



# Potent mix of growth and sustainability

## **Contents: Potent mix of growth and sustainability**

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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BSE Sensex  
23,962S&P CNX  
7,277

CMP: INR1,327

TP: INR1750 (+32%)

Buy

**Stock Info**

Bloomberg	ALKEM IN
Equity Shares (m)	2,406.6
52-Week Range (INR)	1,589/1281
1, 6, 12 Rel. Per (%)	-/-/-
M.Cap. (INR b)	158.7
M.Cap. (USD b)	2.37
Avg Val, INRm	2444
Free float (%)	-

**Financial Snapshot (INR b)**

Y/E Mar	2016E	2017E	2018E
Net Sales	50.6	60.1	71.7
EBITDA	8.3	10.3	13.0
PAT	7.4	8.5	10.5
EPS (INR)	61.7	71.4	87.5
Gr. (%)	59.6	15.7	22.5
BV/Sh (INR)	305.4	362.4	430.2
RoE (%)	22.2	21.4	22.1
RoCE (%)	19.3	19.9	21.7
P/E (x)	21.5	18.6	15.2
P/BV (x)	4.3	3.7	3.1

**Alkem Labs**

Potent mix of growth and sustainability



[Please click here for Video Link](#)

**Potent mix of growth and sustainability**

Stable business model + robust growth = attractive returns

- We initiate coverage on Alkem (ALKEM IN) with Buy rating and target price of INR1,750, implying upside potential of ~30%.
- We believe being amongst the top-3 players in acute therapy in India (Ranks 1st in anti-infectives) provides sustainability for ALKEM whereas growing presence in the domestic chronic segment (growing at double the pace of industry at >30%) coupled with robust US pipeline will help drive growth and profitability.
- Domestic business will continue to be the key contributor for ALKEM, as it will explain >70% of FY18E sales (v/s ~75% of current sales) and 85% of FY18E EBITDA (v/s ~100% of current EBITDA).
- ALKEM's US business is likely to more than double from ~USD106m in FY15 to ~USD225m by FY18, driven by a strong pipeline of ~45 pending ANDAs. Lower base effect will continue to have a positive impact as US will still contribute ~22% to sales- much lower than peers at ~40% and above.
- Our target price of INR1,750 for ALKEM is based on 20x FY18E EPS (~10-15% discount to peers).
- We argue for a multiple re-rating given the leadership position in domestic market, superior earnings growth profile (>30% EPS CAGR over FY15-18E), improving return ratios (ROICs to improve to ~22% by FY18E from 16% in FY15) and net cash balance sheet.

**Domestic market to remain the cash cow**

- Domestic business will continue to be the key contributor for ALKEM, as it will explain >70% of FY18E sales (v/s ~75% of current sales) and 85% of FY18E EBITDA (v/s ~100% of current EBITDA).
- We believe market leadership position in key acute therapies will help provide sustainability whereas expanding presence in high growth areas of chronic segment will help drive growth.
- ALKEM is one of the fastest growing pharma companies among domestic peers (sales CAGR of ~14% in the last five years v/s industry average of 11.5%).
- This is primarily on the back of its (1) market leadership position (ranks 7th, with market share of 3.5% in the domestic market), (2) strong brand franchise (5 of its brands among top-50), and (3) aggressive new product introductions (launched ~80 brands annually in the last five years v/s peer average of ~50).

**Strong presence in acute segment (~90% of domestic sales) to provide stability**

- We expect ALKEM to continue to outperform industry growth of ~10% in the acute segment.
- This will be driven by leadership status in key therapies (ranks no 1 in anti-infectives, GI, Pain/ analgesics and Vitamin), bridging gaps in the product portfolio and strong relationship with specialists (prescription coverage of >70%).

### Expanding presence in Chronic segment to fuel growth

- Chronic segment for ALKEM grew at ~33% CAGR over FY11-15 but still contributes ~11% to domestic sales (vs industry average of >30%).
- Chronic segment will continue to deliver robust growth on the back of low base effect, focus on high growth therapies (cardio, derma, anti-diabetic, etc) and specialized sales team (of ~1900).
- We expect sales force productivity in the chronic segment to improve considerably for ALKEM (currently at ~INR4.8m v/s company average of INR5.0m) on the back of deeper therapy penetration, insignificant addition to the team and investment in brand building. This will help fuel growth and drive profitability due to better operating leverage.

### US business sales to more than double by FY18E

- US business for Alkem is expected to more than double by FY18E to ~USD225m vs ~USD106m in FY15. This will be driven by strong ANDA pipeline of ~45 pending ANDAs.
- Lower base effect will continue to have a positive impact as US will still contribute ~22% to sales- much lower than peers at ~40% and above.
- ALKEM's US business has already crossed breakeven point in 1HFY16. Its own frontend presence coupled with ramp-up of existing products and new launches will help drive profitability (will explain more than 50% of margin expansion).
- Increase in ANDA filling rate to 12-15/year (v/s high single digit till last year) on the back of higher R&D spend (~30% CAGR over FY15-18) and capacity addition (Long Pharma acquisition) will help drive growth in the medium term.
- The acquisition of Long Pharma in the US will allow the company to gain semi-solid, liquid and nasal formulation manufacturing capabilities. US-based facilities will allow ALKEM to compete in the niche area of controlled substances.

### Valuations attractive; sticky profit provides comfort

- Our target price of INR1,750 is based on 20x FY18E EPS (~10-15% discount to peers).
- We argue for a multiple re-rating given the superior earnings growth profile (>30% EPS CAGR over FY15-18E), improving return ratios (RoICs to improve to ~22% by FY18E from 16% in FY15) and net cash balance sheet.
- **Our sensitivity analysis** suggests that in bull case (assuming better margins, lower tax rate etc) there is an upside of greater than 50% to CMP whereas our bear case analysis suggests that stock has limited downside from current levels.
- **Risks:** Successful US FDA inspection (which is already overdue) of the Daman facility is critical (contributes ~60% to US sales) – clean track record provides comfort. We have already taken aggressive estimates of tax rate (~15% for FY18 v/s 8% for FY16) and other income (yield of ~8% in FY18 v/s ~14% now). However, higher than expected negative movement could impact PAT.

## Alkem- robust combination of growth & sustainability

### Acute business provides sustainability; chronic and US to drive growth

- We expect revenue to grow at a CAGR of 22% over FY15-18, driven by strong growth in the domestic chronic and US businesses
- Margin expansion of >350bp is likely over FY15-18, driven by MR productivity improvement, better business mix and economies of scale.
- We estimate EPS CAGR of >30% over FY15-18 despite assuming higher tax rate and lower other income.

### Strong pedigree coupled with market leadership status

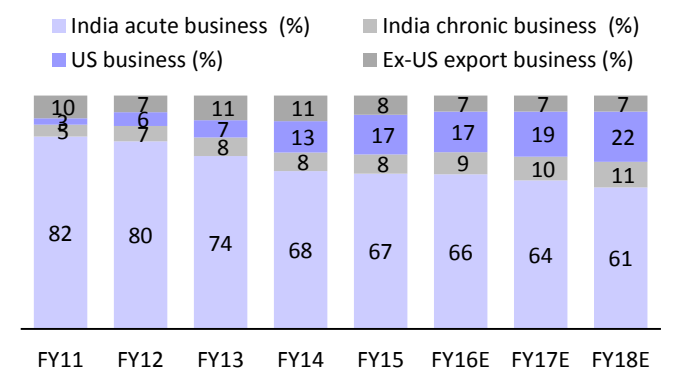
Established in 1973, Alkem has more than 40 years of history in India. Currently the 3 generations of promoters are involved in building as well as growing the business to new verticals/ geographies. The promoters started the business as a distributor in East India and current has branded formulations presence across the country.

ALKEM is one of the fastest growing pharma companies among top-10 domestic peers. It currently ranks as the 7th largest pharmaceutical company in India (top 3 acute player), with a market share of ~3.5%, based on domestic sales of formulations (source: AIOCD).

Even though, at present, majority of sales (75%) is contributed by domestic business, going ahead, we believe export (25% of sales) would be the key growth driver for the company.

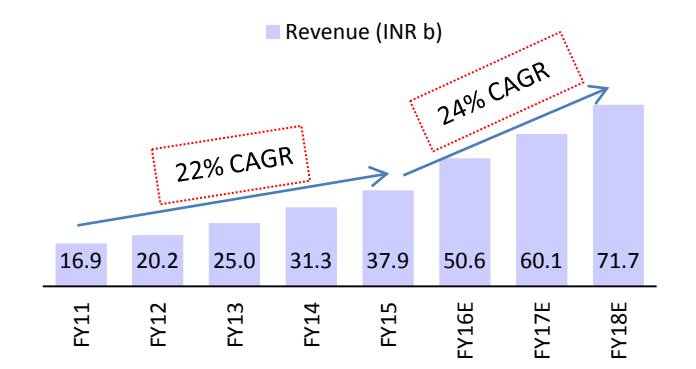
We believe being amongst the top-3 players in acute therapy in India (Ranks 1st in anti-infectives) provides sustainability whereas growing presence in the domestic chronic segment (growing at double the pace of industry at >30%) coupled with robust US pipeline will help drive growth and profitability.

Exhibit 1: Business mix to improve ...



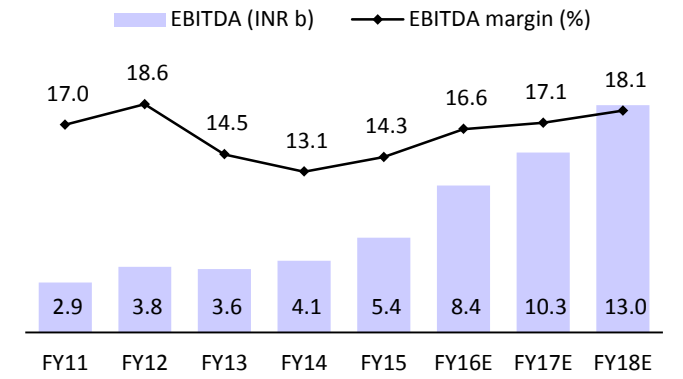
Source: Company, MOSL

Exhibit 2: Revenues to grow at 24% CAGR



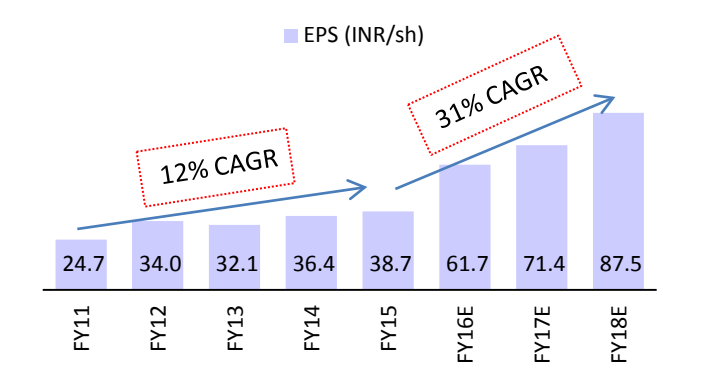
Source: Company, MOSL

**Exhibit 3: EBITDA margins to jump to 18% by FY18E**



Source: Company, MOSL

**Exhibit 4: Earnings to grow at 31% CAGR**



Source: Company, MOSL

## India business to remain the cash cow

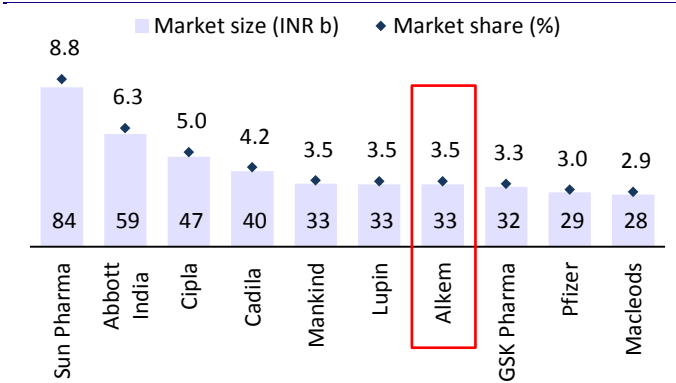
### Leadership position in domestic market to continue

- With 3.5% market share and INR33b secondary sales, ALKEM is the seventh largest pharma company in India.
- It is also one of the fastest growing companies in India for the last five years.
- Popular brands, competitive pricing and vast distribution reach have been the key growth drivers of ALKEM's domestic business.
- We expect ALKEM to deliver revenue CAGR of >20% over FY15-18 on the back of Catchet and Indchemie acquisitions, robust growth in chronic segment and steady performance in acute segment.

### Dominant acute player

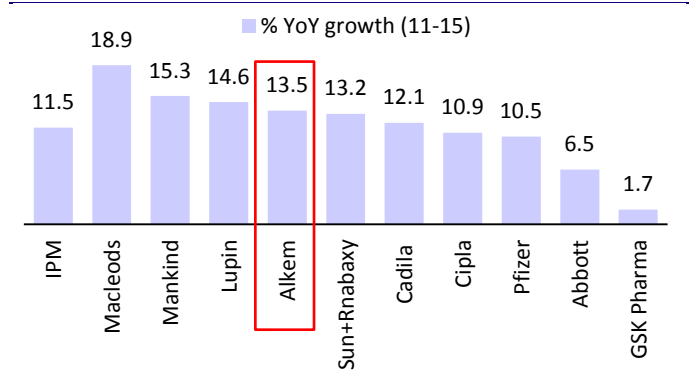
India business revenue for ALKEM grew at a CAGR of 18% over FY11-15. Historically, it has been a dominant acute player in the Indian market, with leadership in anti-infective, gastro and vitamins therapies. Till today, the acute-chronic mix is largely skewed towards acute products (with ~90% sales coming from acute portfolio). Currently, it markets 700+ brands in the Indian pharma market.

Exhibit 5: 7th largest company in India



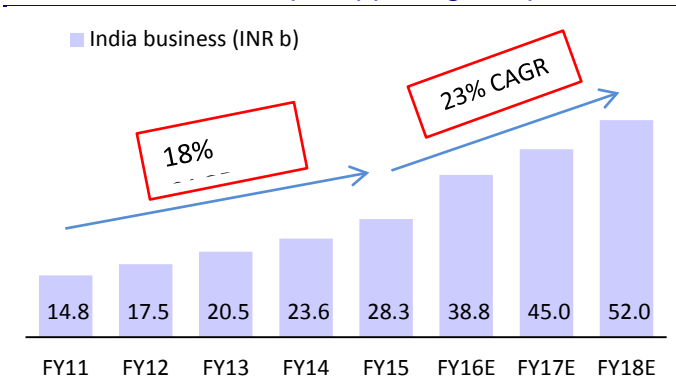
Source: AIOCD, MOSL

Exhibit 6: 4<sup>th</sup> fastest within top 10 companies



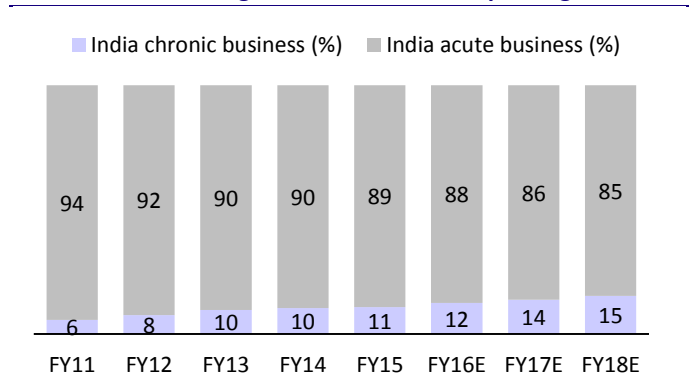
Source: AIOCD, MOSL

Exhibit 7: Domestic sales (INR b) (CAGR growth)



Source: Company, MOSL

Exhibit 8: Chronic segment contribution improving



Source: Company, MOSL

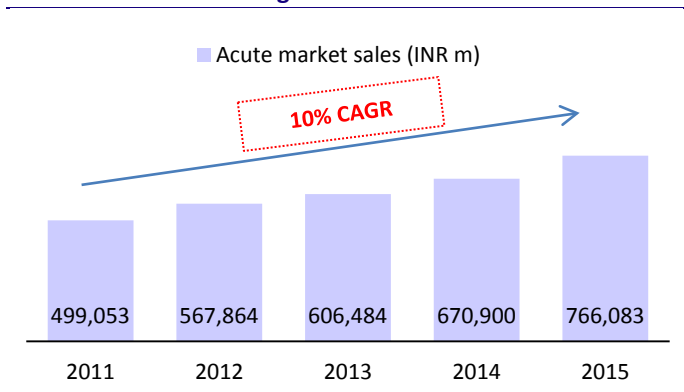
**Market leader in key acute therapies**

As per AIOCD, ALKEM is ranked 1st in anti-infective therapy, with 9% market share. Similarly, it is ranked third in both the gastro-intestinal (GI) and vitamins market, with 4% market share in each. The company also has strong presence in the pain/analgesic market, with more than 3% share.

**Despite being the market leader still outperforming the market growth**

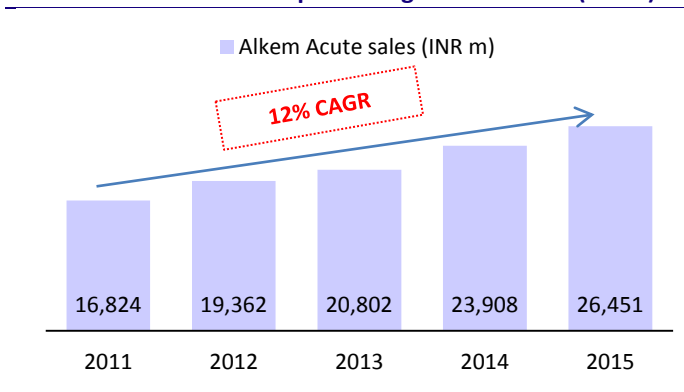
ALKEM has been the market leader in acute segment for last five years. Despite high base effect, it has consistently grown ahead of the market growth. Industry growth for acute segment has been at ~10% CAGR between FY11-15 whereas ALKEM has grown at ~12% for same period. This growth is primarily driven by new product launches; brand loyalty, aggressive pricing strategy and vast distribution reach across India.

**Exhibit 9: Acute market grew at 10% CAGR over 2011-15**



Source: AIOCD, MOSL

**Exhibit 10: Alkem’s Acute portfolio grew 12% CAGR (11-15)**



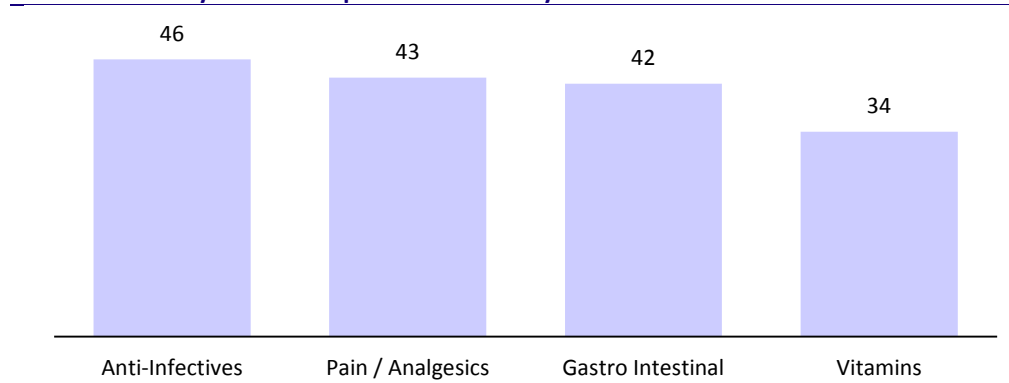
Source: AIOCD, MOSL

**Exhibit 11: Established player in key acute therapies**

Therapy	Rank	Domestic sales (INR m)	Market share (%)	CAGR (11-15)	Overall Therapy market (INR m)	CAGR (11-15)
Anti-infectives	1	13048	9.0%	9.7%	145333	6.9%
Gastro intestinal	3	5113	4.6%	15.8%	110768	12.8%
Vitamins	3	3554	4.2%	18.2%	84989	12.3%
Pain / analgesics	10	2060	3.1%	13.0%	65770	9.1%

Source: AIOCD, MOSL:

**2: Launches in key acute therapies over last five years**

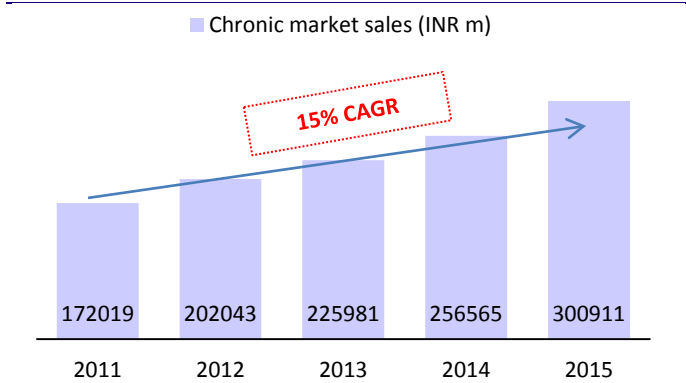




### Building presence in lucrative chronic segment

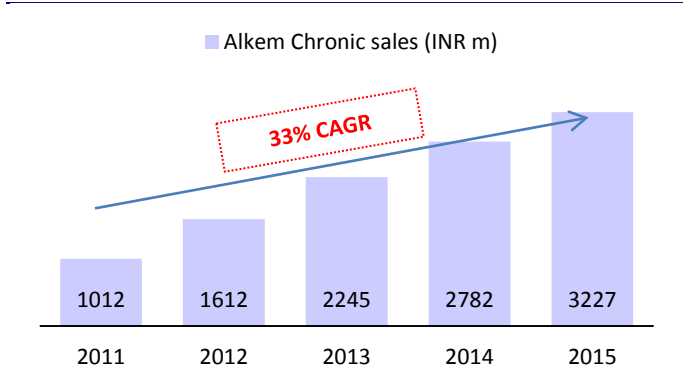
Industry growth in chronic segment stood at ~15% CAGR between FY11-15 vs ~10% growth for Acute during same period. ALKEM is building upon its acute portfolio and expanding its presence in high growth chronic segments. Sales in the chronic segment have gone up by 33% CAGR over last 5 years. This was driven by lower base effect, enhanced focus on high growth therapies including CNS, Derma, Respiratory and Anti-diabetic and investment in building a specialized sales force.

**Exhibit 13: Chronic market grew at 10% CAGR over 2011-15**



Source: AIOCD, MOSL

**Exhibit 14: Alkem's Chronic portfolio grew 33% CAGR**



Source: AIOCD, MOSL

### Superior performance in chronic therapies

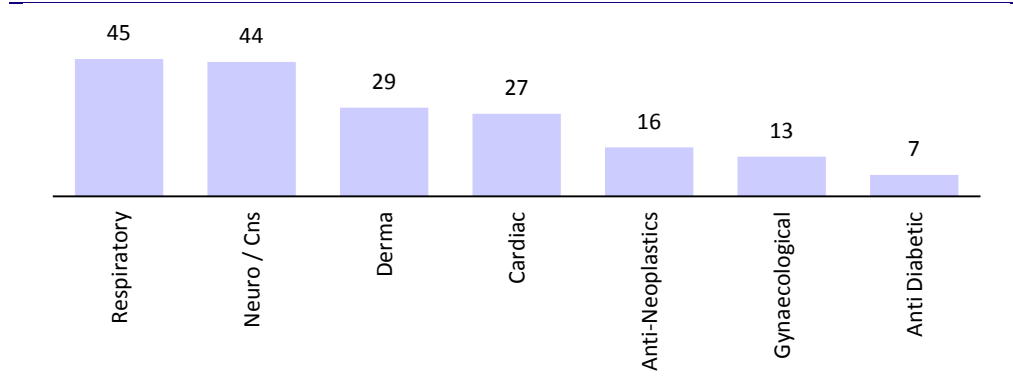
Anti-Diabetic, Derma and Cardiac are three largest and fastest growing chronic segments in India. Over last five years, ALKEM has reported 23%YoY growth in its CNS portfolio as against 12%YoY growth in market for same period. Similarly, it has also outperformed market growth in therapies like Derma, Cardiac and Anti-Diabetic.

**Exhibit 15: Superior growth in chronic therapies**

Therapy	Rank	Domestic sales (INR m)	Market share (%)	CAGR (11-15)	Overall Therapy market (INR m)	CAGR (11-15)
Neuro / cns	11	1361	2.3%	22.8%	58382	12.2%
Derma	15	1050	1.8%	30.1%	56953	16.7%
Respiratory	23	862	1.2%	8.9%	74303	11.2%
Cardiac	31	773	0.6%	37.0%	119095	13.3%
Anti diabetic	28	691	0.9%	60.1%	77292	21.3%
Gynaecological	19	644	1.4%	3.6%	46822	7.4%

Source: AIOCD, MOSL

**Exhibit 16: Launches in key chronic therapies over last five years**

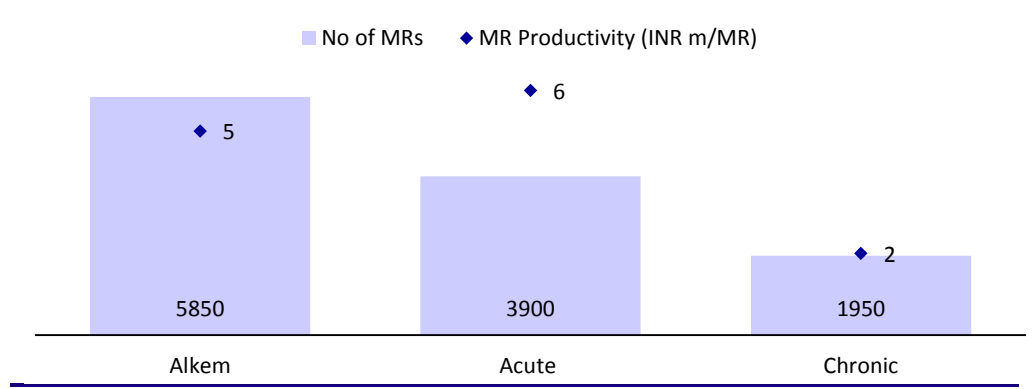


Source: AIOCD, MOSL

**Investment in chronic business to help drive growth**

Superior growth in chronic therapies is result of large number of launches in Cardiac, Respiratory and Anti-Diabetic categories and significant initial investment went into building specialized sales force of ~2000 MR in these therapies. We believe chronic therapy growth will not only drive Alkem’s top line growth but it will also drive profitability over long term.

**Exhibit 17: MR productivity**

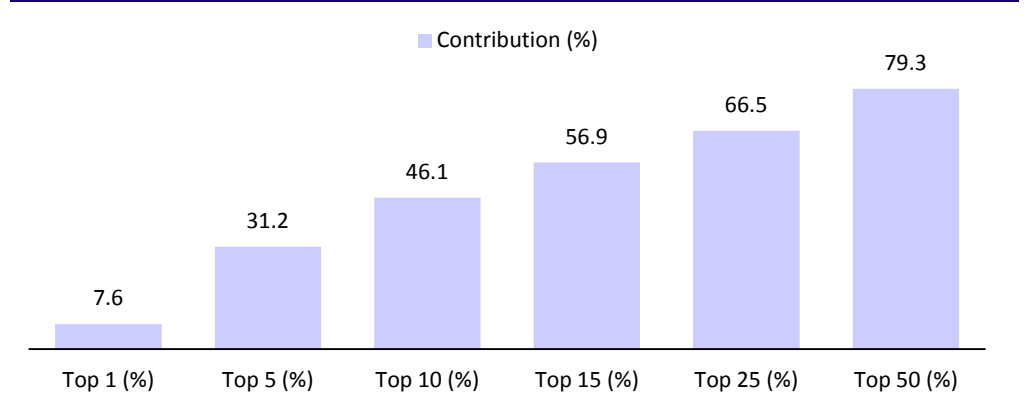


Source: Company, MOSL

**Diversified brand portfolio**

ALKEM has a well-diversified portfolio, with no over-dependence on any single brand (top-10 brands contribute 46% of domestic sales and top-25 brands contribute ~66.5% of domestic sales). According to AIOCD, 14 of ALKEM’s brands were among the top selling 300 pharmaceutical brands in India in the 12 month period ended November 2015.

**Exhibit 18: Top 10 brands contributes 46% of total domestic sales**



Source: AIOCD, MOSL

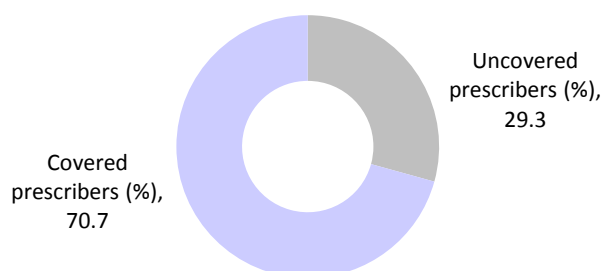
**Exhibit 19: Alkem top 25 brands - contribute ~66.5% of total sales (MAT Nov-15)**

BRAND	MAT sales (INR m)					% YoY growth			
	Nov -11	Nov -12	Nov -13	Nov -14	Nov -15	Nov -12	Nov -13	Nov -14	Nov -15
CLAVAM	1,389	1,697	1,948	2,189	2,304	22.2	14.8	12.4	5.2
TAXIM O	1,500	1,699	1,618	1,641	1,855	13.3	(4.8)	1.4	13.0
PAN	1,078	1,284	1,330	1,593	1,836	19.1	3.6	19.8	15.2
TAXIM	1,537	1,571	1,496	1,633	1,725	2.2	(4.8)	9.2	5.6
PAN D	726	881	996	1,295	1,519	21.5	13.0	30.0	17.4
XONE	629	778	803	843	907	23.6	3.3	5.0	7.5
GEMCAL	526	593	585	773	858	12.8	(1.2)	32.1	10.9
SUMO	624	673	689	761	809	7.9	2.3	10.5	6.3
ONDEM	494	580	606	682	804	17.4	4.6	12.4	17.9
A TO Z NS	528	588	603	669	753	11.4	2.5	10.9	12.6
ZOCEF	340	389	455	546	656	14.3	17.1	19.9	20.2
PIPZO	541	426	428	591	656	(21.2)	0.4	38.1	11.0
XONE XP	303	391	383	458	563	29.0	(2.2)	19.5	23.1
UPRISE D3	5	154	274	375	516	3,109.9	78.2	37.1	37.5
SWICH	316	351	385	461	498	11.0	9.9	19.6	8.0
HEMFER	394	385	377	393	402	(2.3)	(1.9)	4.2	2.1
ENZOFLAM	219	248	275	333	358	13.2	10.8	21.4	7.4
TAXIMAX	247	262	260	293	308	5.8	(0.9)	12.9	5.2
GLUCORYL M	37	67	138	228	279	79.4	106.4	65.1	22.4
SUMO L	49	127	163	205	257	156.8	28.3	25.8	25.3
SWICH XP	178	211	197	197	229	18.6	(7.0)	0.2	16.2
TAXIM AZ	1	51	112	177	226	5,998.6	121.2	58.1	27.5
ZOCEF CV	102	125	145	167	201	22.1	16.0	15.4	20.8
DONEP	102	125	151	174	201	22.6	20.6	15.0	15.7
GLUCORYL-MV	-	2	57	137	197		3,354.0	140.4	43.5

**Strong marketing capability and sales force productivity improvement to drive growth**

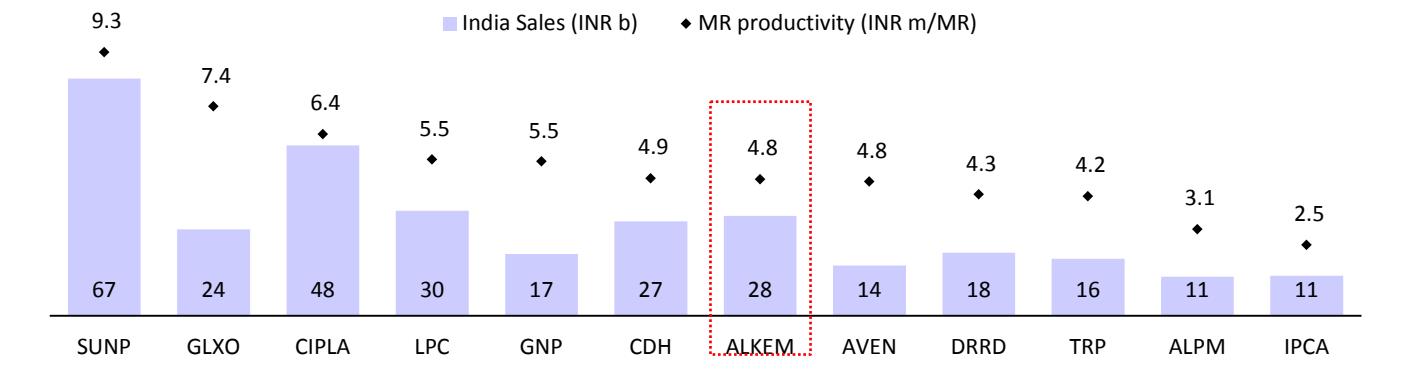
ALKEM has a specialized team of over 5,856 sales representatives, which enables it to market its products to 220,499 prescribers. Its sales representatives cover almost 70% of total prescribers in India.

Its domestic distribution network includes 40 sales depots, 55 clearing and forwarding agents and approximately 7,025 stockists. Current sales productivity at INR5m per sales representative is at par with industry average. However, there is still significant scope in the system for ALKEM to increase productivity in the medium term, with growing proportion of chronic portfolio. Of the 5,850 MRs, ~1/3rd are dedicated chronic MRs. Given that ALKEM is still new in the chronic segment, there is scope for productivity improvement in this segment.

**Exhibit 20: Alkem covers 70% of total prescribers in India**

Source: Company, MOSL

**Exhibit 21: MR productivity is likely to improve with better product mix**

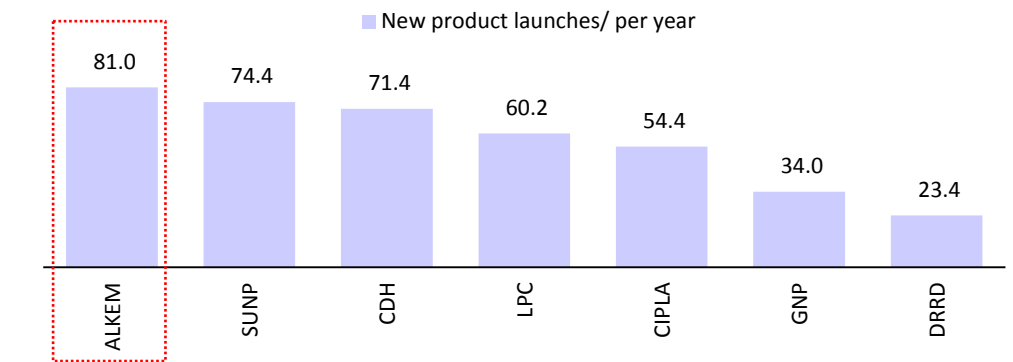


Source: Company, MOSL

**Fair mix of volume, price and new launches driving growth**

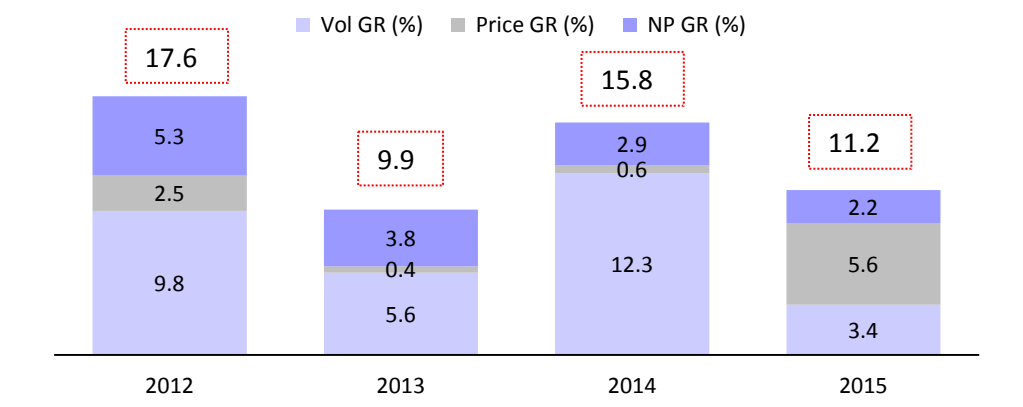
Over the last five years, ALKEM has launched 405 products in the market in various therapies. The highest number of products was launched in anti-infective therapy (46), followed by respiratory (45), CNS (44) and pain/analgesic (43).

**Exhibit 22: Aggressive launches over last five years driving growth**



Source: AIOCD, MOSL

**Exhibit 23: Price increase has been key growth driver in 2015 for Alkem**

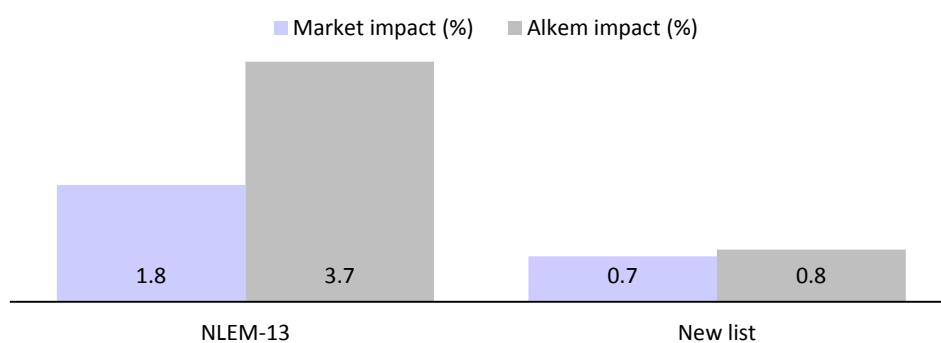


Source: AIOCD, MOSL

## Clarity regarding domestic pricing policy bodes well

Price control has been a key overhang on the sector over the last 2-3 years. In May-13, 348 drugs came under price control due to which one time impact on industry sales was at ~1.8% whereas due to higher exposure to acute segment (which got impacted the most) one time impact on ALKEM's revenue was at ~3.7%. Though, the revision in drug list was supposed to happen every 5 years, NPPA was looking to revise this drug list on a more frequent basis on the back of a clause (Para-19). Industry bodies challenged this decision of NPPA and now clarity regarding this has emerged. Based on the recent settlement between related parties, NPPA has decided to revise the list every three years. Recently in Dec-15, it also added ~22 products to the list, resulting in 0.7% impact on industry and 0.8% impact ALKEM sales.

**Exhibit 24: Revenue impact on the back of NLEM price list**



Source: AIOCD, MOSL

**Exhibit 25: One time impact of new pricing policy for Indian pharma companies (May'13)**

Company	Annual sales (INR m)	NLEM exposure (INR m)	NLEM exposure (%)	NLEM impact (INR m)	% impact on total sales
<b>Total</b>	<b>675030</b>	<b>98060</b>	<b>14.5</b>	<b>12430</b>	<b>1.8</b>
Cipla	34230	7170	20.9	800	2.3
Sun Pharma	31570	3360	10.6	300	1.0
GSK Pharma	31530	8560	27.1	1800	5.7
Ranbaxy	28270	4200	14.9	820	2.9
Abbott	26210	4630	17.7	310	1.2
Zydus Cadila	25490	5390	21.1	620	2.4
Mankind	23010	3540	15.4	40	0.2
<b>Alkem</b>	<b>20270</b>	<b>5270</b>	<b>26.0</b>	<b>760</b>	<b>3.7</b>
Lupin	20110	2340	11.6	160	0.8
Macleods	16650	2660	16.0	260	1.6
Pfizer	16080	1640	10.2	330	2.1
Intas	15860	1950	12.3	150	0.9
Aristo	15420	2620	17.0	360	2.3
Sanofi India	13990	2440	17.4	470	3.4
Dr Reddy's	13260	2490	18.8	420	3.2

Source: AIOCD, MOSL

**Methodology of NLEM pricing:** The government had issued a ceiling price for every drug in the pricing list. This was set as the maximum allowed price for that product in that particular year. The ceiling price was set on the basis of simple average price (SAP) of all the brands with market share greater than 1% (based on

value terms). Players were free to set any price for their products equal to or below the ceiling price. Due to this methodology, the prices of NLEM drugs fell 15- 20% in that year, resulting in a huge impact for NLEM drug producing companies.

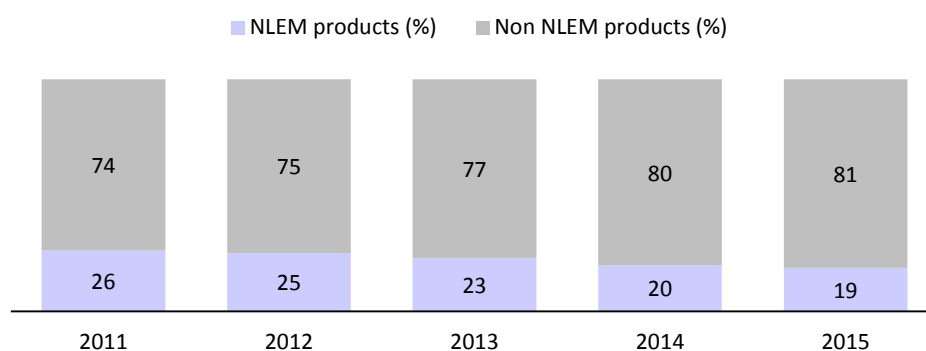
**Frequent revision of list added uncertainty....** Though the NPPA-2013 policy suggested revision of the NLEM list only after five years, NPPA used a provision given under Para 19 clause, according to which it can add drugs in an emergency scenario. This resulted in increased uncertainty about pricing scenario and had led to price cuts in 49 products, primarily in cardiac and anti-diabetic therapies. Recent Inclusion of 22 more formulation is also likely to result in 0.8% impact on Alkem domestic sales.

**..... Recent settlement provides clarity:** Post discussion with various pharma companies and pharma bodies, NPPA has finally come to an agreement to change the list once and keep it unchanged thereafter for at least the next three years. In December 2015, NPPA expanded the original NLEM-2013 list to 372 drugs. It will now review the list to update it as per new requirements and changes in market dynamics only after three years. This provides clarity that no further pricing impact will be felt on these companies for three years.

**Exhibit 26: One time impact of new pricing policy for Indian pharma companies (December 2015)**

Company	Annual sales	NLEM exposure	NLEM exposure (%)	NLEM impact	% impact on total sales
<b>Total</b>	951210	77840	8.2	6220	0.7
Cipla	47410	7730	16.3	840	1.8
Sun Pharma	52960	4630	8.7	210	0.4
Glenmark	22520	2330	10.3	260	1.2
Ranbaxy	31100	2520	8.1	420	1.4
Novartis	1247	810	65.0	150	12.0
Zydus Cadila	36720	3830	10.4	390	1.1
Emcure	15560	1660	10.7	140	0.9
<b>Alkem</b>	29680	3540	11.9	240	0.8
Lupin	32910	4760	14.5	320	1.0
Micro	17740	2960	16.7	210	1.2
Pfizer	28660	2000	7.0	560	2.0
Intas	26590	290	1.1	150	0.6
Sanofi India	23690	2370	10.0	300	1.3
Dr Reddy's	21870	1910	8.7	180	0.8

**Exhibit 27: NLEM exposure for Alkem over the years**



Source: AIOCD, MOSL

## US business- The jewel in the crown

### Revenues expected to more than double by FY18E

- US business accounted for 67% of ALKEM’s international sales and ~17% of its total sales in FY15.
- It has grown at a CAGR of 18% CAGR over FY11-15 and is expected to continue its momentum for the next two years.
- Till date, ALKEM has received 20 product approvals in the US and 45 ANDA filings are still pending with US FDA.
- We believe US would be a key growth driver for ALKEM, going forward.

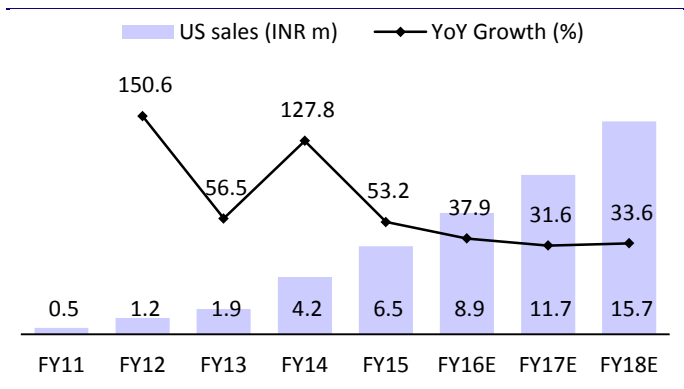
### US market remains a key focus area

Till date, ALKEM has augmented its presence in the US market through various acquisitions. It established its front end in the US market through the acquisition of Ascend Labs in July 2010. Later, it also acquired two manufacturing facilities in the US – Norac Pharma (API unit) in December 2012 and Long Pharma (formulation unit) in June 2015. Strategically, the US has become an important business for ALKEM, with sales contribution rising from 2% in FY11 to 17% in FY15. In FY15, ALKEM generated sales of >USD100m from the US. We believe US sales contribution will increase to 22% in FY18, with 34% CAGR over FY15-18.

### Rich pipeline to support the future growth

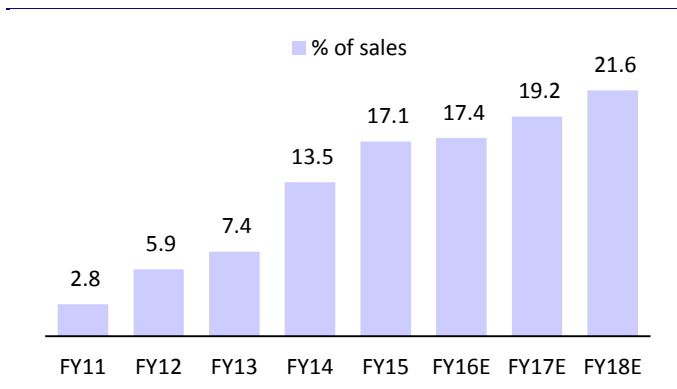
As of September 30, 2015, ALKEM has filed 69 ANDAs in the US, of which 21 have been approved and 45 are pending with US FDA. These include 30 Para IVs and few FTF filings. Most of these filings are in the areas of CVS, CNS and antibiotics. With 40+ pending filings and 40% of these filings older than two years, we believe ALKEM can launch 7/8 products annually for the next three years in the US to support 34% CAGR over FY15-18.

Exhibit 28: US sales



Source: Company, MOSL

Exhibit 29: US sales contribution

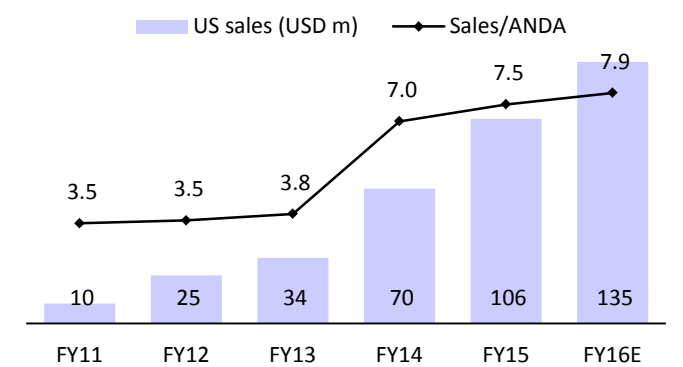


Source: Company, MOSL

### Better than average sales/ ANDA for a new company

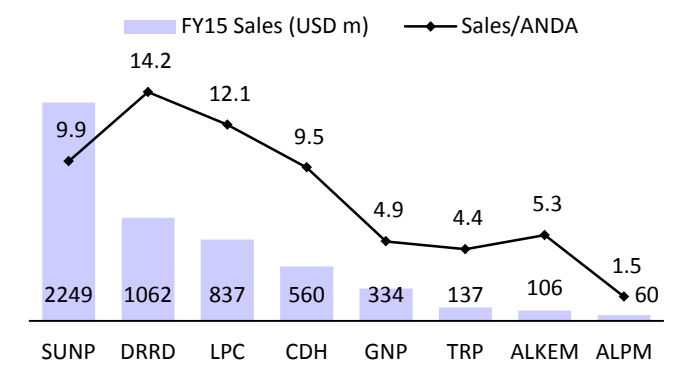
Compared with Torrent, Alembic and Glenmark, which are of comparable size in the US, ALKEM has much better Sales/ANDA ratio at USD7.6m. We believe this can be attributed to some of the key products it has launched in the US market – silver sulfadiazine, ibuprofen, mycophenolate, methadone and nimodipine.

Exhibit 30: Sales/ANDA improving...



Source: Company, MOSL

Exhibit 31: Better than average sales/ANDA for ALKEM



Source: Company, MOSL

## Key products for Alkem

### Silver sulfadiazine (topical antibacterial)

- This was the first product launched by ALKEM in the US as a contract manufacturer. The partner has an NDA for the topical version, with USD50m market size. We believe ALKEM has generated USD10m-15m sales from this contract.

### Ibuprofen – in-licensed (analgesic)

- Ibuprofen is an in-licensed product for ALKEM. Though it is a crowded market, it is dominated by only few players and ALKEM has acquired 30% market. Current market size for Ibuprofen stands at USD50m per annum.

### Mycophenolate mofetil suspension (immunosuppressant)

- ALKEM is the only player in the suspension version of mycophenolate mofetil. It has 60% market share and is likely to be generating USD15m annual sales from this product.

### Methadone (analgesic)

- Methadone is an important product for ALKEM in the US, having 30% market share and USD10m annual sales. There are only four other generic players in this market.

### Nimodipine (high blood pressure)

- ALKEM launched this product in FY15. Though it is a partnered product, we believe ALKEM is generating annual sales of USD9m-10m from Nimodipine.



**Exhibit 32: Recently launched product**

Molecule	Indication	Time of approval	Number of players
Amlodipine Besylate	Blood pressure	5/4/2009	36
Methadone Hydrochloride (PN product)	Pain (controlled substance)	11/25/2009	5
Cefuroxime Axetil	Bacterial infections	6/7/2010	10
Metformin Hydrochloride	Diabetes	11/1/2010	30
Cephalexin	Anti-biotic	12/20/2010	7
Gabapentin	Control seizures (antiepileptic)	12/17/2010	12
Hydralazine Hydrochloride	Blood pressure	12/7/2012	10
Quetiapine Fumarate	Mood/ mental conditions	2/12/2013	13
Lamotrigine	Control seizures (antiepileptic)	6/14/2013	15
Nimodipine (PN product)	Treat bleeding (in brain)	4/7/2014	5
Benzonatate (PN product)	Cough	9/24/2014	8
Isonazid (PN product)	Tuberculosis (TB) infections	10/29/2014	
Mycophenolate Mofetil	Immuno-suppressant	11/14/2014	1
Nebivolol Hydrochloride	Blood pressure	6/24/2015	No Launch
Linezolid	Anti-biotic	8/27/2015	8
Olanzapine	CNS	10/23/2015	11

Source: USFDA, MOSL

**Robust ANDA pipeline provides comfort for future growth**

Of the 40+ pending ANDA filings with US FDA, 30 are para IV opportunities. We have tracked nine para IV opportunities for ALKEM and most of these opportunities are expected to fructify FY18/FY19 onwards. Some of the key products include Pradaxa, Solodyn and Multaq. Most of these products are still going through litigation.

**Exhibit 33: Known pending product approvals**

Generic Name	Brand name	Therapy	Patent expiration	Para IV filing	Market Size (USD m)
Lanthanum Carbonate	Fosrenol	Renal disease	26-Oct-18	13-Jan-11	125
Minocycline	Solodyn	Acne	19-Feb-18	6-Dec-12	300
Tapentadol hydrochloride	Nucynta ER	Pain	22-Sep-28	26-Dec-13	
Fesoterodine Fumarate	Toviaz	GI	3-Jul-22	24-Jun-13	236
Dabigatran	Pradaxa	CVS	18-Feb-18	15-Dec-14	800
Dalfampridine	Ampyra	CNS	30-Jul-18	11-Jul-14	348
Dronedarone hydrochloride	Multaq	CVS	19-Jun-18	19-Mar-14	500
Esomeprazole	Nexium	GI	Expired		1800
Aripiprazole	Abilify	CNS	Expired		6000

Source: Company, MOSL

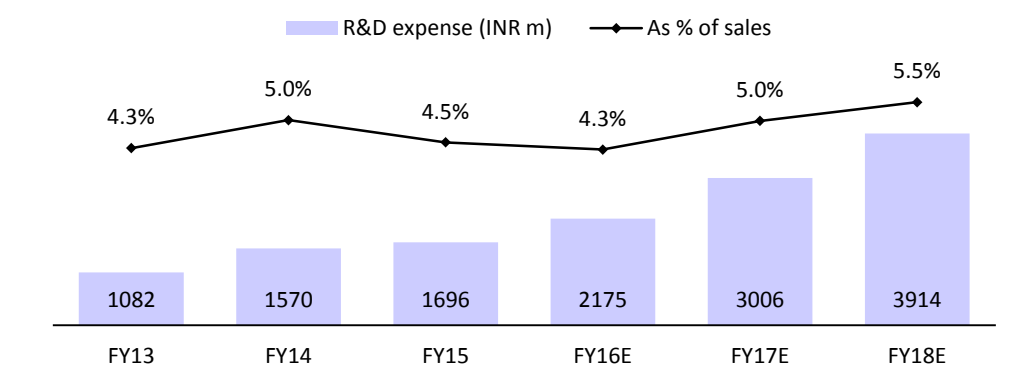
**Enhanced focus of R&D to pay rich dividend**

- ALKEM intends to increase R&D initiatives to enhance differentiated product portfolios in both the domestic and international markets and to add ANDA filings in the US.
- As part of the strategy, it will continue to focus on formulation development and API research. Further, it has identified biosimilars as a long-term growth opportunity and expects to make investments in development of products with

a focus on high-growth therapeutic areas such as oncology, autoimmune disorders and osteoporosis.

- ALKEM is also working towards developing capabilities and expertise in niche areas with high entry barriers such as modified release products, transdermal products and osmotic controlled release oral delivery systems.
- Further, it also has an integrated clinical research organization facility where bioequivalence/bioavailability studies for generic drugs are carried out in relation to filings in various countries. This unit is audited by DCGI, USFDA, UK-MHRA and other international regulatory agencies.

#### Exhibit 34: R&D expenses to increase going ahead



Source: Company, MOSL

#### Adding new capabilities

ALKEM has been manufacturing only oral solids for the US market. However, through the acquisition of St Louis facility in the US, it has also built capabilities to manufacture controlled substances, nasals, semi-solids, liquids and ointments for the US market. These are niche product areas of low competition and high margins. Launching products in a niche category will help ALKEM to raise its Average Sales/ANDA ratio, going forward.

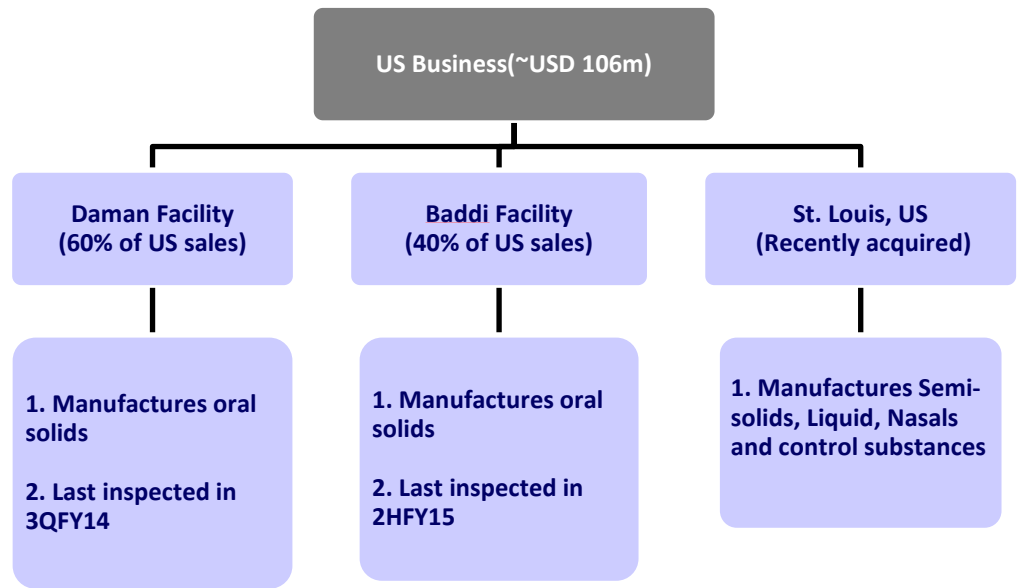
#### Manufacturing capabilities

ALKEM has 16 manufacturing facilities in India and the US (14 facilities at five locations in India and two in the US). Of these, five facilities are US FDA approved – three formulation plants (Daman, Baddi and St Louis) and two API units (California and Ankleshwar). At present, the Daman facility accounts for 60% of US sales while the remaining 40 of sales are from the Baddi facility.

In June 2015, ALKEM had added another US-approved facility in the US through the inorganic route. Through this acquisition, it gained semi-solid, liquid and nasal formulation capabilities. This will help it enter the niche control substances market.

The Baddi facility was recently inspected by US FDA and has also received EIR from the regulatory authority. However, the Daman facility was last inspected in 3QFY14 and is likely to face another US FDA inspection in the near term.

**Exhibit 35: Daman followed by Baddi are key manufacturing facilities for US**



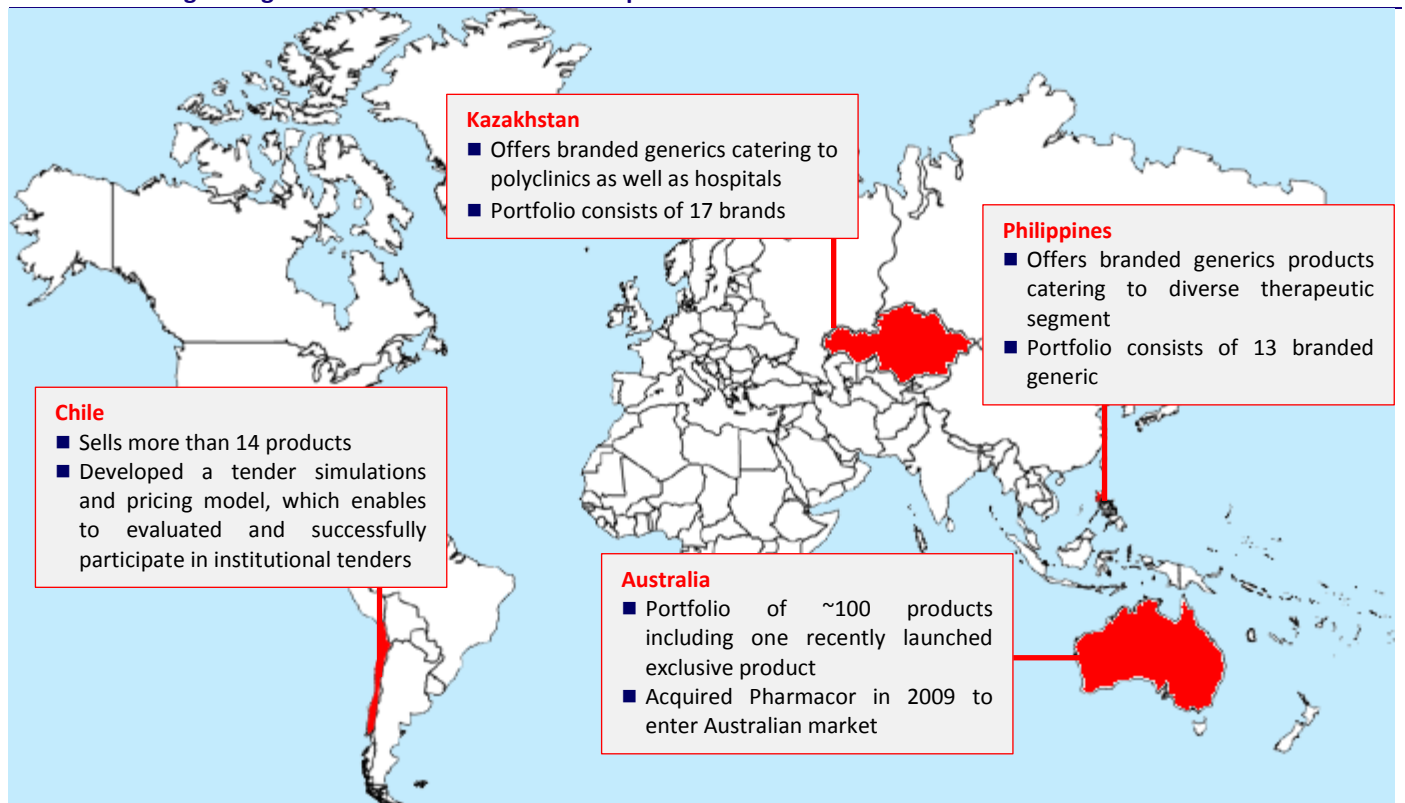
Source: Company, MOSL

## Ex-US International business

### Expanding presence in RoW markets

- Internationally, ALKEM products are marketed in over 56 countries, mostly through its own distribution network.
- ALKEM is expanding its presence in Australia, Europe, South East Asia, Latin America, Africa and CTS.
- Over the last five years, its international business has grown at 17% CAGR, led by superior growth in the Australia, Chile and Philippines business. Currently, international business (ex-US) contributes 8% of total sales and we expect this business to continue to grow at 17% CAGR over FY15-18.

Exhibit 36: Fast growing and established international operations



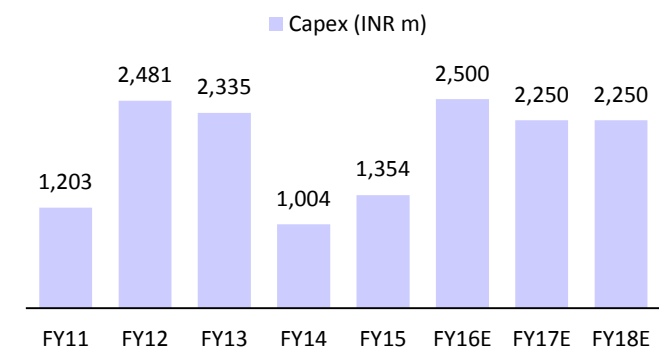
## Balance sheet and return ratios to improve

- ALKEM has a strong balance sheet, with INR13b cash on books and 0.0x net debt to equity ratio.
- We expect it to generate INR12b-13b additional free cash flows over the next three years.
- With improved product and business mix, we expect EBITDA margin to expand from 14.4% in FY15 to 18.1% in FY18.
- Other income is likely to decline and tax rates are going to increase with less aggressive treasury operations and changes in tax exemptions.

### Strengthening balance sheet

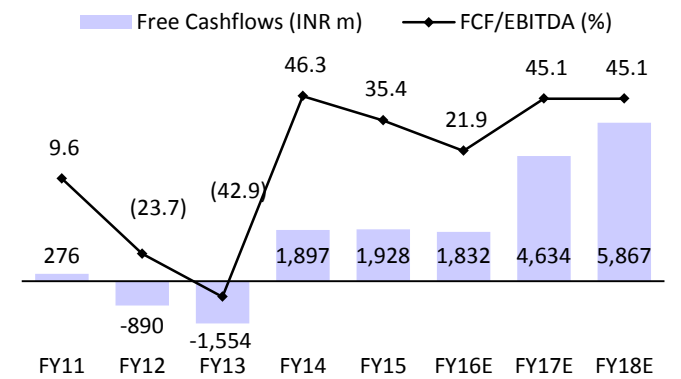
ALKEM has ~INR13b (USD200m) cash on books and a similar amount of debt. Most of this debt is related to working capital and should decline. The company has maintained adequate level of capex over the last few years and there are no immediate big capex needs in the near term, as most of the facilities are still underutilized. We expect free cash flows to improve, going ahead.

Exhibit 37: Capex needs to stay at INR2.5b per year



Source: Company, MOSL

Exhibit 38: Alkem to generate INR12b FCF over FY15-18E

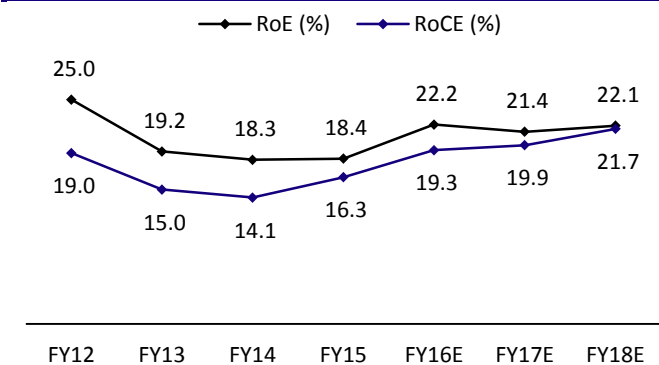


Source: Company, MOSL

### RoCE to improve with better margins

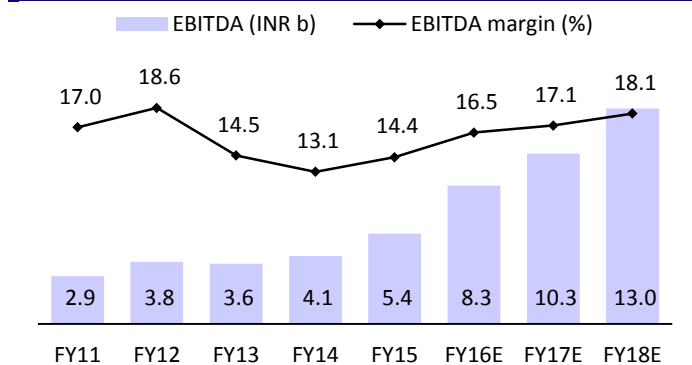
Increasing contribution from chronic business and positive operating leverage in US geography is likely to result in better margins over the next two years. It will also improve return ratio from 18% in FY15 to 23.5% in FY18.

Exhibit 39: ROCE to improve to 22.1% in FY18E



Source: Company, MOSL

Exhibit 40: EBITDA margin to increase to 18.1%

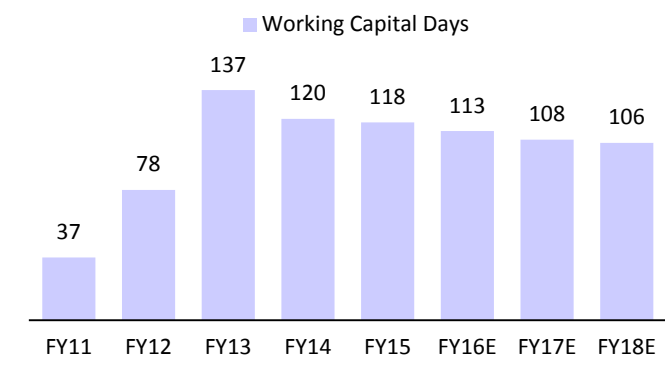


Source: Company, MOSL

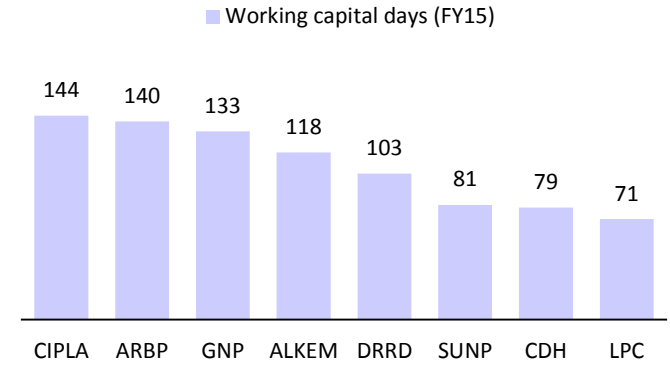
### Working capital is likely to come down as new business mature

Working capital days at 118 days (for FY15) are on the higher side relative to other established players. We believe this is mainly on account of aggressive marketing and distribution strategy to grow in the US and India market. We expect working capital days to come down to 106 in FY18.

**Exhibit 41: Working capital days at 118 in FY15**



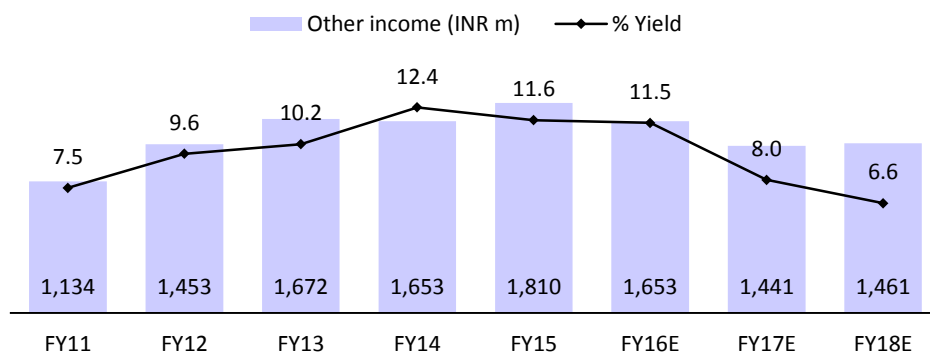
**Exhibit 42: Peer comparison**



### Investment yield to taper down with less aggressive treasury operations

Currently, ALKEM has INR6.9b in cash and INR4.1b in long-term bank deposits (disclosed in other non-current assets) on books. Of the total long-term investments of INR4b, ALKEM has invested INR1.8b in Avenue Venture Real Estate Fund. However, real estate investment has declined from INR2.5b in FY14 and INR2.2b in FY15. We expect this to taper down further, resulting in lower yields on cash and investments over the next two years.

**Exhibit 43: Other income to taper off**



Source: Company, MOSL

### Tax rates to increase on decreasing tax benefits in future

Currently, ALKEM is enjoying tax benefits at four India-based plants – Baddi (betalactum), Baddi, Sikkim Kumrek and Sikkim Samardurg (cephalsporin). As and when these facilities exit tax benefits, overall tax rates will increase.

**Baddi Betalactum Unit:** ALKEM set up a manufacturing unit in Baddi (industrial undertaking), which commenced operations on 26 March 2012 (FY12). It is eligible to claim deduction under section 80-IC from assessment year 2012-13 till

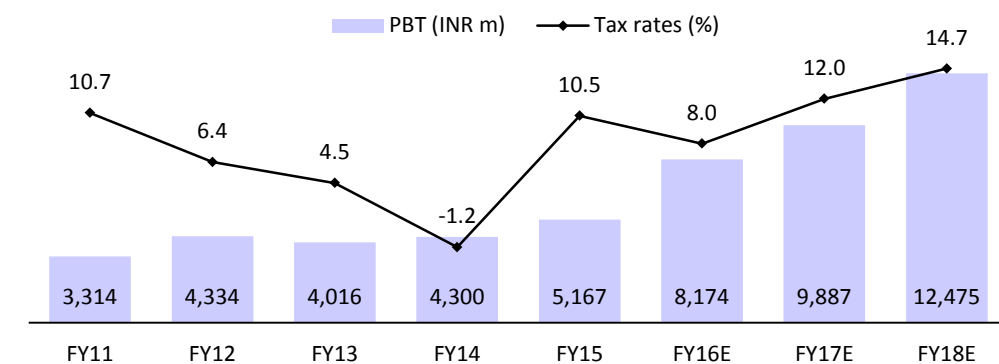
assessment year 2016-17 at 100% of profits and gains derived from the said unit being an industrial undertaking and from assessment year 2017- 18 to assessment year 2021-22 at 30% of profits and gains derived from the unit.

**Baddi Unit:** The company set up a manufacturing unit in Baddi (industrial undertaking) and commenced operations on 19 May 2005 (FY06). It is eligible to claim deduction under section 80-IC from assessment year 2006-07 till assessment year 2010-11 at 100% of profits and gains derived from the said unit being an industrial undertaking and from assessment year 2011-12 to assessment year 2015-16 at 30% of profits and gains derived from the said unit.

**Sikkim Kumrek Unit:** ALKEM set up a manufacturing unit in Kumrek, Sikkim (industrial undertaking) and commenced operations on 8 August 2007 (FY08). It is eligible to claim deduction under section 80-IE from assessment year 2008-09 till assessment year 2017- 18 at 100% of profits and gains derived from the said unit being an industrial undertaking.

**Sikkim Samardung Cephalosporin Unit:** The company set up a manufacturing unit in Samardung, Sikkim (industrial undertaking) and commenced operations on 18 October 2012 (FY13). It is eligible to claim deduction under section 80-IE from assessment year 2013-14 till assessment year 2022-23 at 100% of profits and gains derived from the said unit being an industrial undertaking.

**Exhibit 44: Tax rates to increase on decreasing tax benefits in future**



Source: Company, MOSL

## Tale of two halves

### First half performance supported by several one-offs

ALKEM had reported stellar performance in 1HFY16, with 36% revenue growth, 20.6% EBITDA margin and 152% PAT growth. This was primarily driven by merger of two promoter entities, lower R&D and some seasonality factor.

On 21<sup>st</sup> March 2015, ALKEM merged two entities – Indemichie and Catches that added INR2b revenue in 1HFY16. Adjusted for this merger, revenue grew 25%YoY, largely driven by seasonality factor in domestic business and higher sales from newly launched products in the US. EBITDA margins were also abnormally high due to lower R&D expenses at 3.3% of sales and better product mix during 1H. Tax rates at 4.6% of PBT were affected by higher deferred taxes during this period.

#### Exhibit 45: Summary of financials (1HFY16)

	1HFY16	1HFY15	%YoY	2HFY15	%QoQ
Revenue	25,701	18,890	36.1	18,997	35.3
EBITDA	4,604	1,838	150.5	3,033	51.8
EBITDA margin (%)	17.9%	9.7%		16.0%	
PBT	4,598	2,008	129.0	3,159	45.5
Tax rates (%)	4.6%	14.8%		7.8%	
PAT	4,313	1,712	152.0	2,914	48.0

Source: Company, MOSL

### Seasonality and higher R&D to lead to moderate 2HFY16

Though ALKEM reported excellent numbers in 1HFY16, we believe this was partially driven by one-off factors. Adjusted for early book closure (10-15 days prior to year-end) and some seasonality effect on large acute business, revenue growth in 2HFY16 is expected to decline to 22% YoY. Higher R&D and normalized product mix should result in weaker EBITDA margin at 12% in 2HFY16.

#### Exhibit 46: Summary of financials (2HFY16E)

	2HFY16E	2HFY15	%YoY	1HFY16	%QoQ
Revenue	24,889	18,997	31.0	25,701	(3.2)
EBITDA	3,743	3,033	23.4	4,604	(18.7)
EBITDA margin (%)	15.0%	16.0%		17.9%	
PBT	3,576	3,159	13.2	4,598	(22.2)
Tax rates (%)	5.9%	7.8%		4.6%	
PAT	3,067	2,914	5.3	4,313	(28.9)

Source: Company, MOSL



## Valuations and view

Over the last 10 years, ALKEM has outperformed most of the Indian pharma companies in the domestic market, driven by consistent launches in acute therapies like anti-infective, pain/analgesic and vitamins, while growing its presence in high growth chronic therapies like CNS, cardiac, derma and anti-diabetic. Besides India segment, ALKEM has also launched 20 products in the US market and has 40 pending approvals. On the back of improved presence in chronic business and significant positive leverage from US segment, we expect ALKEM's earnings to grow at 33% CAGR over the next three years. This will be supported by 22% revenue CAGR and 420bp margin expansion over FY15-18. Our target price of INR1,750 discounts ALKEM's FY18E EPS at 20x, which is:

- At 10% discount to sector average.
- Implies a PEG of 0.64x (FY15-18E EPS CAGR of 31%)

At CMP, ALKEM is trading at 22x FY16E, 19x FY17E and 15x FY18E EPS, which is 30% discount to sector average, which is unjustified in our view. We argue for P/E re-rating for ALKEM due to:

- Strong EPS outlook - 31% CAGR backed by 22% revenue CAGR
- Improvement in RoCE from 16.3% now to 22.1% by FY18E
- Strong free cash flow generation of INR12b over FY16-18E
- Deleveraging of balance sheet, as we expect net D/E to improve to -0.2x by FY18E (v/s 0.0x now).

### Key catalysts to drive stock's performance over the medium term:

- Improvement in US profitability (25% of sales) led by niche product launches.
- Greater traction in chronic portfolio.
- M&A opportunities in domestic and US market.

### Risks to our investment thesis:

- Addition to NLEM list in domestic markets.
- Daman formulations facility is due for US FDA inspection in near term (accounts for ~60% of US revenue).
- Incremental competition in existing key products in US business.

### Exhibit 47: Our TP of INR1,750 is based on 20x FY18E PER (10% discount to sector avg)

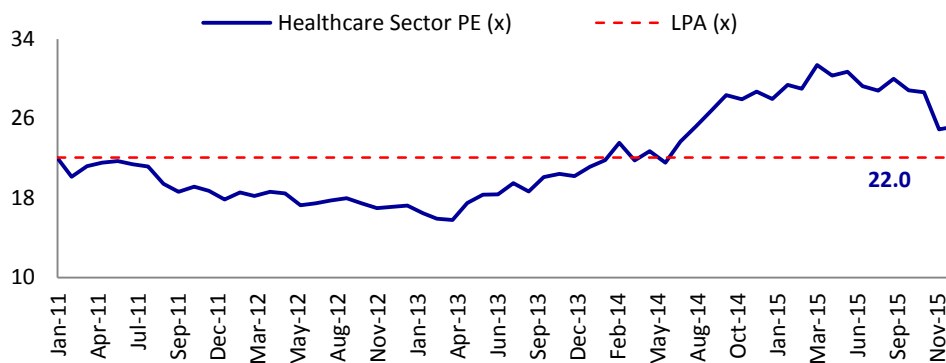
FY18E EPS	Target multiples	Target Price	% Upside
87.5	20.0	1,750	32

Source: Company, MOSL

Exhibit 48: Valuation Matrix

MCap		P/E (x)				EV/EBITDA (x)				RoE (%)				EPS CAGR,%
Name of Company	INR b	FY15	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	FY15-18E
Sun Pharma	27	41.4	41.7	23.9	20.1	23.0	21.7	15.0	12.2	21.5	16.6	21.6	24.3	26.0
Lupin	12	31.7	32.2	20.3	16.5	24.8	24.9	14.9	12.0	30.4	24.0	30.0	28.5	24.4
Dr. Reddy's Labs	8	22.0	18.2	17.9	15.1	17.8	13.8	13.6	11.3	19.9	20.1	17.4	17.6	13.4
Cipla	8	42.2	25.1	22.9	17.1	23.5	15.9	13.9	10.7	13.7	17.1	16.3	19.0	35.2
Aurobindo	7	28.9	22.8	17.6	13.9	20.0	16.0	12.6	9.9	36.4	33.7	32.0	30.1	27.5
Cadila Healthcare	6	25.8	19.9	20.7	14.3	24.7	19.3	18.3	13.1	30.8	31.2	25.2	29.5	21.7
Divi's Labs	5	33.0	25.7	20.9	16.6	26.5	21.4	17.0	13.5	26.3	28.8	30.1	32.0	25.8
Glenmark Pharma	4	44.9	25.1	18.9	14.5	25.1	18.1	10.8	10.5	15.8	17.9	17.9	18.6	45.7
Torrent Pharma	4	39.2	21.0	17.4	13.3	27.3	10.3	15.1	11.8	25.7	34.6	31.5	33.2	43.3
<b>Alkem</b>	<b>2</b>	<b>34.4</b>	<b>21.5</b>	<b>18.6</b>	<b>15.2</b>	<b>30.1</b>	<b>19.5</b>	<b>15.5</b>	<b>11.9</b>	<b>18.4</b>	<b>22.2</b>	<b>21.4</b>	<b>22.1</b>	<b>31.2</b>
Alembic Pharma	2	39.5	23.7	20.1	16.4	31.2	14.5	16.5	13.0	36.3	41.0	34.3	32.4	34.2
IPCA Labs	1	32.0	42.9	21.1	14.0	19.9	24.6	14.3	10.3	12.0	8.2	15.2	19.7	31.8
Biocon	1	24.0	20.6	17.2	14.8	13.8	12.1	10.0	8.2	12.3	12.5	13.5	14.2	17.5
GSK Pharma	4	50.4	61.4	51.4	41.3	40.7	52.1	39.6	31.0	23.1	26.6	35.3	45.2	6.9
Sanofi India	2	48.7	39.9	24.9	20.8	27.9	19.8	15.9	13.7	13.3	14.3	20.3	21.2	32.9

Exhibit 49: Healthcare sector P/E trades at 22x for last five years



Source: Company, MOSL

### Sensitivity analysis indicates favorable risk/reward

Our sensitivity analysis suggests that in the bull case, there could be an upside of over 50% to CMP, and in the bear case, there is limited downside.

#### Bull case assumption shows >50% upside

- No change in Sales growth against base case scenario.
- EBITDA margins at 19.0%, 100bps higher than base case.
- Moderate tax rates at 14% and similar cash yield at 10% (10% in base case).

#### Bear case assumption suggests limited downside

- Lower sales growth driven by 13% growth in India and slower than expected pick up in US business.
- EBITDA margins at 16.5%, 150bps lower than base case.
- Higher tax rates at 20% and lower yield on cash at 7% (v/s 10% in base case).

**Exhibit 50: Sensitivity analysis**

	<b>Bear Case</b>	<b>Base Case</b>	<b>Bull Case</b>
Revenue	66,716	71,688	71,688
EBITDA	11,035	13,004	13,649
EBITDA margin (%)	16.5	18.1	19.0
PBT	10,239	12,475	13,455
Tax rate (%)	20.0	15.0	14.0
PAT	8,006	10,456	11,386
EPS	67.0	87.5	95.2
Multiple	20.0	20.0	22.0
<b>Target Price</b>	<b>1,339</b>	<b>1,750</b>	<b>2,095</b>
% return	0.7%	31.5%	57.5%

## About Alkem Labs

- Alkem is a leading Indian pharmaceutical company, with global operations. It is engaged in the development, manufacture and sale of pharmaceutical products. Currently, it is the fifth largest pharmaceutical company in India in terms of domestic sales, with five products in top 50 brands.
- Established in 1973, Alkem produces branded generics, generic drugs and nutraceutical OTC products, which it markets in India and 55 other countries. Though at present, majority of its sales (75%) is contributed by domestic business, going ahead, we believe exports (25% of sales) will be the key growth driver.

### Changing business mix

Alkem has historically been a focused domestic formulations player along with presence in APIs. Its marquee products like Clavam, Taxim, A to Z and Pan/Pan D are households brands in India. Over the years, the company has gradually increased its presence in export formulation markets like US, Australia, Europe and emerging markets. Today Alkem has sales presence in more than 50 countries.

Exhibit 51: Business mix (FY11)

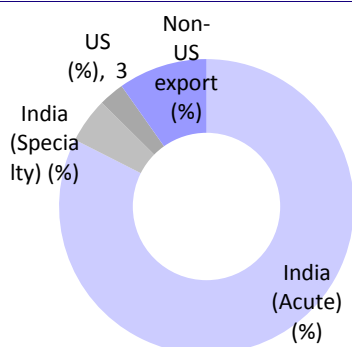


Exhibit 52: Business mix (FY15)

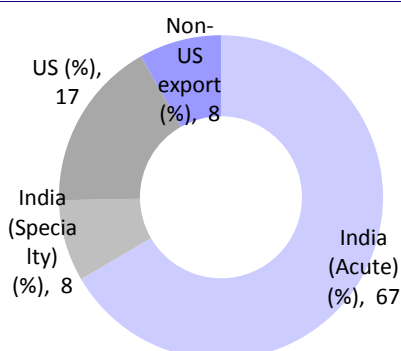
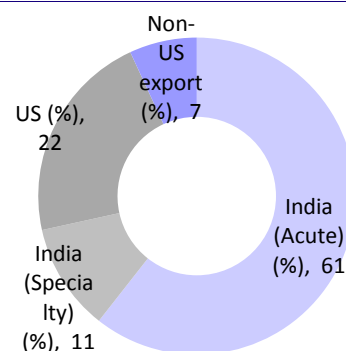


Exhibit 53: Business mix (FY18E)



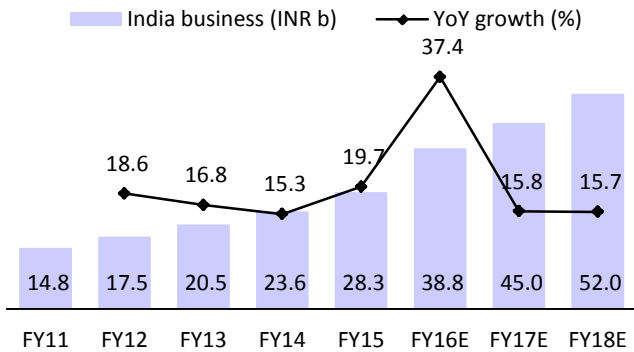
Source: Company, MOSL

### Strong management team at the helm

- **Samprada Singh (Chairman emeritus)** is one of the co-founders of the company. He has an overall experience of 42 years and holds bachelors in commerce from Patna university.
- **Basudeo Narain Singh (Executive chairman)** is also one of the co-founders of the company. He has over 40 years of experience in the Indian pharmaceutical industry. He holds a Master's degree in political science from Patna.
- **Sandeep Singh (Joint Managing director)** has been associated with the company for over 10 years and joined the board of Alkem in 2013. He is graduated as bachelor in commerce from University of Mumbai.
- **Mr. Prabhat Agrawal** is working as chief executive officer of the company. He holds CA and CFA degrees and also pursued his M.B.A. from Indian School of Business in Hyderabad. He has been associated with the Company since October, 2014. Prior to joining Alkem he was associated with Hero Honda Motors Limited, A. F. Ferguson and Company, Aditya Birla Group, Frigoglass India Private Limited and Metalrio Solutions S.A.

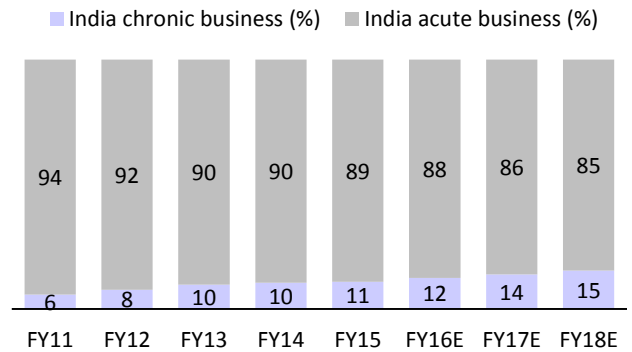
## Story in charts - India

**Exhibit 54: India business to grow at 23% CAGR (FY15-18E)**



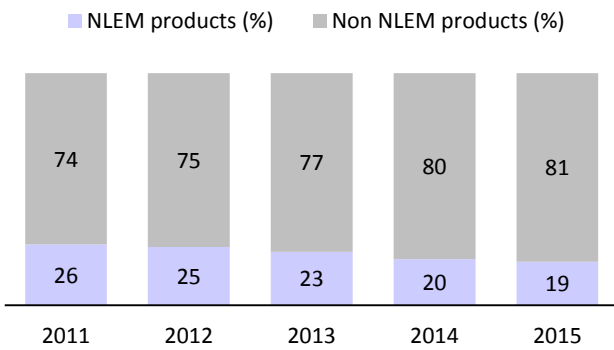
Source: Company, MOSL

**Exhibit 55: Chronic contribution to increase**



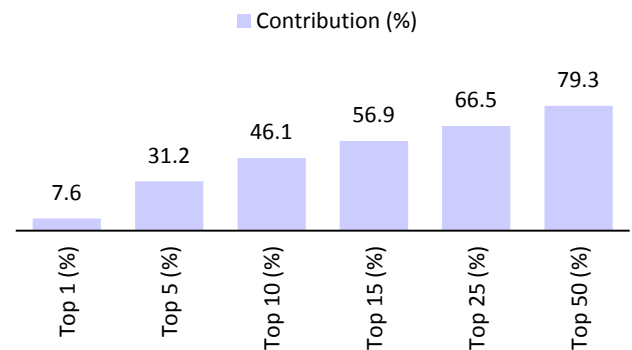
Source: AIOCD, MOSL

**Exhibit 56: NLEM contribution decreases to 19% of sales**



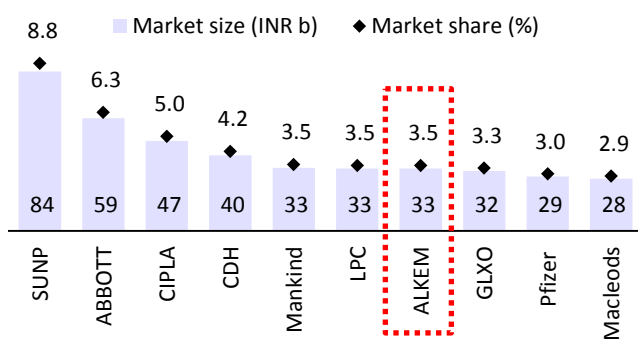
Source: AIOCD, MOSL

**Exhibit 57: Diversified portfolio**



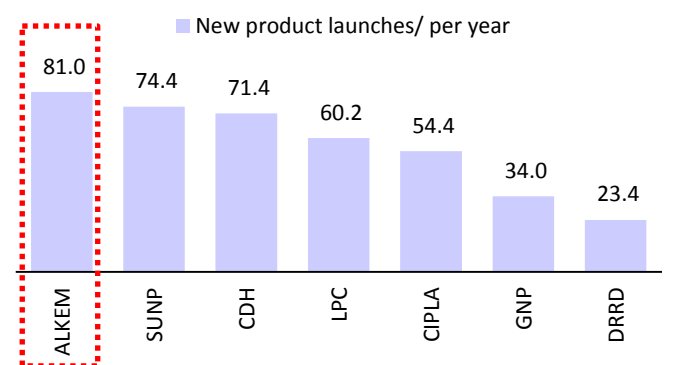
Source: AIOCD, MOSL

**Exhibit 58: 7<sup>th</sup> largest company in India**



Source: AIOCD, MOSL

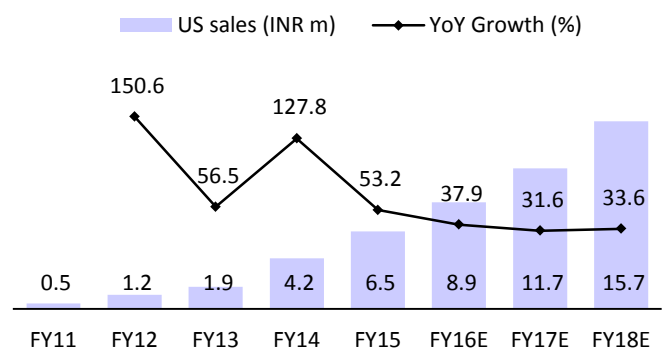
**Exhibit 59: Highest number launches per year**



Source: AIOCD, MOSL

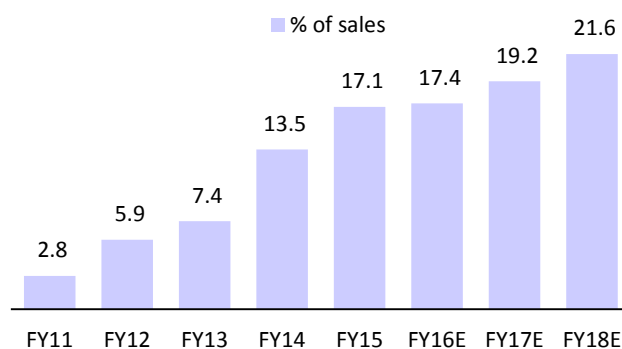
## Story in charts – US business

**Exhibit 60: Revenues to grow at 34% CAGR over FY15-18E**



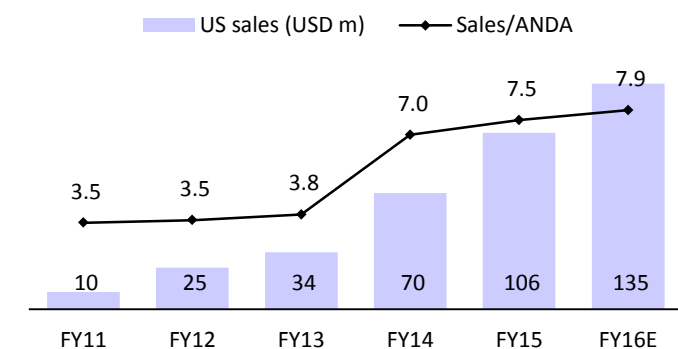
Source: Company, MOSL

**Exhibit 61: US business to contribute 22% of sales in FY18E**



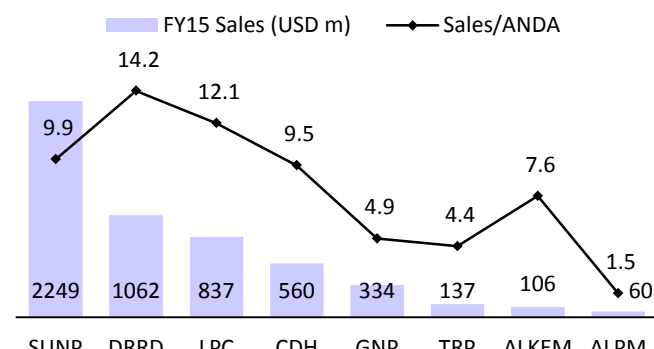
Source: Company, MOSL

**Exhibit 62: Sales/ANDA improved with new approvals**



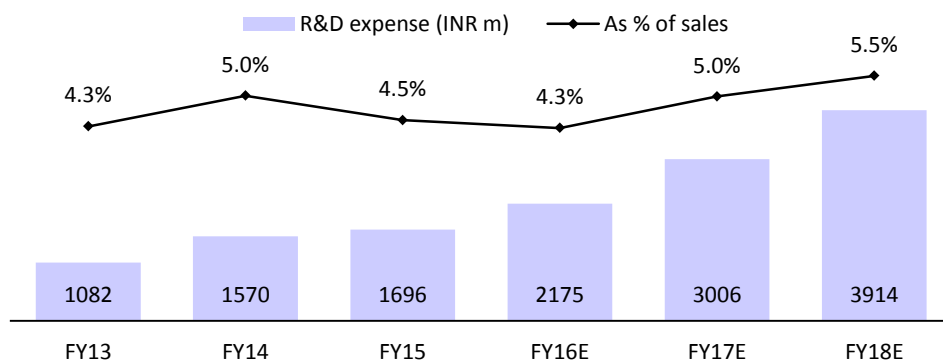
Source: Company, MOSL

**Exhibit 63: Sales/ANDA peer comparison**



Source: Company, MOSL

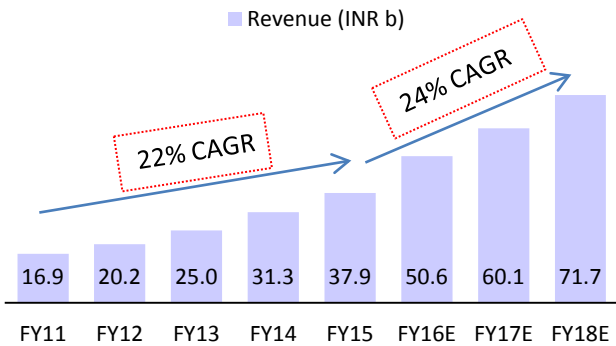
**Exhibit 64: R&D expense to increase with niche filings**



Source: Company, MOSL

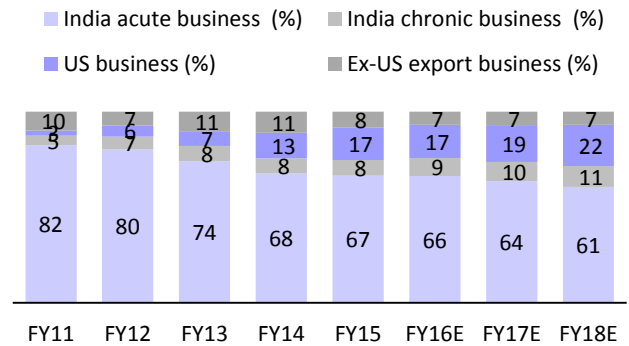
Story in charts

Exhibit 65: Revenues to grow at 24% CAGR



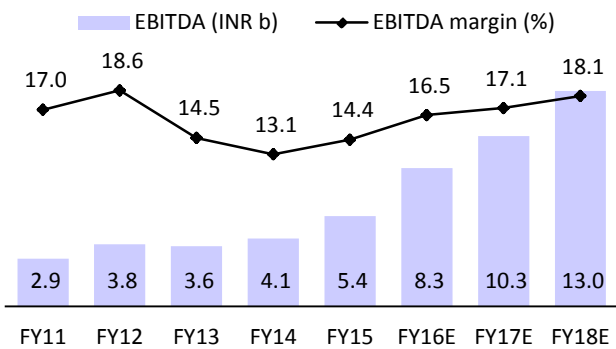
Source: Company, MOSL

Exhibit 66: Business mix to improve by FY18E



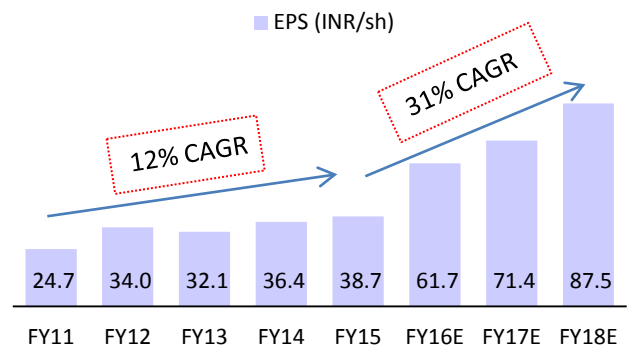
Source: Company, MOSL

Exhibit 67: EBITDA margins to increase to 18%



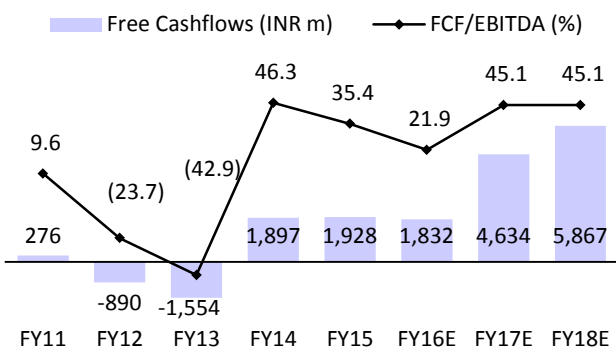
Source: Company, MOSL

Exhibit 68: EPS to grow at 31% CAGR



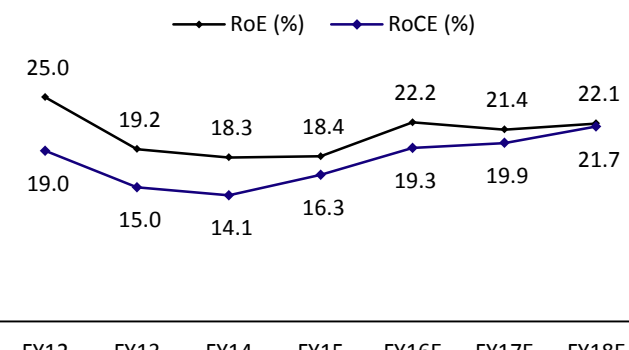
Source: Company, MOSL

Exhibit 69: To accumulate INR12b FCF over FY15-18E



Source: Company, MOSL

Exhibit 70: Return ratios to improve ...



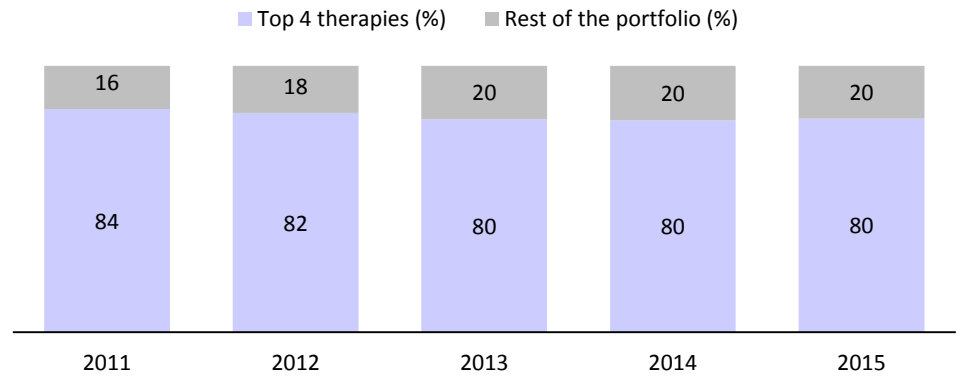
Source: Company, MOSL

## Annexure I - Alkem in acute therapies

### Top four therapies accounts for 80% of sales

ALKEM has close to 80% exposure to top four therapies – anti-infective, GI, vitamins and pain/analgesics. Anti-infective alone contributes 44% of total domestic sales, while GI, vitamins and pain/analgesics account for 17%, 12% and 7% of sales, respectively.

### Exhibit 71: Majority of the sales come from acute therapies

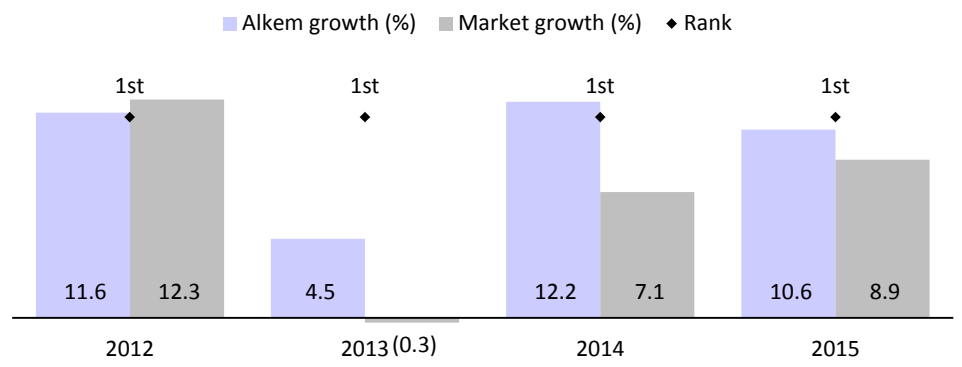


Source: AIOCD, MOSL

### Anti-Infective therapy

Anti-infective is the largest therapeutic area in the Indian pharma industry, with INR145b sales and 15% market share. Over the past 10 years, ALKEM has maintained its market leadership in this therapy on the back of several popular and affordable brands and massive distribution reach across the country. As per the latest AIOCD data, ALKEM has achieved 9% market share, with seven INR500m+ brands in its anti-infective portfolio. Over the last three years, the company has outperformed the anti-infective market despite being the largest player in this therapy.

### Exhibit 72: Anti-infective segment- consistently outperforming industry growth



### Clavam/ Taxim-O features in top-10 list

ALKEM's largest brand, *Clavam* recorded INR2.3b sales in MAT November 2015 period, despite coming under the NLEM list post 2013. Its *Taxim* franchise generates INR4.5b annual sales, with 8 brands under the franchise. The company also has



three more cephalosporin brands, with INR500m plus annual sales, representing a robust anti-infective brand portfolio.

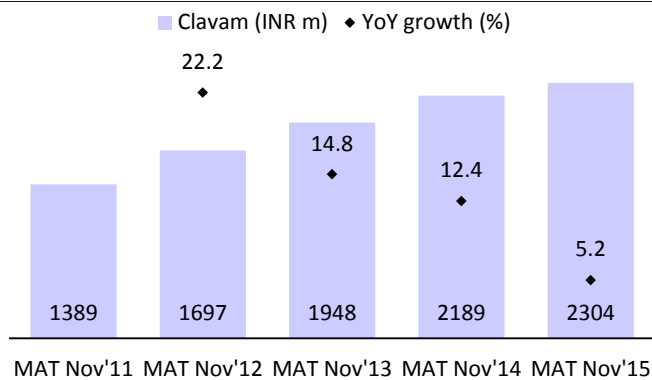
**Exhibit 73: Alkem's leading brand in Anti-infective**



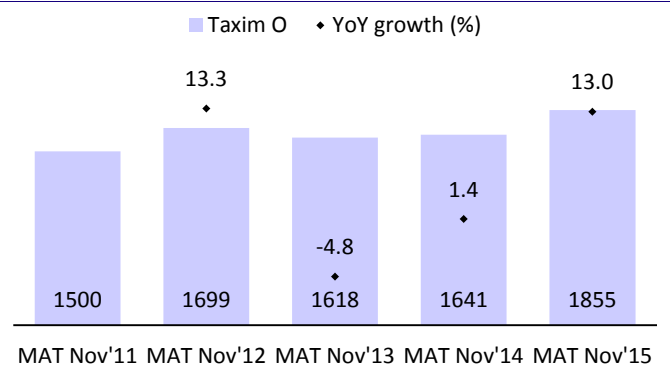
**Exhibit 74: Taxim & Taxim-O amounts to INR3.6b sales**



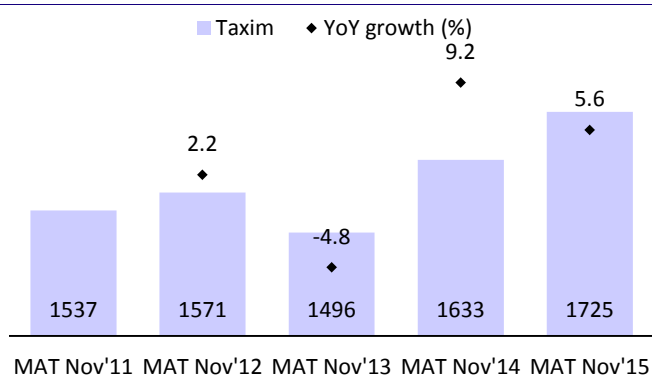
**Exhibit 75: Clavam largest brand for Alkem**



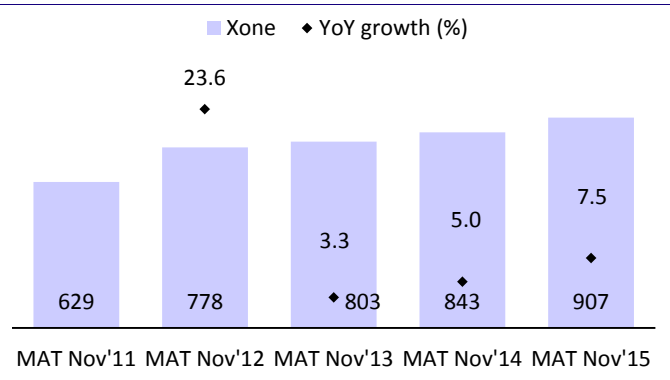
**Exhibit 76: Taxim O expected cross INR2b over next year**



**Exhibit 77: Taxim 3rd largest brand for Alkem**



**Exhibit 78: Expected to become INR1b brand**

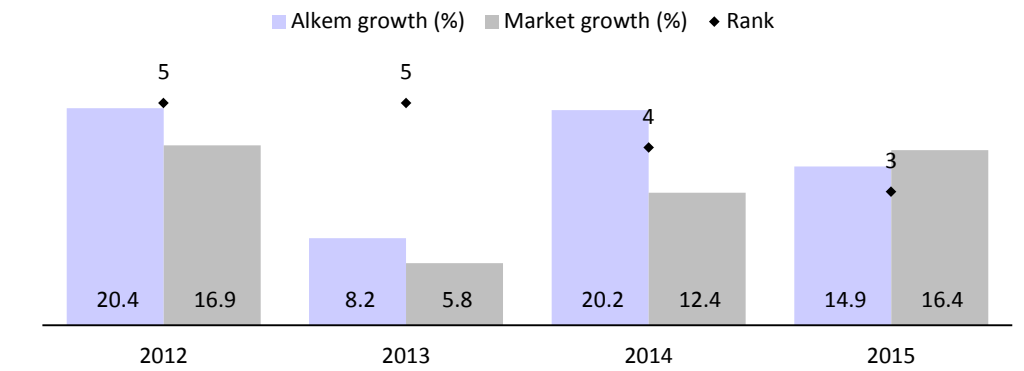


**Gastro-intestinal therapy**

Gastro-intestinal (GI) is one of the largest acute therapies in the Indian pharma market, with INR110b sales and 11.6% market share. ALKEM is ranked 3<sup>rd</sup> in this therapy, followed by Abbott and Sun pharma. It has achieved 8% market share, with INR5.3b annual sales of all GI products. PAN, PAN D and Ondem are some of ALKEM's popular brands used to treat stomach and acid reflux problems. With

INR1.8b sales, PAN is the largest product in the pantoprazole category, followed by PAN D, with INR1.4b annual sales.

**Exhibit 79: GI segment- Alkem ranks 3rd in this segment**



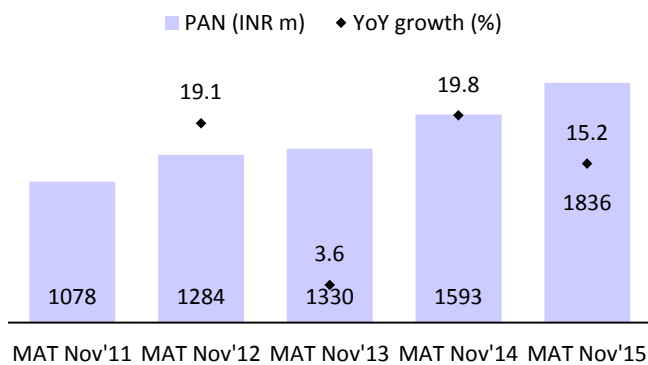
**Exhibit 80: Largest product in Pantoprazole category**



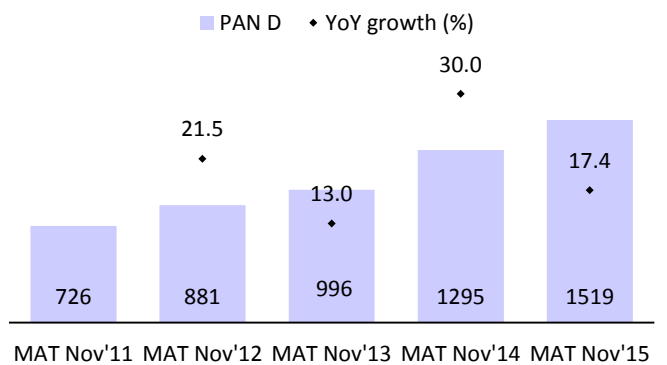
**Exhibit 81: ONDEM recorded INR800m annual sales**



**Exhibit 82: PAN is one of the fastest growing brand for Alkem**



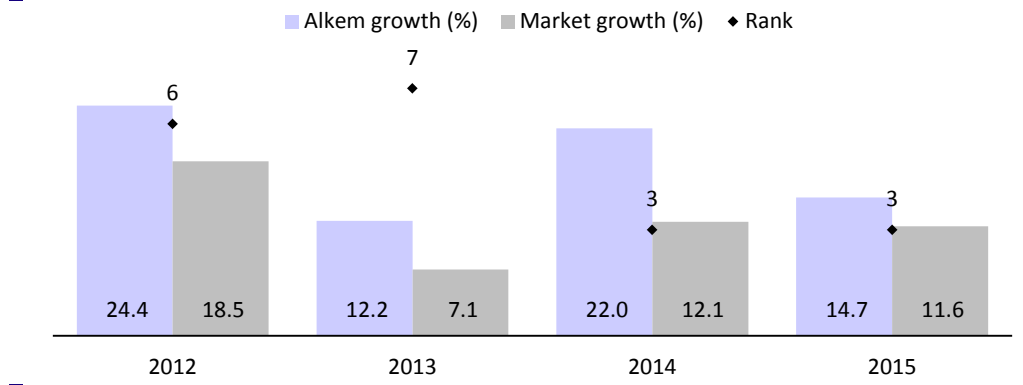
**Exhibit 83: PAN D has crossed INR1.5b mark this year**



**Nutraceuticals**

The nutraceuticals market has grown at a CAGR of 12% over the last five years, whereas ALKEM’s nutraceuticals portfolio has consistently outperformed the market, with 18% CAGR. Currently, ALKEM is ranked third in the nutraceuticals market, with 4% share. Over the years, the company has manufactured all types of nutrient tablets – single vitamin, multivitamin, and calcium and protein supplements. Its popular brands include – GEMCAL, A to Z and UPRISE D3.

**Exhibit 84: Alkem has improved its ranking from 6th in 2012 to 3rd in 2015 in Vitamins**



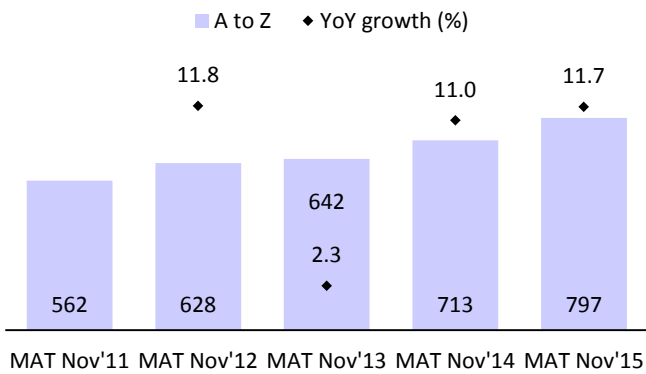
**Exhibit 85: Calcium supplement from Alkem**



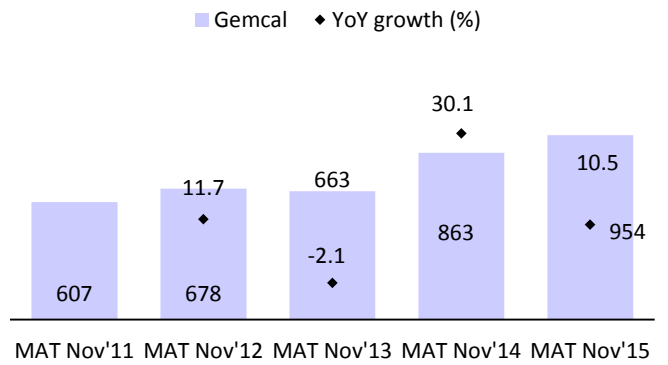
**Exhibit 86: Multi-Vitamin A to Z tablets**



**Exhibit 87: INR0.8b brand for Alkem**



**Exhibit 88: Gemcal expected to cross INR1b sales in 2016**



## Annexure II - Manufacturing capabilities

### Exhibit 89: Manufacturing capabilities

Facility	Owned	Built-up Area (sq. ft.)	Year of Est.	Capabilities	Utilization (%)	Certifications	Market focus
Kumrek - Sikkim	Leased	19,274	2007	Tab, Inj and Syr	60-70	WHO-GMP	India
Samardung - Sikkim	Leased	12,441	2012	Tab, Inj and Syr	58-65	WHO-GMP	India
Baddi - Immunosuppressant	Owned	27,502	2007	Tab, Cap and Syr	10-20	USFDA, UK- MHRA, TGA	Global markets
Baddi – Cephalosporin			2005	Tab, Inj, Cap and Syr	15-20	RoW	
Baddi – General block			2005	Tab, Cap	40-50	USFDA, UK-MHRA, TGA	
Baddi – β –lactam	Owned	11,484	2012	Tab, Inj, Cap and Syr	30-40	WHO-GMP	India
Daman – Amaliya (C Block)	Owned	21,789	2002	Tab, Cap and Syr	30-35	USFDA, UK-MHRA, TGA, MCC	United States
Daman - Amaliya (G Block)	Owned		2000	Tab/ Cap	60-65	India, USFDA, MHRA, TGA, MCC, WHO	United States
Daman– β –lactam	Owned	11,930	2004	Tab, Inj, Cap and Syr	15-25	India, TGA, MCC	Global
Daman– Kachigam	Owned	N/A.	1998	Tab, Inj, Cap and Syr	N/A	Indian-GMP	India
Ankaleshwar	Leased	3,997	2001	APIs	N/A	India, USFDA, TGA	Captive API plant United States
Mandwa	Owned	26,478	1992	APIs	N/A	Indian GMP	India
Daman-Somnath (Indchemie)	Owned	1,880	Acquired in 2015	Cap & Jelly candy	50-55	ISO 22000:2005	India
Daman-Amaliya (Indchemie)	Leased	5,108	Acquired in 2015	Soft Gel	95-98	WHO-GMP,	India
Baddi-Beta lactum (Indchemie)	Owned	11,988	Acquired in 2015	Tablets	95-98	WHO-GMP,	India
Sikkim-Kumrek (Indchemie)	Leased	4,422	Acquired in 2015	Tablet, Cap	60-65	WHO-GMP,	India
Baddi (Cachet)	Owned	11,500	Acquired in 2015	Liquid, Tablet, Cap, Power, Sachet	85-90	WHO-GMP, RoW	Global
California, US	Owned	33,000	2012	APIs	N/A	US FDA	United States
St. Louis, US	Owned	75,000	2015	Liquid, Nasal, Semi-solid, solid	N/A	US FDA	United States

## ANEXURE III – US Rx share for Alkem

### Exhibit 90: Alkem - key products Rx market share in US

Drug	10/30/2015	11/6/2015	11/13/2015	11/20/2015	11/27/2015	12/4/2015	12/11/2015	12/18/2015	12/25/2015	Mkt share gain/loss - WoW	Mkt share gain/loss - 3 months	Mkt share gain/loss -1 year
Benzonatate	76%	73%	70%	69%	68%	67%	68%	67%	67%	(0.9%)	(9.5%)	(0.1%)
Gabapentin	12%	11%	11%	11%	11%	11%	11%	11%	12%	0.2%	(2.1%)	4.8%
Amlodipine besylate	4%	4%	4%	4%	4%	4%	4%	4%	3%	(0.2%)	(0.2%)	0.2%
Ibuprofen	15%	14%	14%	14%	14%	14%	14%	14%	14%	(0.1%)	(0.8%)	(1.1%)
Quetiapine fumarate	2%	2%	2%	2%	2%	2%	2%	2%	2%	0.1%	0.3%	1.4%
Ondansetron hcl	2%	3%	3%	3%	3%	3%	3%	3%	3%	0.2%	0.5%	0.8%
Mycophenolate mofetil	63%	64%	63%	68%	63%	64%	64%	68%	62%	(5.7%)	(0.9%)	25.9%
Temazepam	15%	15%	15%	15%	15%	13%	12%	9%	8%	(0.8%)	(7.3%)	(6.6%)
Metformin hcl -SR	3%	3%	3%	3%	3%	3%	3%	3%	3%	0.0%	1.4%	2.2%
Triamcinolone acetonide	19%	19%	19%	20%	19%	19%	19%	19%	19%	0.2%	0.7%	(0.2%)
Methadone hcl	32%	34%	34%	34%	34%	35%	34%	34%	34%	0.0%	4.1%	20.1%
Cephalexin	2%	2%	2%	2%	2%	2%	2%	2%	2%	0.2%	(0.3%)	0.1%
Silver sulfadiazine	37%	37%	36%	37%	37%	38%	37%	37%	36%	(0.6%)	(0.8%)	(2.0%)
Metformin hcl	0%	0%	0%	0%	0%	0%	0%	0%	0%	(0.1%)	0.0%	(1.4%)
Urea	1%	1%	1%	1%	1%	1%	1%	1%	1%	(0.1%)	(0.2%)	(1.2%)
Alendronate sodium	0%	0%	0%	0%	0%	0%	0%	0%	0%	0.0%	(0.0%)	(0.3%)

Source: Bloomberg, MOSL

**Exhibit 91: Alkem – Price change in key products for US market**

Drug	10/30/2015	11/6/2015	11/13/2015	11/20/2015	11/27/2015	12/4/2015	12/11/2015	12/18/2015	12/25/2015	Mkt share gain/loss - WoW	Mkt share gain/loss - 3 months
Benzonatate	101	101	104	107	108	105	101	100	99	(5.2%)	(2.3%)
% Change mom	-1.5%	0.2%	3.0%	2.8%	1.4%	-3.4%	-3.7%	-0.4%	-1.2%		
Gabapentin	113	119	124	125	125	125	128	127	126	0.5%	12.7%
% Change mom	1.6%	5.4%	4.2%	0.2%	0.4%	0.2%	2.4%	-0.9%	-1.0%		
Amlodipine besylate	103.53	103.93	103.79	104.55	99.93	99.18	100.04	100.17	99.85	0.5%	(0.3%)
% Change mom	0.0%	0.4%	-0.1%	0.7%	-4.4%	-0.8%	0.9%	0.1%	-0.3%		(78.7%)
Ibuprofen	36	37	38	37	37	37	37	37	37	0.2%	2.4%
% Change mom	0.0%	1.3%	2.4%	-1.2%	-0.4%	0.4%	-0.5%	0.2%	0.6%		
Quetiapine fumarate	449	415	412	412	407	405	408	404	398	(1.7%)	(12.2%)
% Change mom	-2.0%	-7.4%	-0.8%	-0.0%	-1.2%	-0.4%	0.7%	-1.1%	-1.3%		
Ondansetron hcl	737	747	805	832	853	854	828	798	756	(11.5%)	9.4%
% Change mom	5.7%	1.4%	7.7%	3.3%	2.6%	0.1%	-3.0%	-3.6%	-5.3%		
Mycophenolate mofetil	1356.61	1324.32	1382.90	1353.92	1379.77	1421.80	1395.31	1385.93	1371.17	(2.1%)	3.5%
% Change mom	-4.8%	-2.4%	4.4%	-2.1%	1.9%	3.0%	-1.9%	-0.7%	-1.1%		
Temazepam	54	54	54	54	53	54	54	55	53	(0.4%)	(1.9%)
% Change mom	1.4%	-1.3%	0.9%	-0.4%	-2.2%	1.4%	1.6%	1.2%	-3.1%		
Metformin hcl	82	81	82	83	82	83	82	82	81	(2.9%)	(3.9%)
% Change mom	-2.5%	-1.4%	1.5%	0.5%	-0.7%	1.2%	-1.6%	0.1%	-1.4%		
Triamcinolone acetonide	16	16	16	16	16	16	16	16	16	2.5%	(3.4%)
% Change mom	-2.4%	-1.2%	-0.5%	-1.6%	-0.4%	0.1%	0.4%	0.7%	1.3%		
Methadone hcl	20	20	20	20	20	19	19	19	19	0.0%	(2.4%)
% Change mom	-0.8%	-0.0%	0.1%	-0.6%	-0.8%	-2.8%	-0.8%	1.5%	-0.6%		
Urea	2.59	2.29	2.20	3.56	2.15	2.79	2.01	1.66	2.21	(20.8%)	-
% Change wow	-14.1%	-11.8%	-3.8%	61.9%	-39.5%	29.3%	-27.9%	-17.3%	32.9%		
Alendronate sodium	94.06	90.09	92.02	91.67	92.64	92.84	93.58	95.36	91.72	(1.2%)	-
% Change wow	3.2%	-4.2%	2.1%	-0.4%	1.1%	0.2%	0.8%	1.9%	-3.8%		

Source: Bloomberg, MOSL

## Financials and valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Total Income from Operations</b>	<b>16,908</b>	<b>20,156</b>	<b>24,952</b>	<b>31,260</b>	<b>37,887</b>	<b>50,591</b>	<b>60,119</b>	<b>71,688</b>
<b>EBITDA</b>	<b>2,866</b>	<b>3,752</b>	<b>3,625</b>	<b>4,100</b>	<b>5,445</b>	<b>8,347</b>	<b>10,280</b>	<b>13,004</b>
Margin (%)	17.0	18.6	14.5	13.1	14.4	16.5	17.1	18.1
Depreciation	274	290	398	523	703	1,043	1,182	1,337
<b>EBIT</b>	<b>2,592</b>	<b>3,462</b>	<b>3,227</b>	<b>3,578</b>	<b>4,742</b>	<b>7,305</b>	<b>9,099</b>	<b>11,667</b>
Int. and Finance Charges	412	581	882	931	811	784	653	653
Other Income	1,134	1,453	1,672	1,653	1,810	1,653	1,441	1,461
<b>PBT bef. EO Exp.</b>	<b>3,314</b>	<b>4,334</b>	<b>4,016</b>	<b>4,300</b>	<b>5,741</b>	<b>8,174</b>	<b>9,887</b>	<b>12,475</b>
EO Items	0	0	0	0	-574	0	0	0
<b>PBT after EO Exp.</b>	<b>3,314</b>	<b>4,334</b>	<b>4,016</b>	<b>4,300</b>	<b>5,167</b>	<b>8,174</b>	<b>9,887</b>	<b>12,475</b>
Current Tax	328	172	42	25	85	654	1,186	1,834
Deferred Tax	28	104	137	-79	457	0	0	0
Tax Rate (%)	10.7	6.4	4.5	-1.2	10.5	8.0	12.0	14.7
Less: Mionrity Interest	2	-7	-2	0	0	140	161	185
<b>Reported PAT</b>	<b>2,956</b>	<b>4,065</b>	<b>3,838</b>	<b>4,353</b>	<b>4,625</b>	<b>7,380</b>	<b>8,539</b>	<b>10,456</b>
<b>Adjusted PAT</b>	<b>2,956</b>	<b>4,065</b>	<b>3,838</b>	<b>4,353</b>	<b>5,139</b>	<b>7,380</b>	<b>8,539</b>	<b>10,456</b>
Change (%)	NA	37.5	-5.6	13.4	18.1	43.6	15.7	22.5
Margin (%)	17.5	20.2	15.4	13.9	13.6	14.6	14.2	14.6

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	120	120	120	120	239	239	239	239
Total Reserves	14,217	18,081	21,654	25,730	29,752	36,266	43,085	51,187
<b>Net Worth</b>	<b>14,337</b>	<b>18,201</b>	<b>21,773</b>	<b>25,850</b>	<b>29,991</b>	<b>36,505</b>	<b>43,324</b>	<b>51,426</b>
Minority Interest	18	2	0	0	857	857	857	857
Deferred Tax Liabilities	253	362	506	781	1,256	1,256	1,256	1,256
Total Loans	9,094	10,048	15,485	11,284	13,059	13,059	13,059	13,059
<b>Capital Employed</b>	<b>23,702</b>	<b>28,612</b>	<b>37,765</b>	<b>37,915</b>	<b>45,162</b>	<b>51,676</b>	<b>58,495</b>	<b>66,597</b>
<b>Net Fixed Assets</b>	<b>4,885</b>	<b>6,741</b>	<b>8,964</b>	<b>9,797</b>	<b>11,429</b>	<b>11,637</b>	<b>12,580</b>	<b>13,468</b>
Goodwill on Consolidation	2,042	2,451	1,758	1,903	3,421	3,421	3,421	3,421
Capital WIP	0	0	0	0	0	1,250	1,375	1,400
<b>Total Investments</b>	<b>538</b>	<b>3,227</b>	<b>4,776</b>	<b>5,880</b>	<b>4,808</b>	<b>4,808</b>	<b>4,808</b>	<b>4,808</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>21,052</b>	<b>22,239</b>	<b>27,202</b>	<b>25,414</b>	<b>33,008</b>	<b>41,161</b>	<b>49,605</b>	<b>59,602</b>
Inventory	2,509	3,849	5,540	6,203	7,842	10,211	12,048	14,186
Account Receivables	1,710	2,466	3,182	3,669	5,271	7,038	8,364	9,973
Cash and Bank Balance	9,898	5,138	9,955	2,063	7,908	9,603	13,144	17,280
Loans and Advances	6,935	10,785	8,526	13,478	11,987	14,308	16,050	18,164
<b>Curr. Liability &amp; Prov.</b>	<b>4,816</b>	<b>6,050</b>	<b>4,955</b>	<b>5,251</b>	<b>7,796</b>	<b>10,892</b>	<b>13,585</b>	<b>16,393</b>
Account Payables	1,677	2,760	2,876	3,057	4,619	6,015	7,096	8,355
Other Current Liabilities	881	862	1,173	1,267	1,667	2,225	2,645	3,153
Provisions	2,258	2,428	906	926	1,510	2,652	3,845	4,885
<b>Net Current Assets</b>	<b>16,237</b>	<b>16,189</b>	<b>22,247</b>	<b>20,163</b>	<b>25,212</b>	<b>30,269</b>	<b>36,020</b>	<b>43,209</b>
Deferred Tax assets	0	4	20	172	292	292	292	292
<b>Appl. of Funds</b>	<b>23,702</b>	<b>28,612</b>	<b>37,765</b>	<b>37,915</b>	<b>45,162</b>	<b>51,676</b>	<b>58,495</b>	<b>66,597</b>

E: MOSL Estimates

## Financials and valuations (Consolidated)

### Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Basic (INR)</b>								
EPS	24.7	34.0	32.1	36.4	38.7	61.7	71.4	87.5
Cash EPS	27.0	36.4	35.4	40.8	48.9	70.5	81.3	98.6
BV/Share	120	152	182	216	251	305	362	430
DPS	1.5	2.0	2.0	2.0	4.0	6.1	12.1	16.6
Payout (%)	7.1	6.8	7.2	6.4	12.3	11.7	20.1	22.5
<b>Valuation (x)</b>								
P/E				36.4	34.3	21.5	18.6	15.2
Cash P/E				32.5	27.2	18.8	16.3	13.5
P/BV				6.1	5.3	4.3	3.7	3.1
EV/Sales				5.4	4.3	3.2	2.6	2.2
EV/EBITDA				40.9	30.1	19.4	15.4	11.9
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3	0.5	0.9	1.3
FCF per share	2.3	-7.4	-13.0	15.9	16.1	15.3	38.8	49.1
<b>Return Ratios (%)</b>								
RoE	41.2	25.0	19.2	18.3	18.4	22.2	21.4	22.1
RoCE	31.8	19.0	15.0	14.1	16.3	19.3	19.9	21.7
<b>Working Capital Ratios</b>								
Inventory (Days)	54	70	81	72	76	74	73	72
Debtor (Days)	36	43	45	41	49	49	49	49
Creditor (Days)	36	50	42	36	45	43	43	43
Working Cap. Turnover (Days)	37	78	137	120	118	113	108	106
<b>Leverage Ratio (x)</b>								
Current Ratio	4.4	3.7	5.5	4.8	4.2	3.8	3.7	3.6
Interest Cover Ratio	6.3	6.0	3.7	3.8	5.8	9.3	13.9	17.9
Debt/Equity	0.6	0.6	0.7	0.4	0.4	0.4	0.3	0.3

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
OP/(Loss) before Tax	3,314	4,334	4,016	4,300	5,142	8,174	9,887	12,475
Depreciation	274	290	398	523	703	1,043	1,182	1,337
Interest & Finance Charges	-567	-629	-730	-555	-1,196	-869	-788	-808
Direct Taxes Paid	-666	-966	-1,102	-1,111	-1,056	-654	-1,186	-1,834
(Inc)/Dec in WC	-992	-1,448	-1,827	-364	-963	-3,362	-2,210	-3,053
<b>CF from Operations</b>	<b>1,363</b>	<b>1,581</b>	<b>754</b>	<b>2,793</b>	<b>2,630</b>	<b>4,332</b>	<b>6,884</b>	<b>8,117</b>
Others	116	10	26	107	652	0	0	0
<b>CF from Operating incl EO</b>	<b>1,479</b>	<b>1,591</b>	<b>780</b>	<b>2,900</b>	<b>3,281</b>	<b>4,332</b>	<b>6,884</b>	<b>8,117</b>
(Inc)/Dec in FA	-1,203	-2,481	-2,335	-1,004	-1,354	-2,500	-2,250	-2,250
<b>Free Cash Flow</b>	<b>276</b>	<b>-890</b>	<b>-1,554</b>	<b>1,897</b>	<b>1,928</b>	<b>1,832</b>	<b>4,634</b>	<b>5,867</b>
(Pur)/Sale of Investments	-323	-2,612	-281	25	1,028	0	0	0
Others	1,956	-1,147	3,095	-3,814	3,406	1,653	1,441	1,461
<b>CF from Investments</b>	<b>430</b>	<b>-6,240</b>	<b>480</b>	<b>-4,792</b>	<b>3,081</b>	<b>-847</b>	<b>-809</b>	<b>-789</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	8,201	646	4,870	-4,732	871	0	0	0
Interest Paid	-412	-547	-797	-914	-793	-784	-653	-653
Dividend Paid	0	-209	-517	-319	-567	-866	-1,720	-2,354
Others	0	-1	0	-35	-29	-140	-161	-185
<b>CF from Fin. Activity</b>	<b>7,789</b>	<b>-111</b>	<b>3,556</b>	<b>-6,000</b>	<b>-518</b>	<b>-1,789</b>	<b>-2,534</b>	<b>-3,192</b>
<b>Inc/Dec of Cash</b>	<b>9,698</b>	<b>-4,760</b>	<b>4,816</b>	<b>-7,892</b>	<b>5,845</b>	<b>1,695</b>	<b>3,541</b>	<b>4,136</b>
Opening Balance	200	9,898	5,138	9,955	2,063	7,908	9,603	13,144
<b>Closing Balance</b>	<b>9,898</b>	<b>5,138</b>	<b>9,955</b>	<b>2,063</b>	<b>7,908</b>	<b>9,603</b>	<b>13,144</b>	<b>17,280</b>



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