## Issue Summary

| | |
|---|---|
| **Price band (Rs)** | 1020-1050 |
| **Market Lot** | 14 Equity Shares |
| **Face Value (Rs)** | 2 |
| **Opens** | 8th Dec, 2015 |
| **Closes** | 10th Dec, 2015 |
| **Issue size** | ~1.29 Cr shares |
| **Listing** | BSE, NSE |
| **Discount:** | Rs 100 per share discount for eligible employees |

**Book Running Lead Managers**

- Nomura Financial Advisory and Securities (India) Private Limited
- Axis Capital Limited
- J.P. Morgan India Private Limited
- Edelweiss Financial Services Limited

**Registrar**

Link Intime India Private Limited

## Company & Business Profile

Alkem Laboratories Ltd. is the leading Indian pharmaceutical company with global operations, engaged in the development, manufacture and sale of pharmaceutical and neutraceutical products. For fiscal year 2015, company was the fifth largest pharmaceutical company in India in terms of domestic sales. Further, the company had the largest number of brands (five) in the top 50 brands of the Indian pharmaceutical industry for fiscal year 2015 in terms of domestic sales (along with another leading pharmaceutical company). Established in 1973, company produces branded generics, generic drugs, active pharmaceutical ingredients ("APIs") and neutraceuticals, which is marketed in India and 55 countries internationally, primarily the United States. For fiscal year 2015, the domestic and international operations accounted for 74.7% and 25.3%, respectively, of the net revenues from operations. The company has been among the top ten pharmaceutical companies in India in terms of domestic sales for the past 12 years. Domestic business grew at a CAGR of 17.6% in the period from fiscal year 2011 to fiscal year 2015. Net revenues from international operations have grown from 12.6% of the net revenue from operations in fiscal year 2011 to 25.3% of the net revenue from operations in fiscal year 2015. As part of international operations, the company focuses on the United States, through marketing subsidiary, Ascend Laboratories LLC ("Ascend").

## Objects of the Issue

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.
- For the sale of 12,853,442 Equity Shares by the Selling Shareholders.

## Investment Positives

- Strong financial performance - Consolidated net revenues from operations grew at a compounded annual growth rates ("CAGR") of 22.3% in the period from fiscal year 2011 to fiscal year 2015.
- Market leadership in various therapeutic areas and ability to build market leading brands in the domestic market. For fiscal year 2015, the company was leader in the largest therapeutic area (anti-infective) with a 11.2% market share and was ranked third in terms of market share for both the gastro-intestinal (with a market share of 5.6%) and pain/analgesics therapeutic areas (with a market share of 5.0%), in each case, in India.
- Extensive sales, marketing and distribution network in India. As of June 30, 2015, domestic distribution network includes 39 sales depots, 55 clearing and forwarding ("C&F") agents, 15 consignees and 8 central warehouses covering 6,576 stockists & a field force of 5,856 medical representatives. Products were prescribed by an estimated 210,885 prescribers (constituting 70.7% of total prescribers, as defined by IMS).

## Concern

- The company operates in a highly regulated industry & operations are subject to extensive regulation in each market in which the business is done.
- Significant portion of the sales in the United States are from the top five customers and top five products. Any lag in demand from these can adversely affect the business.

| Alkem Laboratories Ltd. Balance Sheet - Consolidated - [INR-Crore] | | | | | |
|---|---|---|---|---|---|
| **DESCRIPTION** | **Mar-15** | **Mar-14** | **Mar-13** | **Mar-12** | **Mar-11** |
| EQUITY AND LIABILITIES | | | | | |
| *Share Capital* | *23.91* | *11.96* | *11.96* | *11.96* | *11.96* |
| *Total Reserves* | *2978.72* | *2573.01* | *2165.35* | *1808.09* | *1421.73* |
| Shareholder's Funds | 3002.63 | 2584.97 | 2177.31 | 1820.05 | 1433.69 |
| Minority Interest | 85.65 | | | 0.19 | 1.82 |
| Total Non-Current Liabilities | 197.02 | 323.92 | 361.67 | 524.89 | 434.40 |
| Total Current Liabilities | 2005.98 | 1402.58 | 1731.80 | 1120.59 | 981.86 |
| **Total Liabilities** | **5291.28** | **4311.47** | **4270.78** | **3465.72** | **2851.77** |
| ASSETS | | | | | |
| *Net Block* | *1485.03* | *1170.01* | *1072.12* | *919.17* | *692.73* |
| *Long Term Loans & Advances* | *542.17* | *418.40* | *339.39* | *258.82* | *153.98* |
| Total Non-Current Assets | 2953.23 | 2709.33 | 2114.56 | 2153.43 | 1313.22 |
| *Cash and Bank* | *790.76* | *206.29* | *995.45* | *513.81* | *989.82* |
| Total Current Assets | 2338.05 | 1602.14 | 2156.22 | 1312.29 | 1538.55 |
| **Total Assets** | **5291.28** | **4311.47** | **4270.78** | **3465.72** | **2851.77** |

*Source: - Company data, Arihant Research*

| Alkem Laboratories Ltd. Profit And Loss - Consolidated - [INR-Crore] | | | | | |
|---|---|---|---|---|---|
| **DESCRIPTION** | **Mar-15** | **Mar-14** | **Mar-13** | **Mar-12** | **Mar-11** |
| Net Sales | 3783.17 | 3126.00 | 2495.23 | 2015.64 | 1690.79 |
| Increase/Decrease in Stock | -33.76 | -57.68 | -145.11 | -121.13 | -9.28 |
| Raw Material Consumed | 1486.78 | 1225.73 | 1011.85 | 766.89 | 606.32 |
| Power & Fuel Cost | 53.31 | 60.33 | 53.17 | 50.68 | 37.78 |
| Employee Cost | 634.46 | 531.56 | 412.29 | 303.45 | 267.09 |
| Other Manufacturing Expenses | 341.81 | 305.99 | 264.84 | 234.61 | 195.99 |
| General and Administration Expenses | 261.78 | 184.73 | 180.17 | 139.46 | 106.32 |
| Selling and Distribution Expenses | 434.56 | 367.31 | 295.39 | 226.31 | 167.01 |
| Miscellaneous Expenses | 119.69 | 98.08 | 60.18 | 40.16 | 32.97 |
| Total Expenditure | 3298.63 | 2716.05 | 2132.78 | 1640.43 | 1404.20 |
| Operating Profit (Excl OI) | 484.54 | 409.95 | 362.45 | 375.21 | 286.59 |
| Other Income | 181.03 | 165.35 | 167.17 | 145.28 | 113.42 |
| Interest | 81.11 | 93.08 | 88.23 | 58.10 | 41.23 |
| Depreciation | 70.30 | 52.26 | 39.79 | 29.03 | 27.43 |
| Provision for Tax | 53.41 | -5.36 | 17.97 | 27.52 | 35.57 |
| Profit After Tax | 460.75 | 435.32 | 383.63 | 405.84 | 295.78 |
| Minority Interest | | | 0.19 | 0.70 | -0.19 |
| Consolidated Net Profit | 460.75 | 435.32 | 383.82 | 406.54 | 295.59 |

*Source: - Company data, Arihant Research*

| Top Ten Pharmaceutical Companies by Revenues | | |
|---|---|---|
| **Company** | **Market Share %** | **CAGR % (2011-2015)** |
| Sun Pharmaceutical Industries Ltd. | 8.4 | 12.2 |
| Abbott India Ltd. | 6.5 | 10.8 |
| Cipla Ltd. | 4.9 | 10.8 |
| Mankind Pharma Ltd. | 3.7 | 16.2 |
| Alkem Laboratories Ltd. | 3.6 | 14.2 |
| Zydus Cadila | 3.5 | 7.9 |
| Macleods Pharmaceuticlas Ltd. | 3.3 | 25.7 |
| GlaxoSmithKline Pharmaceuticals Ltd. | 3.3 | 5.7 |
| Pfizer Ltd. | 2.9 | 9.8 |
| Lupin Ltd. | 2.8 | 13.6 |

*Source: - Company data, Arihant Research*

## Valuation:

At the upper price band of Rs 1,050, the issue is priced at ~27x price earnings (PE) ratio for FY2015. The valuations look reasonable compared to the peers which have P/E as high as ~45x. The company has shown strong performance over the years with CAGR of 14.2% for the period FY 2011- 2015. Also the company holds leadership in various therapeutic areas with revenues CAGR beating the industry.

| Peer Group Comparison | | | | | | |
|---|---|---|---|---|---|---|
| **Company** | **Revenue (Rs. Mn)** | **Face value (Rs per share)** | **P/E** | **EPS (Rs)** | **RONW%** | **NAV per share** |
| Alkem Laboratories Ltd | 39,642 | 2 | 27.3 | 38.5 | 15.4% | 250.8 |
| Torrent Pharmaceuticals Ltd | 49,390 | 5 | 33.1 | 44.4 | 30.2% | 147.2 |
| Ipca Laboratories Ltd | 31,776 | 2 | 38.0 | 20.2 | 11.5% | 175.0 |
| Alembic Pharmaceuticals Ltd | 20,584 | 2 | 45.7 | 15.0 | 32.0% | 46.9 |

*Source: - Company data, Arihant Research*

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## Stock Rating Scale

| | Absolute Return |
|---|---|
| Buy | > 20% |
| Accumulate | 12% to 20% |
| Hold | 5% to 12% |
| Neutral | -5% to 5% |
| Reduce | < -5% |