

AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Top pick in Pharma space: Alkem Laboratories Ltd. – “BUY”

June 28, 2019

Alkem Laboratories Ltd. price chart



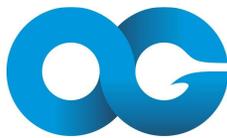
Source: Moneycontrol website

CMP: Rs. 1,670, FV: Rs. 2, Market Capitalization: Rs. 20,016 crores, Target price: Rs. 2,018, Upside: 21 percent

Alkem Laboratories is a strong domestic player and continues to significantly outperform the Indian pharmaceutical market in almost all the major therapies during the quarter and for the full year. During Q4FY19, the Company witnessed growth of 14.6% compared to 7.7% reported by the IPM. Similarly, for the full year, it reported a year-on-year growth of 14.3% compared to IPM growth of 10.5%. The Company continues to maintain its leading positions in established therapy areas of anti-infectives, gastrointestinal, pain management and vitamins and nutrition. In the chronic business too, it continues to grow ahead of the market growth rate, thereby improving a market share and market rankings in therapy segments of Neuro, CNS, Anti-Diabetic, Cardiac and Derma. The Company introduced two novel molecules in India Arbekacin in Anti-Infective segment and Evogliptin in Anti-Diabetic segment. Both of these are in-license products and would be exclusively marketed by Alkem as per the terms of the agreement. The Company has also added about 2000 medical reps in the last two years to expand its reach in the Indian market and increased focused on its key brands. However, domestic business faced challenges too on account of FDC ban on selected products, relatively weak anti-infective season and muted growth in its trade generic business due to tightening of credit terms by the company. The Company's India business registered a growth of 26.8% yoy in Q4FY19 and 8.6% in FY19.

The Company's international business mainly led by U.S. delivered a robust yoy growth of 18.8% in Q4FY19 and 31.2% on yoy basis in FY19. In Rest of world markets, Alkem follows a focused approach on key markets like Chile, Australia, Philippines, EU, Africa, and Kazakhstan. The overall portfolio continues to grow

US Business witnessed a growth of 18.5 percent on yoy basis in Q4FY19 and 38.8% on yoy basis in FY19, largely driven by new product launches and market share gain in existing products.

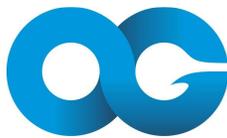


AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

The Company's EBITDA margin was under pressure in FY19, but next year, the management is hopeful for better margins and improvement by 100 or 125 basis points.

The Company invested about Rs.462 Crores in R&D, which is 27% higher than FY18. R&D expenses stood at 6.3% of revenue from operations compared to 5.7% in FY18. The Company filed 23 ANDAs during the year and received 21 approvals, which includes 6 tentative approvals. This is the highest number of filings and approvals received by the company in a year. On the regulatory front, the Company had a mixed year with 4 U.S. FDA inspections between August 2018 and January 2019 at its manufacturing facilities at Baddi, Daman and California and also a bioequivalence centre at Taloja, being closed successfully without any observations. However, in the U.S. FDA inspection at St Louis and Baddi facilities in Jan 2019 and May 2019, respectively, the Company received a few observations, to which it has replied within the stipulated time lines. Facility at St. Louis has been classified as an OAI (Official Action Indicated), and it is working towards resolving the observations. Apart from the U.S., amongst the other key international markets, Chile and Philippines registered robust growth during the quarter, both in local currency as well as Indian rupees.

The Company enjoys positive operating cashflow and double digit return ratio over a period of 5 years. We believe such consistent performance over the years deserves a premium. At CMP of Rs. 1,670, the Company is valued at a P/E of 26x. We recommend a "BUY" with a target price of Rs. 2,018 (P/E of 26x on estimated FY20 EPS of Rs. 77.6) an upside of 21 percent for investors with a horizon of 12 months.



AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Disclosure under SEBI Research Analyst Regulations 2014:

- a) Analyst holding: No
- b) Company holding: No
- c) Directors holding: No
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

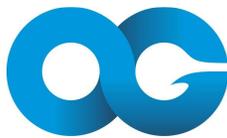
Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above para, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions



AJCON GLOBAL

YOUR FRIENDLY FINANCIAL ADVISOR

and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

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

CIN: L74140MH1986PLC041941

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

Website: www.ajcononline.com

Registered and Corporate office

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