

Industry Pharmaceuticals  
Bloomberg ALKEM IN  
BSE CODE 539523

## Growth across geography; long term growth prospects remain promising.

RATING	BUY
CMP	2025
Price Target	2378
Potential Upside	17%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	2149/1660
Mkt Capital (Rs Cr)	23908
Free float (%)	34%
Avg. Vol 1M (,000)	59
No. of Shares (Crs)	12
Promoters Pledged %	0%

### 2QFY20 Result update

- Overall sales grew by 18% YoY to Rs. 2264 crs (vs our estimate of Rs.2128) during the quarter majorly on account of strong domestic business due to seasonality.
- India sales grew 17.6% YoY to Rs. 1550 crs in Q2FY20, this outperformance was largely led by growth of 30.8% YoY in Anti-Infectives segment.
- The US sales grew by 12% YoY largely driven by new product launches and market share gain in existing products
- R&D expenses for the quarter was Rs.123 crs (5.5% of sales) compared to Rs.105 crs in Q2FY19 at (5.5% of sales)
- Gross margin remained flat at 60.1% in Q2FY20; EBITDA margin grew by 100 bps YoY to 20% on account of lower other expenses. PAT grew by 46% YoY to Rs. 380 crs.

### View and Valuation

The overall revenue grew by 18% YoY to Rs. 2264 crs (vs our estimate of Rs.2128) during the quarter majorly on account of strong domestic numbers and International business. In Q2FY20, Company's secondary sales grew by 23.5% YoY, significantly ahead of the IPM growth of 13.1% YoY; the primary sales grew by 18% YoY. In US, the company grew by 12% YoY to US\$ 75 mn largely driven by new product launches and market share gain in existing products.

With Q2 and Q3 being the strongest quarter and sustained growth in both acute and chronic therapies, we expect India sales to grow by 15% for the full year. In US, the increased momentum in the ANDA filings and approvals in the last 3 quarters along with management guidance to launch 10-12 products for the full year makes us confident about the revenue growth going forward. Therefore, we maintain our BUY stance with the target price of Rs.2378 (25x FY21E EPS).

### Key Risks to our rating and target

- R&D spends to 5-6% of sales

## RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	5853	6431	7357	8396	9398
EBITDA	999	1028	1115	1362	1526
EBIT	898	885	922	1139	1293
PAT	892	631	774	1026	1137
EPS (Rs)	75	53	65	86	95
EPS growth (%)	20%	-29%	23%	33%	11%
ROE (%)	20%	13%	14%	16%	16%
ROCE (%)	19%	18%	16%	17%	17%
BV	374	407	455	525	602
P/B (X)	5.9	4.9	3.9	3.9	3.4
P/E (x)	29.6	37.5	27.1	23.6	21.3

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## 2QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,919	1,925	1,854	1,850	2,264	<b>18.0%</b>	<b>22.4%</b>	6,431	7,357	<b>14.4%</b>
Other Income	24	9	28	17	31	<b>30.8%</b>	<b>79.9%</b>	96	88	<b>-8.6%</b>
COGS	764	823	776	712	904	<b>18.4%</b>	<b>27.0%</b>	2,513	2,945	<b>17.2%</b>
Gross Margin	60%	57%	58%	62%	60%	<b>-0.1%</b>	<b>-1.5%</b>	61%	60%	<b>-1.0%</b>
Employee Cost	328	346	349	390	390	<b>18.8%</b>	<b>-0.2%</b>	1,192	1,362	<b>14.3%</b>
Other Expen.	463	444	495	483	518	<b>11.8%</b>	<b>7.2%</b>	1,698	1,935	<b>13.9%</b>
EBITDA	364	312	235	265	453	<b>24.3%</b>	<b>71.1%</b>	1,028	1,115	<b>8.4%</b>
EBITDA Mar.	19%	16%	13%	14%	20%	<b>1.0%</b>	<b>5.7%</b>	16%	15%	<b>-0.8%</b>
Depreciation	46	48	57	56	56	<b>23.2%</b>	<b>1.0%</b>	143	193	<b>35.1%</b>
EBIT	318	264	178	209	396	<b>24%</b>	<b>89.9%</b>	885	922	<b>4.1%</b>
Interest	16	15	7	16	18	<b>8%</b>	<b>10.1%</b>	55	55	<b>-1.3%</b>
PBT	326	258	199	210	410	<b>25.7%</b>	<b>95.1%</b>	926	955	<b>3%</b>
Exceptional Item	-	-	-	-	-			-	-	
Tax	66	53	28	23	29	<b>-55.3%</b>	<b>29.1%</b>	288	181	<b>-37%</b>
PAT	260	205	171	187	380	<b>46.1%</b>	<b>103%</b>	631	774	<b>23%</b>
PAT Margin	14%	11%	9%	10%	17%	<b>3.2%</b>	<b>7%</b>	10%	11%	<b>1%</b>

## Concall Highlights

- Revenue from Operations grew by 18% YoY to Rs. 2264 crs during the quarter.
- US Business grew in double digits during Q2FY20 and H1FY20, largely driven by new product launches and market share gain in existing products.
- The Company has filed 7 ANDAs and received 12 ANDA approvals (including 4 tentative) from the US FDA in H1FY20.
- The company has launched 7 products in H1FY20, and guided for total of 10-12 launches for the full year.
- India sales grew 17.6% YoY to Rs. 1550 crs. In Q2FY20, Company's secondary sales grew by 23.5% YoY - significantly ahead of the IPM growth of 13.1% YoY, the primary sales grew by 18% YoY.
- The more anti-infectives sales and one off on account of materials used in the R&D activities in this quarter led to decline in the gross margin by 146 bps QoQ to 60.1%.
- The company has seen an initial traction in PAN-D on account of Ranitidine ban.
- On the regulatory front, the Company received EIR of its manufacturing facilities located at Daman and Baddi which were inspected in the month of August 2019.
- The management has guided for the revenue growth to be in mid-teens kind of number for the full year. R&D expenses during the quarter were at 5.5% of revenue from operations. Going forward, the management has guided for 5.5%-6% of revenues.
- ETR guidance is at 10% for FY20 and 12-13% for FY21.

## Operational Details

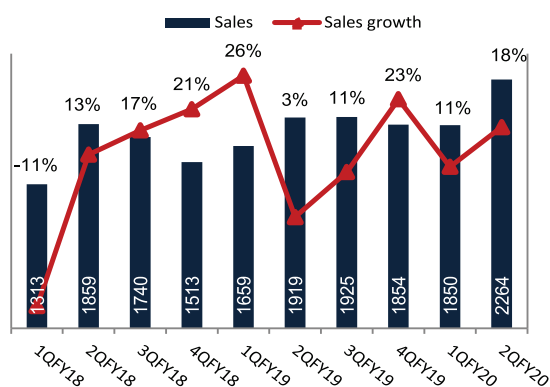
GEOGRAPHY	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Domestic	868	1406	1257	960	1091	1318	1248	1218	1222	1550
US	296	304	359	407	424	473	518	482	482	528
Other International markets	110	134	107	117	124	108	135	128	109	142

REVENUE GR. %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Domestic	-20%	15%	22%	12%	26%	-6%	-1%	27%	12%	18%
US	9%	1%	6%	40%	43%	55%	44%	18%	14%	12%
Other International markets	26%	54%	14%	23%	13%	-19%	26%	9%	-12%	31%

REVENUE MIX	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Domestic	68%	76%	72%	63%	66%	69%	65%	66%	66%	68%
US	23%	16%	21%	27%	26%	25%	27%	26%	26%	23%
Other International markets	9%	7%	6%	8%	7%	6%	7%	7%	6%	6%
Others	1%	1%	1%	2%	1%	1%	1%	1%	2%	2%

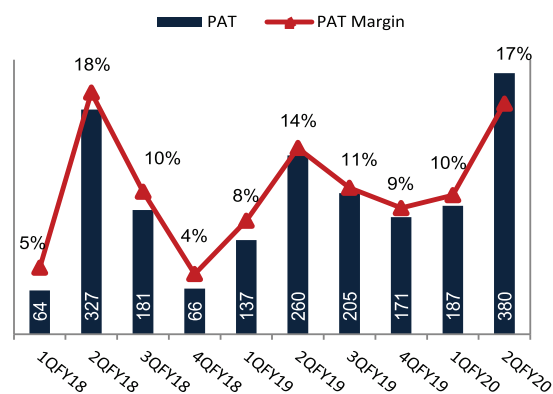
### Exhibit: Sales and Sales growth

Overall sales grew by 18% YoY to Rs. 2264 crs (vs our estimate of Rs.2128) during the quarter



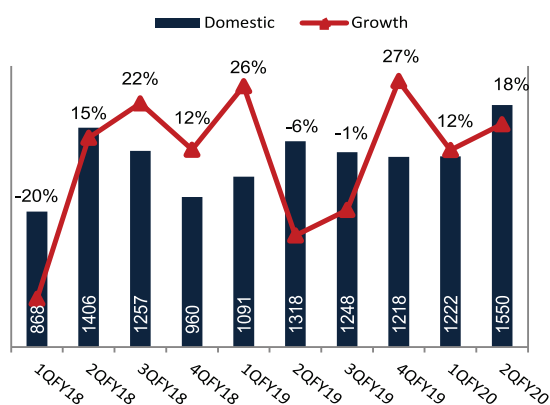
### Exhibit: PAT and PAT Margin

PAT grew by 46% YoY to Rs. 380 crs. The PAT margin was at 17%.



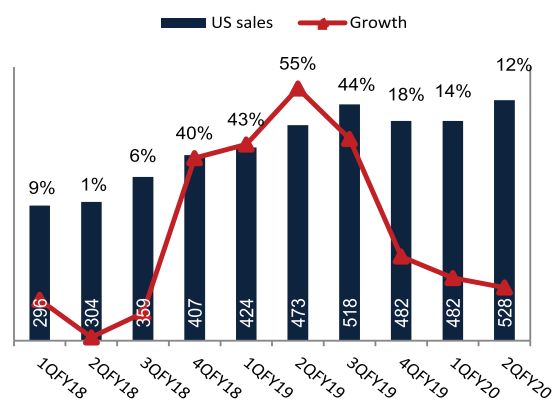
### Exhibit: Domestic sales and YoY growth

The US sales grew by 12% YoY driven by new product launches and market share gain in existing products



### Exhibit: US sales and YoY growth

India sales grew 17.6% YoY to Rs. 1550 crs in Q2FY20, largely led by growth of 30.8% YoY in Anti-Infective.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	12	24	24	24	24	24	24	24
Reserves	2,643	2,975	3,668	4,444	4,840	5,415	6,252	7,173
<b>Networth</b>								
Debt	1,077	1,248	683	769	1,014	1,035	1,275	947
Other Non Current Liab	96	172	87	114	166	215	246	272
<b>Total Capital Employed</b>	<b>2,875</b>	<b>3,009</b>	<b>3,792</b>	<b>4,625</b>	<b>4,971</b>	<b>5,647</b>	<b>6,585</b>	<b>7,379</b>
Net Fixed Assets (incl CWIP)	980	1,143	1,269	1,751	2,319	2,666	3,018	3,209
Non Current Investments	338	420	234	259	196	96	150	150
Other Non Current Assets	1,417	1,395	1,263	1,640	1,235	1,230	1,348	1,364
<b>Non Current Assets</b>	<b>2,735</b>	<b>2,958</b>	<b>2,766</b>	<b>3,651</b>	<b>3,750</b>	<b>3,992</b>	<b>4,516</b>	<b>4,723</b>
Inventory	620	784	909	1,206	1,442	1,500	1,725	1,931
Debtors	373	527	568	714	1,081	1,248	1,518	1,699
Cash & Bank	206	791	127	167	167	249	831	974
Other Current Assets	412	236	1,165	829	1,226	1,207	853	932
<b>Current Assets</b>	<b>1,612</b>	<b>2,338</b>	<b>2,769</b>	<b>2,915</b>	<b>3,915</b>	<b>4,205</b>	<b>4,928</b>	<b>5,536</b>
Creditors	306	466	580	741	961	962	1,012	1,133
Provisions	25	84	105	124	124	127	146	162
Other Current Liabilities	188	327	388	352	537	430	491	549
<b>Curr Liabilities</b>	<b>519</b>	<b>877</b>	<b>1,073</b>	<b>1,217</b>	<b>1,622</b>	<b>1,519</b>	<b>1,649</b>	<b>1,843</b>
<b>Net Current Assets</b>	<b>1,094</b>	<b>1,461</b>	<b>1,695</b>	<b>1,698</b>	<b>2,293</b>	<b>2,685</b>	<b>3,279</b>	<b>3,693</b>
<b>Total Assets</b>	<b>4,348</b>	<b>5,296</b>	<b>5,535</b>	<b>6,568</b>	<b>7,666</b>	<b>8,208</b>	<b>9,444</b>	<b>10,259</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>3,131</b>	<b>3,743</b>	<b>5,048</b>	<b>5,853</b>	<b>6,431</b>	<b>7,357</b>	<b>8,396</b>	<b>9,398</b>
Change (%)		20%	35%	16%	10%	14%	14%	12%
<b>EBITDA</b>	<b>424</b>	<b>422</b>	<b>853</b>	<b>999</b>	<b>1028</b>	<b>1115</b>	<b>1362</b>	<b>1526</b>
Change (%)		-1%	102%	17%	3%	8%	22%	12%
Margin (%)	13.6%	11.3%	16.9%	17.1%	16.0%	15.2%	16.2%	16.2%
Depr & Amor.	52	71	93	101	143	193	222	233
<b>EBIT</b>	<b>373</b>	<b>351</b>	<b>760</b>	<b>898</b>	<b>885</b>	<b>922</b>	<b>1139</b>	<b>1293</b>
Int. & other fin. Cost	93	81	71	45	55	55	60	57
Other Income	169	181	240	112	96	88	86	86
<b>EBT</b>	<b>449</b>	<b>451</b>	<b>928</b>	<b>965</b>	<b>926</b>	<b>955</b>	<b>1166</b>	<b>1322</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	10	59	176	60	288	181	140	185
Minority Int & P/L share of Ass.	-	-	(11)	(13)	(7)	-	-	-
Reported PAT	439	392	742	892	631	774	1,026	1,137
Change (%)		-11%	89%	20%	-29%	23%	33%	11%
Margin(%)	14.0%	10.5%	14.7%	15.2%	9.8%	10.5%	12.2%	12.1%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	16.5%	13.1%	20.1%	20.0%	13.0%	14.2%	16.3%	15.8%
ROCE	12.9%	11.6%	19.9%	19.3%	17.7%	16.3%	17.2%	17.5%
Asset Turnover	0.7	0.7	0.9	0.9	0.8	0.9	0.9	0.9
Debtor Days	44	51	41	45	61	62	66	66
Inv Days	72	76	66	75	82	74	75	75
Payable Days	36	45	42	46	55	48	44	44
Int Coverage	4	4	11	20	16	17	19	23
P/E	-	-	22.0	29.6	37.5	27.1	23.6	21.3
Price / Book Value	-	-	4.4	5.9	4.9	3.9	3.9	3.4
EV/EBITDA	-	(2)	19	26	23	19	17	15
FCF per Share	156	16	39	(15)	(34)	21	19	62
Div Yield	0.7%	0.3%	0.8%	0.9%	0.7%	0.7%	0.0%	0.0%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	449	451	928	965	926	955	1,166	1,322
(inc)/Dec in Working Capital	(65)	(12)	10	(263)	(563)	(143)	(539)	(260)
Non Cash Op Exp	52	71	93	101	143	193	222	233
Int Paid (+)	14	77	67	61	55	55	60	57
Tax Paid	(111)	(106)	(198)	(264)	(203)	(251)	(140)	(185)
others	(49)	(156)	(175)	(129)	(82)	(31)	38	-
<b>CF from Op. Activities</b>	<b>290</b>	<b>325</b>	<b>726</b>	<b>471</b>	<b>276</b>	<b>777</b>	<b>807</b>	<b>1,167</b>
(inc)/Dec in FA & CWIP	(100)	(135)	(253)	(634)	(677)	(527)	(575)	(424)
Free Cashflow	186	187	469	(174)	(408)	248	233	743
(Pur)/Sale of Inv	2	103	32	(42)	87	123	(26)	-
others	448	(204)	423	390	223	89	-	-
<b>CF from Inv. Activities</b>	<b>350</b>	<b>(237)</b>	<b>202</b>	<b>(286)</b>	<b>(367)</b>	<b>(314)</b>	<b>(601)</b>	<b>(424)</b>
inc/(dec) in NW	-	-	-	-	0	-	-	-
inc/(dec) in Debt	(473)	87	(671)	12	357	(106)	239	(328)
Int. Paid	(91)	(79)	(71)	(64)	(55)	(55)	(60)	(57)
Div Paid (inc tax)	(32)	(57)	(185)	(86)	(218)	(219)	(216)	(216)
others	(4)	(3)	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(600)</b>	<b>(52)</b>	<b>(927)</b>	<b>(138)</b>	<b>85</b>	<b>(379)</b>	<b>(36)</b>	<b>(601)</b>
Inc(Dec) in Cash	40	37	1	47	(7)	84	170	142
<b>Add: Opening Balance</b>	<b>60</b>	<b>103</b>	<b>126</b>	<b>119</b>	<b>173</b>	<b>165</b>	<b>662</b>	<b>831</b>
Closing Balance	101	140	127	167	167	249	832	974

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