

# IPO Note: Alkem Laboratories Ltd.

**Industry: Pharmaceuticals**
**Recommendation: Subscribe**
**Date: December 01, 2015**

## Issue Snapshot

|                   |   |
|-------------------|---|
| Company Name      | Alkem Laboratories Ltd.   |
| Issue Opens       | December 08, 2015 to December 10, 2015  |
| Price Band        | Rs. 1020 to Rs. 1050  |
| Bid Lot           | 14 Equity Shares and in multiples thereof.  |
| Employee Discount | Rs. 100 per equity share  |
| The Offer         | Public issue of 1,28,53,442 Crores Equity shares of Face value Rs. 2 each, (Comprising of Offer for Sale by Selling Shareholder ).                              |
| Issue Size        | Rs. 1,308 – 1,347 Crore   |
| IPO Process       | 100% Book Building  |
| Face Value        | Rs. 2.00  |
| Exchanges         | NSE & BSE   |
| BRLM              | 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   |

## Objects of the Offer

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the sale of 12,853,442 Equity Shares by the Selling Shareholders. The Company will not receive any proceeds of the Offer and all the proceeds will go to the Selling Shareholders.

## Issue Break up

| Issue Size          | Allocation  | Equity Shares*    |
|---------------------|-------------|-------------------|
| QIB                 | 50%         | 6,277,265         |
| HNI                 | 15%         | 1,883,179         |
| RII                 | 35%         | 4,394,085         |
| <b>Total Public</b> | <b>100%</b> | <b>12,554,529</b> |
| Employee            |             | 298,913           |
| <b>Total</b>        |             | <b>12,853,442</b> |

\* Based on higher price band @ Rs. 1075

## Company Highlights

- Alchem Laboratories Ltd is a leading Indian pharmaceutical company with global operations, engaged in manufacturing branded generics, generic drugs, active pharmaceutical ingredients ("APIs") and Nutraceuticals.
- Company marketed the products in India and 55 countries internationally, primarily the United States. Export contributes ~25% of its revenue, while domestic business accounts rest 75% of sales.
- In India, company has a portfolio of 705 brands during first half of FY16, thus have been among the top ten pharmaceutical companies in India in terms of domestic sales for the past 12 years.
- It has been increasing its focus on US market, through its marketing subsidiary, Ascend Laboratories LLC (subsidiary of ThePharmanetwork LLC in the United States), which Alchem acquired in 2010.
- Company has presence in many therapeutic areas including anti-infectives, gastro-intestinal, pain and analgesics, vitamins, minerals and nutrients.

- In the United States, company has filed 69 abbreviated new drug applications ("ANDAs") (of which 21 have received final approval and three have received tentative approval), of which 30 were Para IV filings including first-to-files ("FTFs") and one new drug application ("NDA") (that has received final approval). Besides US, company also entered into Australian market in 2009 by acquiring Pharmacor Pty Ltd, in order to underpin its international foothold.
- Company operates through 16 manufacturing facilities, of which 14 plants are located in India and two facilities are in US. Five of the total facilities are USFDA, TGA and UK-MHRA approved. Of the Indian manufacturing facilities, 12 are for manufacturing formulations and two for manufacturing APIs.
- On financial front, company has shown stable performance with revenue growing at a CAGR of 22% during FY11-15, while EBITDA CAGR growth was 14% during the same period. Net profitability during the period grew at a CAGR of 12% and has delivered average 18% RoNW over the years. As far balance sheet concerned, the company has total debt of Rs 1013 crore with debt/equity ratio of 0.30x as of 1HFY16.
- On valuation front at higher price band (assuming Rs 1050 listing price), the company is attractively valued at 15x of its annualized FY16 EPS. During FY16, the company is likely to report Rs 70 EPS (by annualizing its 1HFY16 EPS), thus looks compelling compared to other mid-sized pharma companies. Hence, we recommend our investors to **SUBSCRIBE** the issue from long term investment perspective.

## Financial Statement

| (In Rs. Cr)                     | FY11   | FY12   | FY13   | FY14   | FY15   | H1FY15 | H1FY16 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Share Capital                   | 12.0   | 12.0   | 12.0   | 12.0   | 23.9   | 12.0   | 23.9   |
| Net Worth                       | 1428.1 | 1814.4 | 2171.7 | 2579.4 | 2995.2 | 2728.4 | 3400.0 |
| Long Term Borrowings            | 246.3  | 309.0  | 255.6  | 232.3  | 33.4   | 148.1  | 73.6   |
| Other Long Term Liabilities     | 190.8  | 219.0  | 109.9  | 99.4   | 171.4  | 144.8  | 167.2  |
| Short-term borrowings           | 663.1  | 673.0  | 1213.5 | 845.2  | 1128.6 | 1025.1 | 940.0  |
| Other Current Liabilities       | 321.8  | 450.6  | 521.3  | 560.4  | 883.4  | 598.9  | 919.4  |
| Fixed Assets                    | 488.5  | 674.1  | 896.4  | 979.7  | 1142.9 | 1008.2 | 1216.2 |
| Non Current Assets              | 824.7  | 1479.8 | 1219.4 | 1734.8 | 1814.8 | 1622.2 | 1815.5 |
| Current Assets                  | 1538.6 | 1312.3 | 2156.2 | 1602.2 | 2343.6 | 2018.7 | 2564.7 |
| Total Assets                    | 2851.8 | 3466.2 | 4272.0 | 4316.6 | 5301.3 | 4649.1 | 5596.4 |
| Revenue from Operations         | 1690.8 | 2015.6 | 2495.2 | 3126.0 | 3788.7 | 1889.0 | 2570.1 |
| Revenue Growth (%)              |        | 19.2   | 23.8   | 25.3   | 21.2   |        | 36.1   |
| EBITDA                          | 286.6  | 375.2  | 362.5  | 410.1  | 487.1  | 183.8  | 460.4  |
| EBITDA Margin (%)               | 16.9   | 18.6   | 14.5   | 13.1   | 12.9   | 9.7    | 17.9   |
| Net Profit                      | 295.6  | 406.5  | 383.8  | 435.3  | 462.6  | 171.2  | 431.3  |
| Net Profit Margin (%)           | 17.5   | 20.2   | 15.4   | 13.9   | 12.2   | 9.1    | 16.8   |
| Earnings Per Share (Rs.)        | 24.7   | 34.0   | 32.1   | 36.4   | 38.7   | 14.3   | 36.1   |
| Return on Networth (%)          | 20.7   | 22.4   | 17.7   | 16.9   | 15.4   | 6.3    | 12.7   |
| Net Asset Value per Share (Rs.) | 119.4  | 151.8  | 181.6  | 215.7  | 250.5  | 228.2  | 284.4  |

Source: RHP, Ashika Research

## Cash Flow Statement

| (In Rs. Cr)  | FY11    | FY12    | FY13    | FY14    | FY15    | H1FY15  | H1FY16  |
|--|---------|---------|---------|---------|---------|---------|---------|
| Cash flow from Operations Activities                   | 147.9   | 159.1   | 78.1    | 290.0   | 328.2   | 167.6   | 241.7   |
| Cash flow from Investing Activities                    | (822.8) | (247.5) | (403.5) | 350.4   | (237.0) | (147.9) | 105.9   |
| Cash flow from Financing Activities                    | 778.9   | (11.1)  | 355.6   | (600.0) | (51.8)  | (49.5)  | (387.0) |
| Net increase/(decrease) in cash and cash equivalents   | 104.0   | (99.5)  | 30.2    | 40.5    | 39.4    | (29.9)  | (39.4)  |
| Cash and cash equivalents at the beginning of the year | 20.0    | 124.0   | 26.4    | 57.3    | 100.8   | 100.8   | 139.6   |
| Cash and cash equivalents at the end of the year       | 124.0   | 26.4    | 57.3    | 100.8   | 139.6   | 70.7    | 99.0    |

Source: RHP

## Comparison with listed industry peers

| Company                         | Revenue (Rs. Cr.) | Face value (Rs.) | P/ E (x)  | EPS (Rs.) | RoNW (%) | NAV (Rs.) |
|---------------------------------|-------------------|------------------|-----------|-----------|----------|-----------|
| Alkem Laboratories Limited      | 3,969.7           | 2.0              | 14.1-14.9 | 38.7      | 15.4%    | 250.8     |
| Torrent Pharmaceuticals Limited | 4,939.0           | 5.0              | 34.8      | 44.4      | 30.2%    | 147.2     |
| Ipca Laboratories Limited       | 3,177.6           | 2.0              | 38.8      | 20.2      | 11.5%    | 175.0     |
| Alembic Pharmaceuticals Limited | 2,058.4           | 2.0              | 45.2      | 15.0      | 32.0%    | 46.9      |

Source: RHP

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