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**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.



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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.



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**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

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