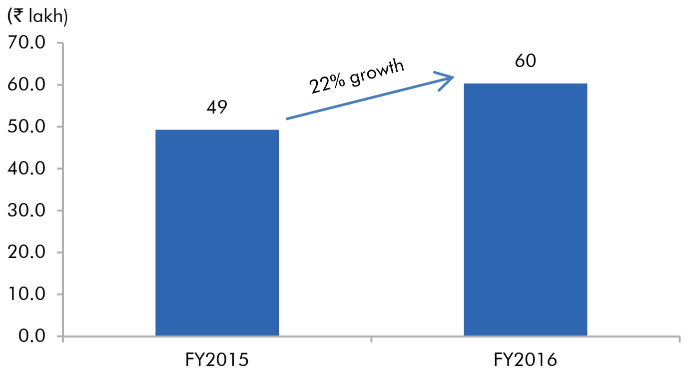
1) Acute - Greater awareness in patients, higher penetration of branded drugs, increasing preference of patients to self medicate by using OTC brands, volume growth as acute conditions are treated by mostly general practitioners, etc.

2) Chronic – Overall increase in chronic conditions, growing investments in specialty hospitals in tier II/tier III cities, coverage of chronic conditions by insurers, increasing affordability of medicines and surgeries, launch of niche and patented products, etc.

Alkem to benefit from investments in the chronic segment: Alkem is a market leader in the acute segment from which it derives 88% of its domestic revenue. We believe that the company by leveraging on its mega brands and relationships with doctors is likely to continue growing its acute business revenues. We forecast revenue CAGR of 15.7% from FY16-FY19E in the acute business segment.

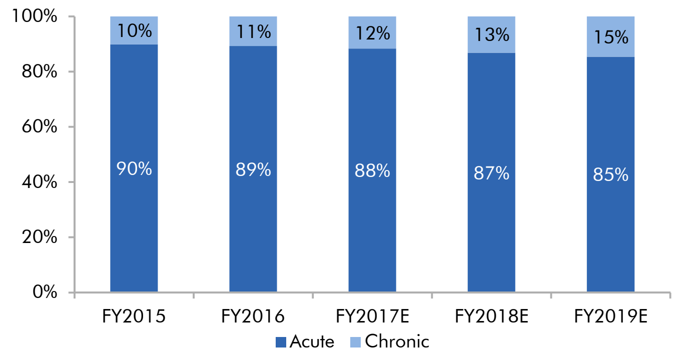
While maintaining its leadership position in acute business, the company has made sizable investments to grow its share in chronic business and has allocated ~25% of its field force (1,500 MRs) to cater to this segment. In our opinion company has a long way to go in the chronic segment which contributes 12% of domestic sales. The company realizing this is now focusing on growth of this segment. Most of the current field force (MRs) has been hired from the leading pharmaceutical players over the last three years. The productivity of these MRs is expected to increase going ahead, which will increase the market share of the company in the chronic segment.

Exhibit 11: Improving MR productivity



Source: Company, Angel Research

Exhibit 12: Domestic sales mix to change in near term



Source: Company, Angel Research

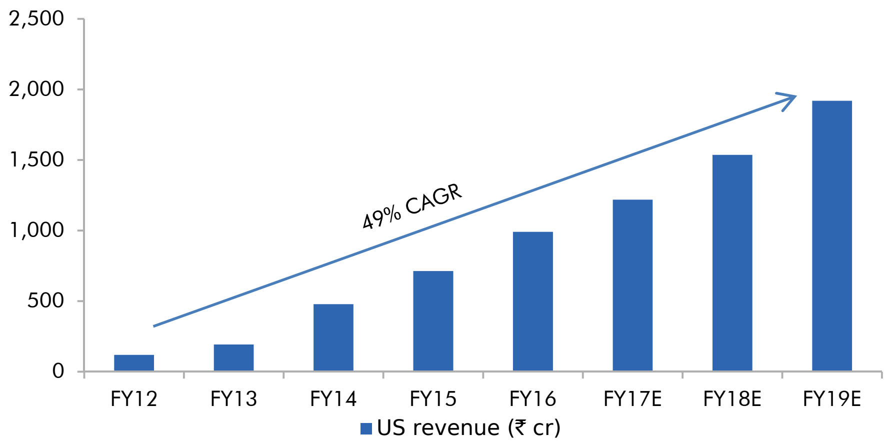
Though there is competition in chronic segment from the MNC giants, we see that Alkem, despite being a late entrant, has been able to garner some market share. Its growth rate of ~20% in chronic segment is likely to help it gain more market share in future.

NLEM impact offset by higher volumes: National List of Essential Medicines (NLEM) includes list of essential drugs whose prices are to be controlled as per Drug Pricing Control Order (DPCO). As per DPCO, the prices of each of the formulations are determined based on the average of all drugs having an Indian market share of more than 1% by value. In 1994, prices of 74 drugs were controlled, which rose to 348 in 2013 and further to 376 in 2015. We believe that NLEM uses WHO Essential Medicines List as a model and scope of including the drugs is taken accordingly. In 2015, there were 414 drugs in the WHO EML list and 376 drugs in NLEM list. We believe that NLEM in the next revision may include more number of drugs.

Some of the Alkem's drugs (Taxim O, Ondem, Cetriz, etc.) appear in the list of NLEM. Overall, 30% of its portfolio is exposed to NLEM; however, the higher volumes have largely offset the impact of NLEM on its business. In Q2FY17, the impact was ~3%; while that in Q1FY2017 along with FDC ban, was ~4-5%.

US- The key focus area despite late entry: Alkem is a late entrant in the US market compared to top Indian pharma companies. Almost all big Indian pharma companies entered the US market in early 2000s, and have shown a sustainable growth rate in the mid term there. Alkem is also trying to achieve similar track record in the US markets, despite lagging behind the bigger peers. It entered the US market in FY10 and since then, it has grown its US business to ₹991cr in FY2016. This works out to be 70% CAGR on the base of FY2012 revenue of ₹118cr. The company markets its products through its marketing subsidiary, Ascend Laboratories LLC.

Exhibit 13: Strong growth in US revenues



Source: Company, Angel Research

This has been possible as the company utilized the opportunity presented by acquisition of Ascend, which already had a portfolio of generic products and established sales channels. It has further acquired two more businesses, which improved its manufacturing and research abilities.

- The Pharmanetwork LLC: This is a holding company of Ascend Laboratories and was acquired in July 2010. This acquisition has given Alkem a launch pad to commercialize its products in the United States. Ascend was established in 2003 and had its own generic portfolio and also had relationship with various sales channels like wholesalers, distributors, food and grocery stores, pharmaceutical retailers, etc. in the United States.

- NORAC Inc: Acquired in December 2012, Norac is engaged in manufacturing of specialty APIs and providing contract research and manufacturing services (CRAMs).

- Long Pharmaceuticals LLC: Acquired in June-2015 and is engaged in formulations of semi-solids, liquids and nasals. This acquisition helps Alkem in diversifying its manufacturing capabilities and also provides it with capacity to produce formulations in semi-solids, liquid and nasals. The company is scaling up the manufacturing capacity and R&D capabilities of this facility in view to file niche ANDAs from there.

Exhibit 14: Alkem growing through acquisitions

Year	Company	Business description	Benefit to Alkem Laboratories
Jul-10	The Pharmanetwork LLC	Portfolio of generic products	Acquisition helped to set-up a front end to commercialize its products in USA
Dec-12	NORAC Inc	APIs manufacturing and CRAMs	Enhancing manufacturing and R&D capabilities
Jun-15	Long Pharmaceuticals LLC	Semi-solids, liquid and nasal formulation manufacturing capabilities.	Enhancing manufacturing capabilities

Source: Company, Angel Research

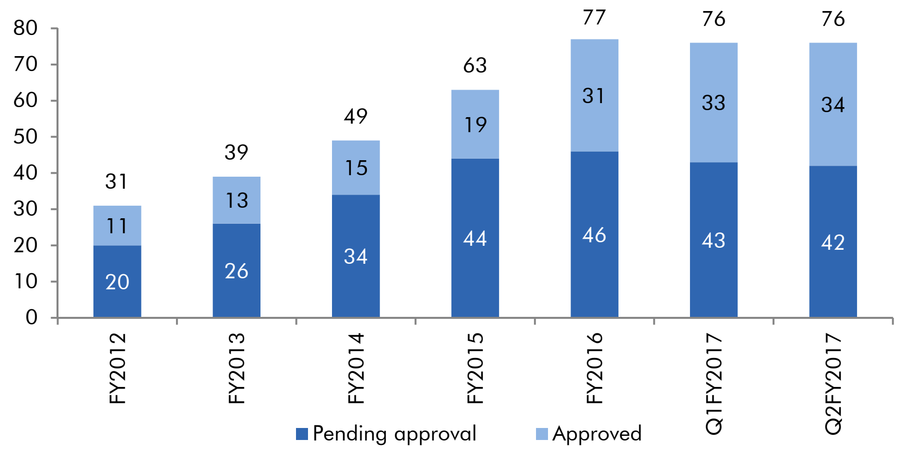
Well executed inorganic growth: The inorganic growth strategy has been adopted by many Indian generic companies and Alkem is also travelling on the same path to grow its US business. With three acquisitions in the US, Alkem now has capabilities such as CRAMs, API manufacturing, formulations located in USA, which will give the company scale and capability to launch new products. The Ascend has given Alkem sales and marketing infrastructure for launching new products through its sales channels. We believe that the company has well executed the inorganic strategy so far.

From our interaction with the company, we understand that going ahead it may look for inorganic growth opportunities, mostly in selected therapeutic segments such as Oncology. In the pharma space, we have seen generic pharma companies showing keen interest in oncology assets either by acquiring USFDA approved oncology manufacturing facilities or increasing R&D efforts to increase pipeline of oncology ANDAs. In our opinion, Alkem's plan of possible foray in oncology is positive in long term and it may further put them on a strong profitability path. An acquisition at the right valuation in oncology space would be positive for the company.

ANDA pipeline to gain momentum: In the USA, Alkem has filed total 76 ANDAs, of which 34 have received final approval. As of March-2016, 30 of these 76 ANDAs are Para IV filings with limited competition, indicating a possible strong revenue generating opportunity in mid-term. The company generates ~$6million to $7million revenue from each ANDA.

Alkem expects increase in approval momentum with 2/3rd of its pipeline to get approved in the next three years. Going ahead, the company expects to monetize this ANDA pipeline by launching high single digit products (~8-9) in the US. Assuming a launch of ~7 ANDAs each year going ahead and average revenue of ~$6million per ANDA, we believe that its existing pipeline is expected to generate more than ₹850cr of incremental revenue taking its US revenue to ~₹1,900cr in FY2019E from ₹991cr in FY2016. The company has guided that US revenue would double in the next three years ($300million by FY2019E), which would lead to increase in US revenue pie from 6% in FY2012 to ~25% in FY2019E.

Exhibit 15: Alkem's ANDA pipeline



Source: Company, Angel Research

Resolve of USFDA issues at Daman, positive for the stock: Alkem's Daman facility received 13 observations in Sept-16 USFDA inspection. Daman facility contributes <30% of the US sales, which works out to be ~5-6% of the total revenue. It also has 50% of the pending ANDAs filed from this facility hence it is a critical for its future US business plans.

Daman facility received Establishment Investigation Report (EIR) in December 2016 indicating that the USFDA has cleared the Daman facility. We see this as a positive development for the company as a major hangover on its US business plans has gone.

USFDA issues at Ankaleshwar facility not material for US business: Alkem's Ankaleshwar facility was audited by USFDA in December-2016 and has issued 3 observations. This is an API facility and there are no ANDAs filed from here. The contribution of the drug which uses API from this facility is <1% hence there is almost no impact of this facility on its US revenues, as per company.

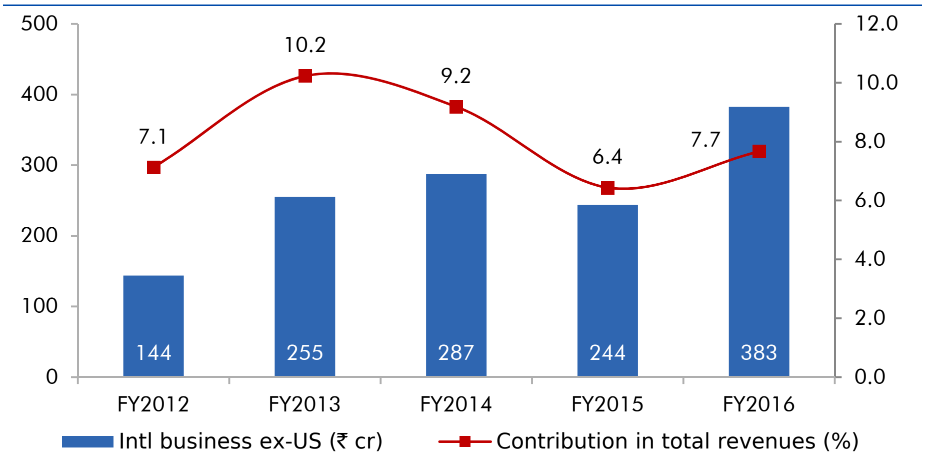
Exhibit 16: Alkem – USFDA inspections

Facility	Scope	Inspection year	Comment
Baddi	Formulation	2015	Successful completion
California - API Facility	API	2015	Successful completion
St. Louis	Formulation	2015	Successful completion
Mandva	API	2016	Establishment Investigation Reportreceived in March 2016
Daman	Formulation	2016	Establishment Investigation Reportreceived in December 2016
Ankaleshwar	API	2016	Form 483 - 3 observations

Source: Company, Angel Research

Other international business, currently not the focus area: Alkem derives ~7% revenue from four countries i.e. Australia, Chile, Kazakhstan and Philippines. The company has said that it wants to have greater focus on the US market, which is more attractive right now. It also does not intend to enter in more countries just to be present in multiple geographies.

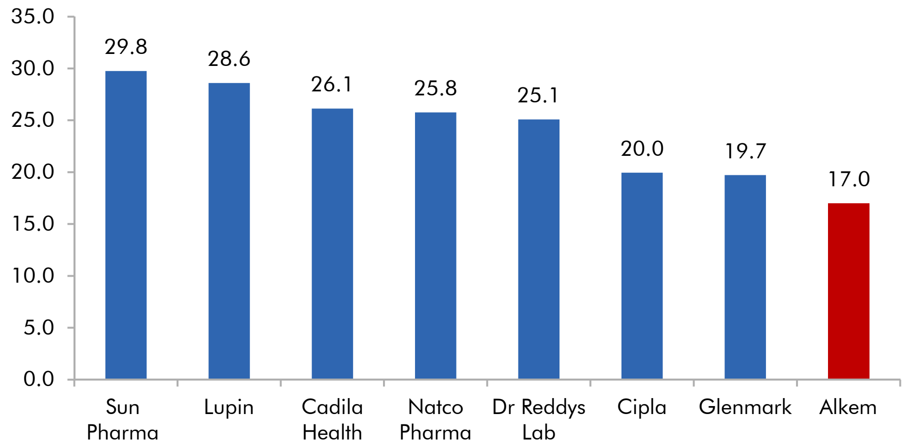
Exhibit 17: Low focus on other international business



Source: Company, Angel Research

Strong headroom for margin expansion: Alkem has been able to improve its margin over the last few years, due to operating leverage and improving sales of its brands. Most Indian pharma companies, who are in branded formulations in India and exports market, have better EBITDA margin than Alkem. These companies have benefitted due to their early entry in the US markets as well as monetization of their ANDA pipeline. We believe that Alkem is also on the similar path.

Exhibit 18: Headroom for margin expansion (Peer group FY16 margins)



Source: Company, Angel Research

As Alkem launches more products in the US market, its profitability is likely to go up. Currently, the company has significantly lower profitability of US business due to higher R&D expenditure (~20% of US sales). Once it starts monetizing its ANDA pipeline, profitability is likely go up as operating leverage will come in play. The R&D expenses are not likely go up in the same proportion which will help to improve its margins.

In the domestic market, company has already made significant investments to create infrastructure for growth of its chronic segment. This investment is in terms of expansion of its sales force which is likely to show strong productivity going ahead. As chronic segment starts to show strong results, the same will be reflected in its margin.

Tax rate to go up gradually: Alkem has been able to claim special tax benefits at some of its manufacturing facilities. Overall, it has seen lower tax rate ranging from 10% to 19% since FY2011.

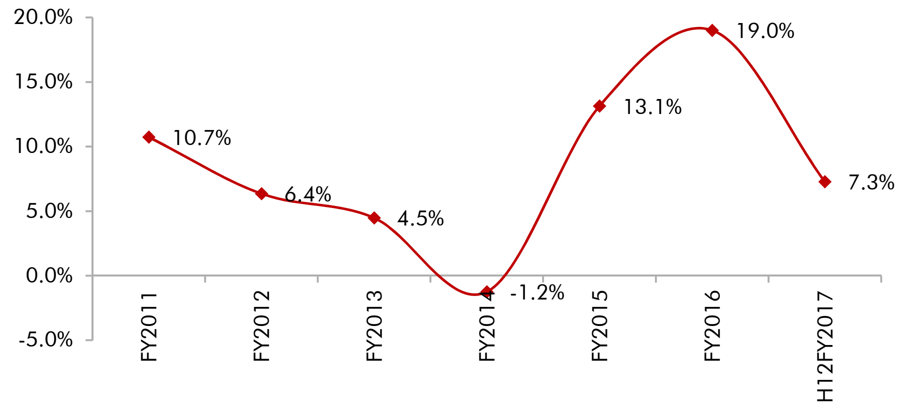
Exhibit 19: Tax benefits to

Facility / Unit	Expiry of 100% Tax benefit
Baddi Betalactum	FY17 (30% tax deduction on profit till FY22)
Sikkim Kumrek	FY18
Sikkim Samardung Cephalsporin	FY23

Source: Company, Angel Research

The tax rate however is likely to go up gradually as 100% tax benefits on profit are gradually ending at two of its facilities in next two years. In order to support growing domestic business, Alkem has commenced construction of two new units at Sikkim, which are also expected to derive tax benefits and so the company's tax rate is unlikely to go up drastically.

Exhibit 20: Low tax rate



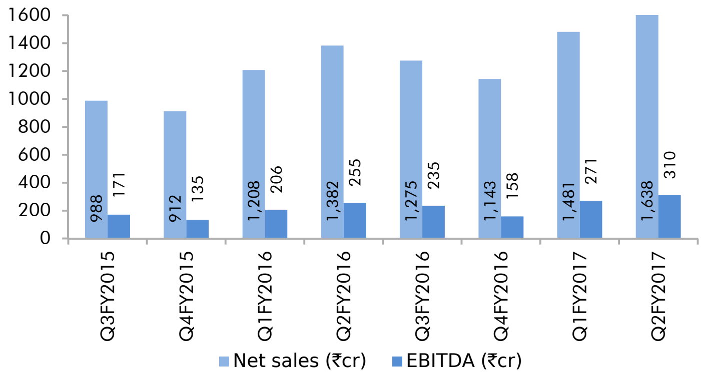
Source: Company, Angel Research

Alkem has guided of lower tax rate of 10-11% in FY2017E and the same may rise going ahead, as it sees partial expiry of its tax benefits in its plants. Considering this, we have taken tax rate of 17% in FY18E and FY19E.

Recent financial performance: In Q2FY2017, the company reported total revenue of ₹1638.4cr, showing a growth of 18.6% yoy. India sales grew by 18.4% yoy due to strong performance in acute segment. The strong performance was mainly due to the higher prevalence of Chikungunya and Dengue in India, which helped overall industry, and Alkem specifically due to its leadership in the anti-infective segment. In the chronic segment too, it did well by reporting higher rates than industry in some therapeutic segments. Owing to its strong performance, mainly in acute segment, the company reported market share of 3.82% in the domestic market vs. 3.6% in FY2015. Exports grew by 19.7% yoy, mainly due to strong growth in the US market, which grew by healthy 23.9% yoy.

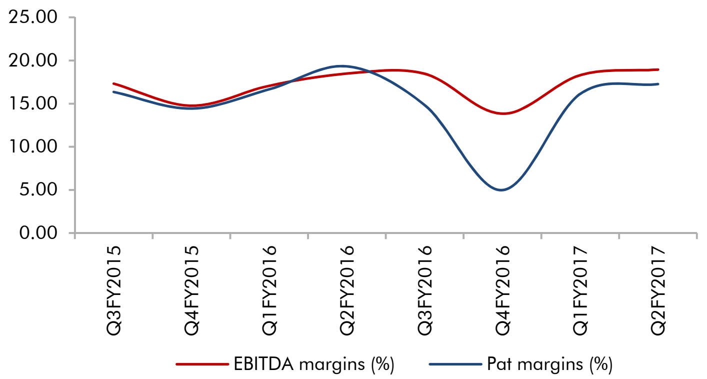
EBITDA margin was at 18.95% vs. 18.31% in Q1FY2017 and 18.5% in Q2FY2016, showed decent expansion. Net profit for the quarter was at ₹282.8cr, showing yoy growth of 17.3%.

Exhibit 21: Quarterly revenue and EBITDA



Source: Company, Angel Research

Exhibit 22: Strong margin profile



Source: Company, Angel Research

Outlook and Valuation

The stock at the CMP of ₹1,620 is available at P/E of 15.5x of FY19E EPS of ₹105, which is at ~15% discount to average P/E (18.4x) of the peer group. In our view this discount is unwarranted considering 1) Strong earnings momentum (CAGR of 22.3% in PAT from FY16-FY19E vs. CAGR of 18.3% from FY11-FY16), 2) Improving RoE (average 21.5% RoE from FY17E-FY19E) and 3) Increasing ANDA pipeline and near term launches in the US. **We rate Alkem 'Buy' with a price target of ₹1,989 (19.0x of FY19E earnings).**

Risks to Our Estimates:

- Alkem has received one USFDA observation at its Ankaleshwar API facility and escalation of this in warning letter would be negative for the company.
- Lower productivity of recently expanded sales force, mainly in chronic segment can impact its plans to gain market share in chronic segment and would be negative for the company.
- Further decline/revision in the drugs included in NLEM may lead to have some impact on Alkem's domestic revenue.
- Company has indicated of its inorganic growth plans in USA; however an acquisition at high premium or that of a low margin business will impact its future return ratios.

Income statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E	FY19E
Total operating income	**3,126**	**3,743**	**4,992**	**6,043**	**6,893**	**8,114**
% chg	*25.3*	*19.7*	*33.3*	*21.1*	*14.1*	*17.7*
Total Expenditure	**2,716**	**3,322**	**4,143**	**4,913**	**5,566**	**6,544**
Cost of Materials	1,386	1,691	1,961	2,363	2,688	3,156
Personnel	532	646	917	1,039	1,155	1,359
Others Expenses	799	985	1,265	1,511	1,723	2,028
EBITDA	**410**	**422**	**848**	**1,130**	**1,327**	**1,570**
% chg	*13.1*	*2.9*	*101.1*	*33.2*	*17.4*	*18.3*
(% of Net Sales)	*13.1*	*11.3*	*17.0*	*18.7*	*19.3*	*19.4*
Depreciation& Amort.	52	71	101	110	130	155
EBIT	**358**	**351**	**748**	**1,020**	**1,197**	**1,415**
% chg	*10.9*	*(1.9)*	*113.1*	*36.4*	*17.3*	*18.2*
(% of Net Sales)	*11.4*	*9.4*	*15.0*	*16.9*	*17.4*	*17.4*
Interest & other Charges	93	81	67	47	47	47
Other Income	165	181	165	120	130	140
(% of PBT)	*38.4*	*40.2*	*19.5*	*11.0*	*10.2*	*9.3*
Share in profit of Ass.	-	-	-	-	-	-
Recurring PBT	**430**	**451**	**845**	**1,093**	**1,280**	**1,508**
% chg	*7.1*	*4.8*	*87.5*	*29.4*	*17.1*	*17.8*
Prior Period & Extra. Exp.	-	-	-	-	-	-
PBT (reported)	**430**	**451**	**845**	**1,093**	**1,280**	**1,508**
Tax	*(5)*	*59*	*161*	*120*	*218*	*256*
(% of PBT)	*(1.2)*	*13.1*	*19.0*	*11.0*	*17.0*	*17.0*
PAT (reported)	**435**	**392**	**684**	**973**	**1,062**	**1,251**
Add: Share of earnings of ass.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	11	-	-	-
PAT after MI (reported)	**435**	**392**	**673**	**973**	**1,062**	**1,251**
ADJ. PAT	**435**	**392**	**673**	**973**	**1,062**	**1,251**
% chg	*13.5*	*(10.0)*	*74.8*	*42.1*	*9.2*	*17.8*
(% of Net Sales)	*13.9*	*10.5*	*13.5*	*16.1*	*15.4*	*15.4*
Basic EPS (₹)	**364.0**	**32.8**	**56.3**	**81.4**	**88.8**	**104.7**
Fully Diluted EPS (₹)	**364.0**	**32.8**	**56.3**	**81.4**	**88.8**	**104.7**
% chg	*13.5*	*(10.0)*	*74.8*	*42.1*	*9.2*	*17.8*

Balance sheet

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS						
Equity Share Capital	12	24	24	24	24	24
Reserves& Surplus	2,567	2,975	3,479	4,257	5,054	5,930
Shareholders' Funds	2,579	2,999	3,503	4,281	5,078	5,954
Minority Interest	-	86	97	97	97	97
Total Loans	1,184	1,381	739	750	750	750
Deferred Tax Liability	78	126	153	153	153	153
Total Liabilities	3,841	4,591	4,490	5,280	6,077	6,953
APPLICATION OF FUNDS						
Gross Block	1,170	1,745	1,889	2,389	2,739	3,089
Less: Acc. Depreciation	-	371	447	557	687	842
Net Block	1,170	1,374	1,442	1,832	2,052	2,247
Capital Work-in-Progress	-	111	172	250	300	300
Investments	588	481	422	422	422	422
Current Assets	2,553	3,325	3,394	3,941	4,640	5,562
Inventories	620	784	909	1,109	1,265	1,489
Sundry Debtors	367	527	565	662	755	889
Cash	206	791	796	670	910	1,172
Loans & Advances	159	175	240	290	331	389
Other Assets	1,201	1,048	884	1,209	1,379	1,623
Current liabilities	509	733	998	1,222	1,395	1,636
Net Current Assets	2,044	2,592	2,396	2,718	3,245	3,926
Deferred Tax Asset	39	34	58	58	58	58
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,841	4,591	4,490	5,280	6,077	6,953

Cash flow statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17E	FY18E	FY19E
Profit before tax	430	451	845	1,093	1,280	1,508
Depreciation	52	71	101	110	130	155
Change in Working Capital	(36)	(12)	14	(448)	(287)	(419)
Interest / Dividend (Net)	(56)	(53)	(59)	47	47	47
Direct taxes paid	(111)	(106)	(198)	(120)	(218)	(256)
Others	11	(26)	24	-	-	-
Cash Flow from Operations	**290**	**325**	**726**	**681**	**952**	**1,035**
(Inc.)/ Dec. in Fixed Assets	353	(235)	189	(578)	(400)	(350)
(Inc.)/ Dec. in Investments	-	-	-	-	-	-
Cash Flow from Investing	**353**	**(235)**	**189**	**(578)**	**(400)**	**(350)**
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(473)	87	(671)	11	-	-
Dividend Paid (Incl. Tax)	(32)	(57)	(185)	(195)	(266)	(375)
Interest / Dividend (Net)	11	569	598	(47)	(47)	(47)
Cash Flow from Financing	**(494)**	**599**	**(258)**	**(230)**	**(313)**	**(423)**
Inc./(Dec.) in Cash	149	690	657	(126)	239	262
Opening Cash balances	**57**	**101**	**140**	**796**	**670**	**910**
Closing Cash balances	**206**	**791**	**796**	**670**	**910**	**1,172**

Key Ratios

Y/E March	FY14	FY15	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)						
P/E (on FDEPS)	4.5	49.5	28.8	19.9	18.2	15.5
P/CEPS	4.6	4.0	41.9	24.7	17.9	16.2
P/BV	0.8	6.5	5.5	4.5	3.8	3.3
Dividend yield (%)	2.7	1.6	0.3	1.0	1.0	1.4
EV/Sales	6.3	5.2	3.8	3.1	2.7	2.3
EV/EBITDA	48.2	46.2	22.3	16.8	14.2	11.8
EV / Total Assets	4.5	3.7	3.4	2.9	2.5	2.2
Per Share Data (₹)						
EPS (Basic)	364.0	32.8	56.3	81.4	88.8	104.7
EPS (fully diluted)	364.0	32.8	56.3	81.4	88.8	104.7
Cash EPS	354.0	407.7	38.7	65.7	90.6	99.7
DPS	43.2	26.6	4.7	15.4	16.3	22.2
Book Value	2,156.6	250.9	293.0	358.1	424.7	498.0
Dupont Analysis						
EBIT margin	11.4	9.4	15.0	16.9	17.4	17.4
Tax retention ratio	1.0	0.9	0.8	0.9	0.8	0.8
Asset turnover (x)	1.1	1.2	1.7	1.5	1.5	1.6
ROIC (Post-tax)	12.2	9.8	20.0	23.0	22.1	23.0
Cost of Debt (Post Tax)	0.1	0.1	0.1	0.1	0.1	0.1
Leverage (x)	0.2	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Operating ROE	14.0	10.2	17.3	21.2	19.6	19.7
Returns (%)						
ROCE	9.5	8.0	17.6	20.3	20.5	21.1
Angel ROIC (Pre-tax)	12.1	11.3	24.7	25.9	26.6	27.7
ROE	16.9	13.1	19.2	22.7	20.9	21.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.7	2.1	2.6	2.5	2.5	2.6
Inventory / Sales (days)	72	76	67	67	67	67
Receivables (days)	43	51	41	40	40	40
Payables (days)	36	45	42	42	42	42
WC cycle (ex-cash) (days)	80	82	65	65	65	65

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DISCLAIMER

Disclosure of Interest Statement	**Alkem Laboratories**
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*