Thematic Report – Pharmaceutical

Pharma sector has seen a rerating in terms of stock prices over the last few months led by its defensive character, ebbing of the historical issues faced by it in terms of US FDA diktats, stiff competition in generics pricing in the US, lesser launches in US etc. However the current conditions offer an opportunity for Indian players with efficient cost structures, backward integration and its manufacturing scale. Issues faced by China in terms of quality and the recent move to derisk dependence by the world on China could play to India's advantage.

In the US, we are witnessing an improving outlook for the generic industry with stable QoQ price erosion in the range of the low-to-mid single digits (shortages due to Covid-19 could help stop the price erosion) and may lead to a rise in approvals for Indian companies.

India's pharma market has been regularly witnessing 10-11% YoY growth to US$20bn driven by a healthy mix of volume and price-led growth. The industry benefits out of rising penetration of medicines, increasing affordability and a growing incidence of chronic disorders such as diabetes, cardiac, CNS (Neuro) and oncology. While the long-term outlook is strong, we expect a deceleration in growth for H1 FY21 (April IPM fell by 11% YoY, supply disruptions, with most of the clinics shut leading to lesser new prescriptions, elective surgeries being delayed and hospitals only attending critical patients - all these point to a weak H1 F21).

The Covid-19 shutdown is likely to have an impact on certain acute therapies (two thirds of the market) due to limited prescription. In addition, chronic ailments (balance one third of the market) like cardiac and diabetes witnessed significant pre-buying in Mar 2020 and hence demand for such drugs could be lower for Q1 FY21. Having said that, we believe that the domestic pharma market can bounce back to ~10% growth rate in FY22.

There also remains a high possibility that corrective action and preventive measures (CAPA) submitted by India companies are likely to get accepted faster; this may lead to faster approvals.

Earnings momentum for Indian pharma companies could continue, due to a gradually improving outlook for the US, strong long-term industry drivers in India market, margin expansion from better product mix and a currency tailwind for exporters. The negative operating leverage of the past (high capex and R&D coupled with slower approvals and regulatory issues on facilities) that resulted in falling return ratios could turn into positive operating leverage over the next few quarters.

Though there are quite a few Indian players that could benefit out of these changes, based on the current valuations and triggers that can play out soon, we have shortlisted a mix of two midcap (medium risk) and one smallcap (high risk) pharma company.

Company Name	Recommendation	CMP	Average Range	Price Target	Time Horizon	Red Flag
Ajanta Pharma	Buy and Add on Dips	1485	Buy in the 1500-1435 band and add on dips to 1371-1335	1650	2 Quarters	-
Alkem Labs	Buy and Add on Dips	2337	Buy in the 2280-2350 band and add on dips to 2140-2190	2703	2 Quarters	-
Granules India	Buy and Add on Dips	172.2	Buy in the 173-167 band and add on dips to 155-160	210	2 Quarters	138

Ajanta Pharma

Industry	Price	Recommendation	Target	Time Horizon
Pharmaceuticals	Rs. 1485	Buy in the 1500-1435 band and add on dips to 1371-1335 band	1650	2 quarters

HDFC Scrip Code	AJAPHA
BSE Code	532331
NSE Code	AJANTPHARM
Bloomberg	AJP: IN
CMP May 28, 2020	1485
Equity Capital (Rs cr)	17.54
Face Value (Rs)	2
Equity Share O/S (cr)	8.77
Market Cap (Rs cr)	13049
Book Value (Rs)	296
Avg. 52 Wk Volumes	195782
52 Week High	1550
52 Week Low	840

Share holding Pattern % (Mar 31, 2020)	
Promoters	70.5
Institutions	19.5
Non Institutions	10.0
Total	100.0

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Spurt in Branded and US business to bolster earnings growth trajectory

Ajanta Pharma is mid-sized pharmaceutical play on branded generics. Its model is de-risked to an extent with a mix of front-end presence across branded markets of India, Africa, & Asia; and presence in the US generics market. Challenges in the anti-malaria tender and domestic slowdown over the last few years coincided with aggressive capex, led to sharp correction from the peak levels. We foresee good prospects with moderating capex and stemming of steep decline in institutional anti-malaria business. Moreover, strong operating leverage led by in-house manufacturing (currently largely outsourced) and strong ~16% cagr in US sales to drive 17% earnings cagr over FY20-22E.

With increased capacity utilization at Dahej and Guwahati (which are primary for the India market), operating leverage would drive a further improvement in profitability of the DF segment. Ajanta Pharma has diversified branded generics exposure across India, Africa and Asia, thereby reducing the concentration risk in the portfolio. We estimate low double-digit growth momentum in the company's branded business to sustain and additional capacities in India to drive operating leverage. Moreover, regulatory risks are limited as two of its US FDA approved plants have recently received EIRs.

View & Valuation

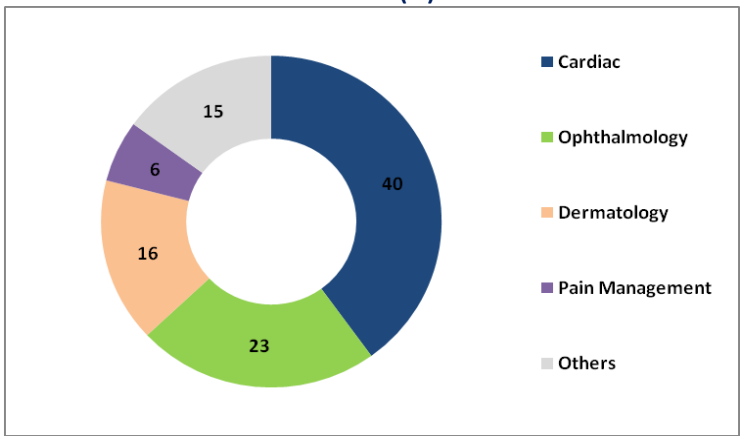
Earnings have been under pressure for the past two years (FY18 & FY19) on account of (1) reduced Institutional Anti-malaria business, (2) moderate growth in Domestic Formulation (DF), (3) inventory rationalization in Africa and (4) increased operating cost associated with commissioning of new facilities. We estimate 16% CAGR in the US business over the next 2 years on the back of new launches and increased market share in existing products. With its own front-end in place, strong focus on product quality and consistency in supply has given good recognition among major distributors in the US. Ajanta has 7-8 ANDA launches over the next 12 months. The company has majority of base business from Paithan and considerable number of pending approvals from Dahej. Till date, it has successful compliance track record at both the facilities. Paithan was last inspected in July'19 and Dahej in Jun'19. Company received EIR (establishment inspection report) for both the facilities in Aug'19. Post that, there has been approval from both the facilities, implying minimal regulatory risk over the medium term.

Even after incurring heavy capex over the past three years, company's balance sheet remains strong with D/E at ~0.1x. The company's gross block tripled over FY15-20 led by Rs 1650 cr investment in green field expansion at Dahej & Guwahati and an R&D centre. This will lead to higher proportion of in-house manufacturing for India to 80% from 20-25% currently, and provide upside to sales due to higher capacities coming on stream. With healthy momentum in US sales, renewed focus on delivering results in the derma portfolio, domestic industry outperformance in cardiology/pain and favorable macro scenario for branded Africa/Asia segment, we therefore feel that Ajanta is worth a look from investment perspective. Based upon ~23x FY22E earnings, we arrive to TP of Rs 1650.

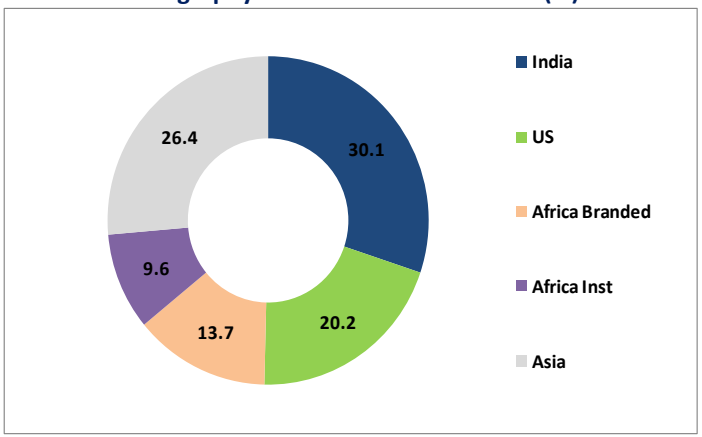
Financial Summary

Particulars (Rs cr)	Q4 FY20	Q4 FY19	YoY (%)	Q3 FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Total Revenues	682	515.2	32.4	651.2	4.7	2,055	2,588	2,847	3,228
EBITDA	168	127.1	32.2	185.9	-9.6	566	683	768	900
Depreciation	26	18.8	38.3	23.6	10.2	72	96	105	115
Other Income	57	1.7	-	14.6	290.4	21	92	48	60
Interest Cost	3.6	0.8	350.0	1.6	125.0	1	12	9	5
Tax	47	20	135.0	67.4	-30.3	127	196	173	206
APAT	129	89	44.9	107.5	20.0	387	468	532	634
EPS (Rs)						44.2	53.3	60.6	72.3
RoE (%)						18.1	19.3	19.0	19.6
P/E (x)						33.4	27.7	24.4	20.7
EV/EBITDA						21.1	17.5	15.5	13.3

Domestic Revenues Mix (%)



Geographywise FY20E Revenues Mix (%)



Source: Company, HDFC sec Research

FY20 Results Update

Revenues for the year grew 26% yoy to Rs 2588cr driven by 35% increase from exports formulations revenues. US business registered 82% yoy growth on lower base. Asia and Africa Branded witnessed 27% and 14% rise in revenues for FY20. For FY 2020, R&D expenses were at Rs. 164 cr, (FY19 at Rs. 176 cr) which is around 6% of the operating revenues. In US, the company received 9 ANDA final approval, 1 tentative approval while it filed 11 ANDA with US FDA during FY20. Out of 32 final ANDA approvals, Ajanta has commercialized 30 products and 23 ANDAs are awaiting US FDA approval. Company plans to file 10-12 ANDAs during FY21. India business grew 11% at Rs 769cr. Cardiology segment registered growth in line with IPM while Ophthalmology and Pain Management outpaced IPM growth in the year.

Domestic Business to see 11% CAGR over FY20-22E

Ajanta Pharma has a strong branded business in India (30% of FY20P revenues). The company's strategy is to launch first-time products in India and market them to specialists across four key therapies—cardiology, ophthalmology, dermatology and diabetes and others. As a result, it has the crucial first-mover advantage in building

strong brand equity with specialists. With the new India dedicated Guwahati facility, company expects to take the percentage of in house manufacturing for India to 80% from around 20% over the next two years. We estimate the company's domestic business to register ~11% CAGR over FY20-22E. Company has consistently grown faster than the Indian Pharmaceutical Market (IPM) due to its focus on chronic therapies and first-to-market combinations. About 60% of its domestic portfolio is chronic, which has grown at 11% CAGR, faster than IPM's 8%.

The company has MR (Medical Represntative) strength of ~3,000 and their productivity is ~Rs 2.3mn; the company expects to improve further in the next three years. In the Domestic segment, company derives 40% of its revenues from cardiology followed by ophthalmology (~23% of revenues). Dermatology and Pain management account for 16% and 6% respectively. With a portfolio of 84 products, Ajanta is ranked No. 3 in the ophthalmology market. Top brands are used to mainly treat dry eye and inflammation. Cardiology is one of the fastest growing therapies for the company. Ajanta's cardiology portfolio has around 75-80 brands and many of them were first time launches in the market. Key brands in the segment include MET XL, Atorfit CV, Rosufit CV and Cinod. In dermatology, Ajanta is ranked No. 13 and focuses primarily on cosmetic dermatology, which is 100% prescription based and has a market size of ~Rs 3000cr. Its key brands include Melacare and Aquasoft, both of which have been growing faster than market. In the pain management segment, Ajanta is ranked No. 23 and focuses primarily on specialised pain products like those in ortho. It has 28 brands, with Feburic being the key brand.

Domestic Formulations to grow led by Derma, Pain and Cardiac

Ajanta expects better growth in Domestic sales to be led by Dermatology, Pain and Cardiology segments. Covered market growth in Dermatology for the past five years was 14-16%, while company grew at 8% due to a high base of Melacare range of products and higher attrition in MRs. Going forward, covered market growth is expected to grow at 9- 10% and company expects to do better (11-12%) as (a) MR team being stabilized for this segment, (b) renewed interest in Melacare range of products and (c) new launches lined up in this segment. Considering covered market growth expectation is at 7-8%, company intends to do better than industry at 10-11% in Cardiology. On a low base, new launches and better traction in existing products, company is confident to grow at ~15% compared to covered market growth of 12% in Pain segment. With a market share of 10% in Ophthalmology, there is limited scope to grow in this category. Company intends to grow in line with industry at 7-8%.

Healthy products pipeline to support strong US growth over FY20-22E

To gain competitive advantage in the US, Ajanta is gradually spreading its wings via a select product portfolio, including complex technology products. The company has invested ~Rs 6.5bn in the US business so far, which currently does not yield much of returns. It currently markets 27 products in the US, has 26 ANDAs awaiting approval, aims to file 10-12 ANDAs and launch 7-8 products per year. Within the past 5 years, drugs worth US$ 83bn have gone off patent and another US$ 72bn worth of small molecule drugs slated to go off-patent in the next 5 years, it is an opportunity for a smaller player like Ajanta. Also, both the Dahej and Paithan (Aurangabad) plants for the US market are US FDA approved and received EIR in August 2019. US generics business is still relatively modest, we estimate 16% cagr in the business over FY20-22E and contribute meaningfully to overall profitability.

Africa Business to grow at 9% cagr over the next two years

Ajanta Pharma has a meaningful presence in Africa with branded generic business generating ~Rs 350cr of revenues from 12 countries. It ranks third in Franco-Africa region. Its portfolio comprises of around 130 products. Ajanta has been a strong player in the institutional anti-malaria business for the Artemether Lumefantrine combination over the past five years, being the 1st generic company to receive WHO pre-qualification for this product. In FY20, Africa Institutional business grew ~24% at Rs 244cr. However, in FY18, 30% reduction in overall allocation by the Global Fund and other tender buyers and Ipca's entry dented Ajanta's revenue. However, with the increase in the number of malaria cases, the funding bodies increased their allocations, which started on January 1, 2020. Also in 2018, Ipca re-entered the market after a two years of pause, leading to heightened competitive intensity.

Since Ipca is fully backward integrated and is a leader in this segment, it can offer the tender at a more competitive price. In Africa, company has > 1000 products under registration and it launched 5 new products during FY20. We expect 6% cagr in Inst business and 11% in Africa Branded over FY20-22E.

Asia Business account for 26% of the revenues

The overall Asia branded business consists of the Philippines, West Asia and Central Asia (CIS). The Philippines is the largest Asian market for Ajanta with ~Rs 250cr revenues growing at CAGR of 10-12%. Ajanta ranks 17th in the Philippines (~US$ 4bn market, growing 3-4% annually) and has 40 products, 15-20 pending for approvals. West Asia (including Iraq, Jordan, Turkey) is ~Rs 200cr market for the company. In Asia, company has > 350 products registered as on FY20; launched 2 new products during the year.

Philippines is the third-largest pharmaceutical market in ASEAN, after Indonesia and Thailand and is estimated to exceed USD 4bn in the coming years. The Philippines' disease burden is shifting from communicable to non-communicable diseases. Cardiovascular disease is the leading cause of death. Company launched 35 new products in Rest of Asia & Africa markets during FY19.

Company intends to launch about 25 products with 40-45% to be first to market over the next two years. Further increased traction in existing products would facilitate better than industry growth. The company would maintain its field force strength in both Asia/Africa branded generics market.

Key Issues faced by the company in the last two years

- Decline in anti-malaria institutional business: Ajanta's anti-malaria institutional business plunged 55%, contributing mere ~9% to overall revenue from 25% two years ago. This was due to contraction in funding couple with a rise in competitive intensity.
- Domestic slowdown and forex headwinds in Asia and Africa: GST-led de-stocking, increased competition in dermatology, longer approval timelines for fixed-dose combination drugs and slow uptake in new launches dented its domestic branded generics business. Also, strong currency headwinds in branded markets like West Asia, Central Asia and Anglo Africa in FY17 and FY18 led to pressure on branded business.
- Aggressive investment phase coincided with business challenges: Ajanta entered into an aggressive investment phase, incurring ~Rs 1650cr capex over FY15-20 largely on: 1) two green-field facilities in Dahej (for US and EM) & Guwahati (India); 2) expansion of R&D centre; and 3) new building for head office.

Company Profile

Ajanta Pharma is a specialty pharmaceutical company which develops, manufactures and markets quality finished dosages. The business includes branded generics in EMs of Asia & Africa, generics in developed markets of US and institution sales. It is the play on branded generics with strong focus on branded formulation business in India and other EMs. India contributes ~30% to overall revenue with focus on cardiology, ophthalmology, dermatology and pain management segments. In Asia and Africa, the company has a strong branded presence with front-ends in markets where it is present and also participates in the anti-malaria tender business in Africa region. Lately, company invested in the US market, which is expected to generate meaningful revenues over the next few years. Company has invested heavily in the last 3-4 years in Greenfield expansion and R&D for US business.

Key risks/concerns

- Regulatory Risk: Ajanta Pharma derives ~70% of its revenues from export markets, and being a pharma player it is imperative to secure approvals from several regulatory bodies across the globe. Any adverse action from authorities would be risk for the company.
- Foreign exchange Risk: Large part of revenue comes from exports and hence, the company poses risk of currency fluctuations.
- Inability to scale up the India branded space may pose a risk to domestic growth.
- Higher competition in the US business may lead to lower earnings for the company.

Income Statement

(Rs Cr)	FY18	FY19	FY20P	FY21E	FY22E
Total Revenues	**2131**	**2055**	**2588**	**2847**	**3228**
Growth (%)	6.5	-3.5	25.9	10	13.4
Operating Expenses	1473	1489	1905	2079	2328
EBITDA	**658**	**566**	**683**	**768**	**900**
Growth (%)	-4.2	-14	20.7	12.3	17.2
EBITDA Margin (%)	**30.9**	**27.5**	**26.4**	**27**	**27.9**
Depreciation	60	72	96	105	115
EBIT	**599**	**494**	**588**	**663**	**785**
Other Income	24	21	92	48	60
Interest expenses	1	1	12	9	5
PBT	**623**	**514**	**664**	**704**	**840**
Tax	154	127	196	173	206
RPAT	**469**	**387**	**468**	**532**	**634**
Growth (%)	-7.5	-17.4	20.8	13.7	19.2
EPS	53	44.2	53.3	60.6	72.3

Balance Sheet

As at March	FY18	FY19	FY20P	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**17.7**	**17.5**	**17.5**	**17.5**	**17.5**
Reserves	2024	2228	2582	2982	3449
Shareholders' Funds	**2042**	**2246**	**2599**	**2999**	**3467**
Long Term Debt	1	1	13	11	9
Net Deferred Taxes	2	14	46	45	44
Long Term Provisions & Others	13	14	16	21	29
Total Source of Funds	**2057**	**2274**	**2673**	**3076**	**3548**
APPLICATION OF FUNDS					
Net Block (incl. CWIP)	1114	1440	1607	1682	1687
Long Term Loans & Advances	67	30	34	42	57
Total Non Current Assets	**1181**	**1470**	**1641**	**1724**	**1744**
Current Investments	182	65	67	79	88
Inventories	351	436	496	571	631
Trade Receivables	460	459	775	679	743
Cash & Equivalents	93	100	205	519	831
Other Current Assets	138	121	98	103	114
Total Current Assets	**1224**	**1181**	**1642**	**1950**	**2406**
Short-Term Borrowings	0	33	43	34	18
Trade Payables	250	225	362	365	391
Other Current Liab & Provisions	64	112	180	171	162
Short-Term Provisions	33	8	21	25	28
Total Current Liabilities	**348**	**377**	**610**	**599**	**601**
Net Current Assets	876	804	1033	1351	1804
Total Application of Funds	**2057**	**2274**	**2673**	**3076**	**3548**

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20P	FY21E	FY22E
Reported PBT	623	514	664	704	840
Non-operating & EO items	-24	-21	-92	-48	-60
Interest Expenses	1	1	12	9	5
Depreciation	60	72	96	105	115
Working Capital Change	-250	81	-127	-6	-140
Tax Paid	-154	-127	-196	-173	-206
OPERATING CASH FLOW (a)	**254**	**520**	**356**	**592**	**554**
Capex	-240	-391	-258	-180	-120
Free Cash Flow	14	129	98	412	434
Investments	-44	37	3	-3	-10
Non-operating income	24	21	92	48	60
INVESTING CASH FLOW (b)	**-259**	**-333**	**-163**	**-135**	**-70**
Debt Issuance / (Repaid)	28	13	39	-2	0
Interest Expenses	-1	-1	-12	-9	-5
FCFE	41	141	125	401	428
Share Capital Issuance	0	0	0	0	0
Dividend	0	-79	-114	-132	-167
FINANCING CASH FLOW (c)	**27**	**-67**	**-87**	**-142**	**-172**
NET CASH FLOW (a+b+c)	**22**	**120**	**106**	**314**	**312**

Key Ratios

	FY18	FY19	FY20P	FY21E	FY22E
EBITDA Margin	30.9	27.5	26.4	27	27.9
EBIT Margin	28.1	24	22.7	23.3	24.3
APAT Margin	22	18.8	18.1	18.7	19.6
RoE	26	18.1	19.3	19	19.6
RoCE	28.5	21.3	21.7	21.3	21.9
Solvency Ratio					
Net Debt/EBITDA (x)	-0.4	-0.2	-0.3	-0.7	-1
D/E	0	0	0	0	0
Net D/E	-0.1	-0.1	-0.1	-0.2	-0.3
PER SHARE DATA					
EPS	53	44.2	53.3	60.6	72.3
CEPS	59.8	52.4	64.2	72.6	85.4
BV	231	256	296	342	395
Dividend	0	9	13	15	19
Turnover Ratios (days)					
Debtor days	79	82	109	87	84
Inventory days	48	70	70	73	71
Creditors days	83	77	95	88	85
VALUATION					
P/E	27.4	33.4	27.7	24.4	20.7
P/BV	6.3	5.7	4.9	4.2	3.7
EV/EBITDA	18.1	21.1	17.5	15.5	13.3
EV / Revenues	5.6	5.8	4.6	4.2	3.7
Dividend Yield (%)	0	0.6	0.9	1	1.3
Dividend Payout	0	20.4	24.4	24.7	26.3

Source: Company, HDFC sec Research

Alkem Laboratories

Industry	Price	Recommendation	Target	Time Horizon
Pharmaceuticals	Rs. 2337	Buy in the 2280-2350 band and add on dips to 2140-2190 band	2703	2 quarters

HDFC Scrip Code	ALKLAB
BSE Code	539523
NSE Code	ALKEM
Bloomberg	ALKEM:IN
CMP May 28, 2020	2337
Equity Capital (Rs cr)	23.9
Face Value (Rs)	2
Equity Share O/S (cr)	11.95
Market Cap (Rs cr)	27978
Book Value (Rs)	455
Avg. 52 Wk Volumes	84109
52 Week High	2882
52 Week Low	1661

Share holding Pattern % (Mar 31, 2020)	
Promoters	65.9
Institutions	15.2
Non Institutions	18.9
Total	100.0

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Alkem – A Consistent Performer

Alkem Labs has been the No. 1 Anti-infectives company in India for over the last 15 years, it is the No. 3 Gastro-intestinal and analgesics company in India. Company has 8 Brands with annual sales of more than Rs 100 Cr, 4 Brands which features amongst the top 50 pharmaceutical brands in India, 14 Brands feature amongst the top 300 pharmaceutical brands in India. Alkem continues to remain the industry leader for Anti-Infectives in India and expects to grow by 1.5x industry growth in the overall Acute segment.

Off late, Alkem has increased its focus on introducing new products to meet identified therapy gaps across its established therapeutic segments. The company introduced two novel molecules in India - Arbekacin in Anti-Infective segment and Evogliptin in Anti-Diabetic segment. Both of these are in-license products and would be exclusively marketed by Alkem, as per the terms of the agreement. In the gastro-intestinal segment, Alkem offers products to treat disorders like hyperacidity, gastric ulcers, nausea, vomiting, diarrhoea, GERD (Gastroesophageal Reflux Disease) and worm infestation. Company derives 60-65% of its domestic revenues from Acute Segment. The differentiated product offerings in these new therapy areas will enable the company to grow and diversify its portfolio. While a strong and long anti-infective season helped Alkem in supernormal FY20, Alkem's leadership position in its legacy brands and therapies and improving standing in chronic space should ensure above-average growth. Q1 FY21 could see subdued growth due to lockdown and lower incidence of diseases. It has sufficient capacity for the next 2 years. R&D spends are likely to remain within 5-6% of revenue and hence operating leverage could be witnessed. Long-term API procurement contracts will ensure stable gross margins.

US Business to grow at ~18% cagr over FY19-22E

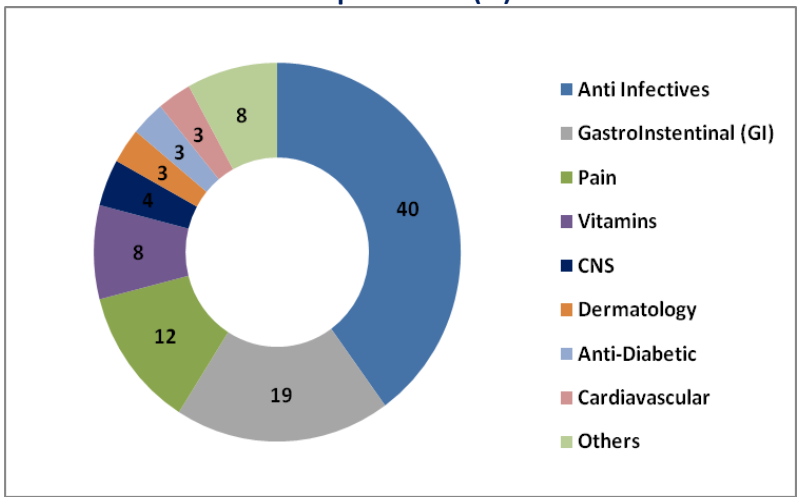
Alkem has increased their rate of ANDA filings to bolster product pipeline. Alkem filed 23 ANDAs during the year FY19 and received 21 approvals, which includes 6 tentative approvals. This is the highest number of filings and approvals received by Alkem in a year. For 9M FY20, the Company filed 7 ANDAs with the US FDA and received 12 approvals (including 4 tentative approval). As on Dec, 2019, the Company has filed a total of 131 ANDAs and 1 new drug application (NDA) with the US FDA, out of these 10-12 filings are Para-IV. Of these, it has received approvals for 77 ANDAs (including 11 tentative approvals) and 1 NDA. Timely new product approvals and commercialisation would be the key growth driver in the US market.

The company has also made substantial investments in the biosimilar segment through its subsidiary Enzene Biosciences. Over the medium to long-term, Enzene aims to launch its biosimilar products, which are presently in preclinical and clinical development stage, in India and key international markets. Within the past five years, US$101bn worth of drugs have gone off-patent, with another US$31bn worth of small molecule drugs slated to go off-patent in the next three years, which is likely to lead to continued competition among generics. We estimate US business to see 18% revenues cagr led by new products launches.

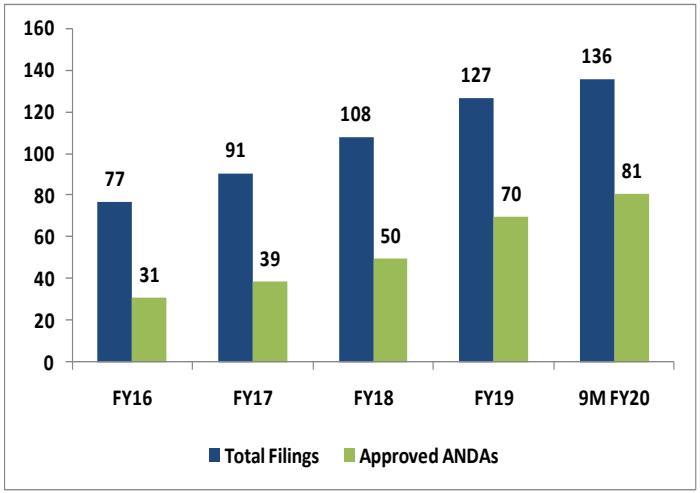
Financial Summary

Particulars (Rs cr)	Q3 FY20	Q3 FY19	YoY (%)	Q2 FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Total Revenues	2182	1926	13.3	2264	-3.6	7,357	8,221	9,220	10,551
EBITDA	453	314	44.3	453	0.0	1115	1439	1654	1972
Depreciation	59.5	48	24.0	56	6.3	193	228	246	268
Other Income	28	8	250.0	31	-9.7	88	109	122	140
Interest Cost	17	15	13.3	18	-5.6	55	63	54	44
Tax	14.7	53	-72.3	29	-49.3	181	113	177	234
APAT	382	203	88.2	371	3.0	761	1121	1272	1539
EPS (Rs)						63.6	93.8	106.4	128.7
RoE (%)						14.8	19.2	19.1	20.1
P/E (x)						36.5	24.8	21.9	18.1
EV/EBITDA (x)						24.6	19.1	16.6	13.9

Domestic Therapeutic Mix (%)



US ANDA Filings and Approvals (#)



Source: Company, HDFC sec Research

Domestic Business to see ~11% revenue cagr over FY19-22E

Alkem Labs has 8 Brands with annual sales of more than Rs 100 Cr, 4 Brands which features amongst the top 50 pharmaceutical brands in India, 14 Brands feature amongst the top 300 pharmaceutical brands in India. Alkem continues to remain the industry leader for Anti-Infectives in India and expects to grow by 1.5x industry growth in the overall Acute segment. It looks to outperform in the chronic segments on the back of new product launches, including in-licensed products, effective sales and marketing strategies, improved sales force productivity and building strong brands. In the chronic therapeutic segments of neurology, dermatology, anti-diabetes and cardiology, Alkem grew ahead of the market growth rate thereby not only gaining market share but also improving its market ranking. Alkem has several new products lined up in the vitamins, minerals and nutrients segment along with the nutraceuticals in the areas of pregnancy, bone-health, gastro-segment, among others. Alkem is consolidating its existing offerings in the pain/analgesic segment through brand building initiatives.

The chronic segment is also poised to be an important driver of industry growth with cardiac (CVS) and Anti-Diabetic being amongst the fastest growing therapy areas in the country. Alkem has set up specialised divisions for CVS, Anti-Diabetic, urology, CNS and dermatology to focus on the right brands within each of these segments. Alkem has already exclusively launched Evogliptin (an innovative DPP4 inhibitor for effective control of glucose) which has received an encouraging response.

Rest of the world - focus on select markets

Besides the US, Alkem's products are sold in more than 50 international markets (Australia, Chile Philippines, Kazakhstan, Europe, Middle East and East Africa), mostly through its own distribution networks. However, management said it would focus more on the US market as it has huge potential to grow and therefore would rationalise some of the low-margin areas in the rest of the world (RoW). Its key markets are Australia, Chile, Philippines and Kazakhstan. RoW business contributes to ~6% of revenues. We expect steady 10% CAGR in revenues over FY19-22E. Volatile currency movements remain a key challenge for the business.

Key Highlights

- Alkem ranks in the top-six Neuro/CNS companies and the top-15 derma companies in India.
- Company has improved its ranking in vitamins, Neuro/CNS, derma and anti-diabetes therapies (according to IQVIA).
- The present MR strength (including subsidiaries) is 11,400 (650 added in 9M FY20). 7,000 dedicated to acute therapy, 2,100 to chronic therapy and the rest to the generics division.
- During Q3 FY20, Alkem filed four ANDAs (cumulative 135, and one NDA) and received approvals for four (cumulative 81, incl. 11 tentative). Of 70 finally approved ANDAs, 80% have been commercialised and some are in the process; a few (single digit) are not attractive launches.
- Management said that company will do 12-15 product filings every year and low double-digit launches. R&D expenses for the 9M FY20 stood at around 5.5% of the revenues.
- Daman and Baddi plants received EIR in Nov'19. The St. Louis facility was inspected by the US FDA from 27th Jan to 6th Feb and the company received Form 483 with three observations, none of them similar to the eight it received earlier.
- Tax-rate guidance for FY20 was at 10%; for FY21/FY22 in a similar range.
- R&D guidance: 5.5-6% of sales. Capex till 9M FY20 was at Rs 3bn; management guided for Rs 4-4.5bn for FY20 and Rs 3.5-4bn for FY21.

View & Valuation

Alkem's chronic business continued to grow significantly ahead of the market growth rate, leading to improvements in its market share and ranking in therapy segments of CNS, anti-diabetic, cardiology and dermatology. International Business mainly led by the US, delivered a robust performance on the back of new product launches and market share gains in the company's existing products. The Company looks to outperform in the chronic segments on the back of new product launches including in-licensed products, effective sales and marketing strategies, improved sales force productivity and building strong brands.

Medicine spending in the US is expected to grow at a steady clip and the region is also expected to witness a large number of products going off - patent over the next few years. We believe there is good headroom for growth in the US market. Alkem has cumulatively filed 136 ANDAs with the US FDA, cGMP compliant manufacturing facilities and own front end to distribute and market its products. We expect 13% cagr in revenues on the back of 18% growth in US business and 11% cagr in India business over FY19-22E. Strong revenues and steady margin expansion would lead to stellar 26% cagr in PAT over the same period. Strong brand equity in the domestic market, healthy balance sheet and return ratios support our positive view on the stock. We have positive view on the stock with TP of Rs 2703 based upon ~21x FY22E earnings.

Key Risks

- Delay in approvals/launches may impact the US business
- Any adverse US FDA action upon inspection of its US dedicated facilities
- Adverse currency movement would impact its profitability
- More number of drugs coming under DPCO coverage, thus impacting domestic business (price erosion)
- Strong presence in the acute segment which is seasonal in nature.

Income Statement

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Total Income	**6401**	**7357**	**8221**	**9220**	**10551**
Growth (%)	9.4	14.9	11.8	12.2	14.4
Operating Expenses	5392	6242	6782	7567	8579
EBITDA	**1009**	**1115**	**1439**	**1654**	**1972**
Growth (%)	0.9	10.5	29.1	14.9	19.2
EBITDA Margin (%)	**15.8**	**15.2**	**17.5**	**17.9**	**18.7**
Depreciation	143	193	228	246	268
EBIT	**866**	**922**	**1212**	**1408**	**1703**
Other Income	115	88	109	122	140
Interest expenses	55	55	63	54	44
PBT	**926**	**955**	**1255**	**1479**	**1797**
Tax	288	181	113	177	234
PAT	**631**	**761**	**1121**	**1272**	**1539**
Growth (%)	-29.3	20.6	47.4	13.4	21
EPS	52.8	63.6	93.8	106.4	128.7

Balance Sheet

As at March	FY18	FY19	FY20E	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**23.9**	**23.9**	**23.9**	**23.9**	**23.9**
Reserves	4840	5415	6186	7080	8172
Shareholders' Funds	**4864**	**5439**	**6210**	**7104**	**8196**
Long Term Debt	131	231	192	153	120
Long Term Provisions & Others	164	214	253	287	315
Minority Interest	**122**	**133**	**133**	**133**	**133**
Total Source of Funds	**5283**	**6017**	**6789**	**7680**	**8768**
APPLICATION OF FUNDS					
Net Block & Intangibles	2254	2599	2796	2911	3011
Goodwill	366	380	380	380	380
Deferred Tax Assets (net)	770	768	770	681	636
Long Term Loans & Advances	239	215	240	275	313
Total Non Current Assets	**3629**	**3962**	**4186**	**4247**	**4339**
Current Investments	346	228	235	247	254
Inventories	1442	1500	1734	1900	2148
Trade Receivables	1081	1248	1464	1604	1821
Short term Loans & Advances	38	31	37	42	49
Cash & Equivalents	577	662	801	1344	1942
Other Current Assets	530	535	551	580	598
Total Current Assets	**4014**	**4204**	**4819**	**5717**	**6812**
Short-Term Borrowings	761	671	577	491	387
Trade Payables	961	962	1039	1145	1281
Other Current Liab & Provisions	537	430	464	488	522
Short-Term Provisions	124	127	136	148	161
Total Current Liabilities	**2360**	**2149**	**2216**	**2271**	**2351**
Net Current Assets	1654	2055	2603	3433	4429
Total Application of Funds	**5283**	**6017**	**6789**	**7680**	**8768**

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	926	955	1,255	1,474	1,797
Non-operating & EO items	-115	-88	-109	-122	-140
Interest Expenses	55	55	63	54	44
Depreciation	143	193	228	246	268
Working Capital Change	-227	-298	-453	-296	-417
Tax Paid	-288	-181	-113	-177	-234
OPERATING CASH FLOW (a)	**494**	**636**	**871**	**1,179**	**1,319**
Capex	-1,778	-547	-380	-350	-350
Free Cash Flow	-1,284	89	491	829	969
Investments	527	12	-27	54	8
Non-operating income	115	88	109	122	140
INVESTING CASH FLOW (b)	**-1,135**	**-447**	**-298**	**-174**	**-203**
Debt Issuance / (Repaid)	1	149	0	-4	-3
Interest Expenses	-55	-55	-63	-54	-44
FCFE	-1,338	183	428	771	922
Share Capital Issuance	7	11	0	0	0
Dividend	-187	-229	-371	-403	-472
FINANCING CASH FLOW (c)	**-235**	**-124**	**-434**	**-461**	**-518**
NET CASH FLOW (a+b+c)	**-876**	**65**	**139**	**544**	**598**

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
EBITDA Margin	15.8	15.2	17.5	17.9	18.7
EBIT Margin	13.5	12.5	14.7	15.3	16.1
APAT Margin	10	10.5	13.9	14.1	14.8
RoE	13.5	14.8	19.2	19.1	20.1
RoCE	16.4	15.3	17.9	18.3	19.4
Solvency Ratio					
Net Debt/EBITDA (x)	0	0	-0.2	-0.6	-0.9
D/E	0.2	0.2	0.1	0.1	0.1
Net D/E	0	0	0	-0.1	-0.2
PER SHARE DATA					
EPS	52.8	63.6	93.8	106.4	128.7
CEPS	64.7	79.8	112.8	127	151.1
BV	407	455	519	594	686
Dividend	13	16	26	28	33
Turnover Ratios (days)					
Debtor days	62	62	65	64	63
Inventory days	75	73	77	75	74
Creditors days	91	80	78	79	78
VALUATION					
P/E	43.8	36.5	24.8	21.9	18.1
P/BV	5.7	5.1	4.4	3.9	3.4
EV/EBITDA	27.2	24.6	19.1	16.6	13.9
EV / Revenues	4.3	3.7	3.3	3	2.6
Dividend Yield (%)	0.6	0.7	1.1	1.2	1.4
Dividend Payout	24.6	25.1	27.7	26.3	25.6

Source: Company, HDFC sec Research

Industry	Price	Recommendation	Target	Time Horizon	Red flag level *
Pharmaceuticals	Rs. 172.2	Buy in the 173-167 band and add on dips to 155-160 band	210	2 quarters	Rs. 138

HDFC Scrip Code	GRANUL
BSE Code	532482
NSE Code	GRANULES
Bloomberg	GRAN: IN
CMP May 28, 2020	172.2
Equity Capital (Rs cr)	25.43
Face Value (Rs)	1
Equity Share O/S (cr)	25.43
Market Cap (Rs cr)	4383
Book Value (Rs)	72
Avg. 52 Wk Volumes	1483039
52 Week High	188
52 Week Low	84

Share holding Pattern % (Mar 31, 2020)	
Promoters	42.9
Institutions	24.7
Non Institutions	32.4
Total	100.0

Fundamental Research Analyst
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Granules India – An attractive play on high volume generics and APIs

Granules India is one of the largest manufacturer of key APIs like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol for the developed and emerging markets. Granules is a preferred partner for some of the world's leading pharma branded and generic companies. Company is one of the leading manufacturer of high-volume pharmaceutical products in the world; the company has one of the largest Paracetamol API facilities. The key 5 products contribute 85% of the total revenue. The basket of five key molecules grew 30% in FY19.

Over the years, Granules has stepped up its contribution from finished dosages from 25% in FY11 to 46% in FY19 and increased further to ~51% in 9M FY20, which is a high value and higher margin business segment. US generic business has gained strong traction with 10 launches. Currently, company has 39 ANDAs filed and 19 are awaiting approval from the US FDA Company guides to file ~6-8 ANDAs in FY20. It will launch ~6-7 ANDAs from Granules Pharmaceuticals Inc. over the next two years. In FY19, company has set-up its own front-end team to scale-up the US business. We believe launch of own label products will help to improve overall margins. The company has announced buyback of 1.25cr equity shares at Rs 200 per share totaling to pre Tax outflow of Rs 250cr. The company plans to utilise Rs 200cr which it will receive through divestment of its JV Biocause (China) and Biochem which is expected to close by Q1 FY21.

View & Valuation

Granules India has done well with 15% CAGR in revenue and 20% in earnings over FY15-19. In last three-four years, company has heavily invested in new capacities and enhanced capabilities in finished dosage for longer term growth. In FY18, Granules's margin declined to 16.5% was due to (a) higher fixed cost and (b) China API supply disruption led to higher raw material costs. However, company was able to source key material from other suppliers and passed on additional costs to customers. Granules has meaningfully enhanced its capabilities in formulations through acquisition of manufacturing facility in Virginia, US; ~17 ANDAs have been filed from the facility till date, significant investment in R&D (Rs. 470cr, of which ~Rs. 320cr was capitalized) – 39 ANDA filings as of Dec 2019 which include controlled-substances, modified-release orals and OTC. In FY19 and 9M FY20, performance across the board has been strong.

We estimate 15% revenue cagr led by 22% growth from Finished Dosages and ~14% from PFI segment. We believe margin would remain steady around 21% over the next two years. We expect gross margin expansion (as formulations revenues rise) and operating leverage (from ramp up at new API capacities) to drive improvement in margins, which along with the lower capex from hereon should lead to net debt reduction. We believe that the current valuations are compelling (10x FY22E EPS), considering healthy revenue growth along with strong profitability expected over FY19-22E. Focus on deleveraging balance sheet, divestments in joint venture, steady margin and improving return ratios are some of the key positives. Based upon 12x FY22E earnings, we arrive to TP of Rs 210.

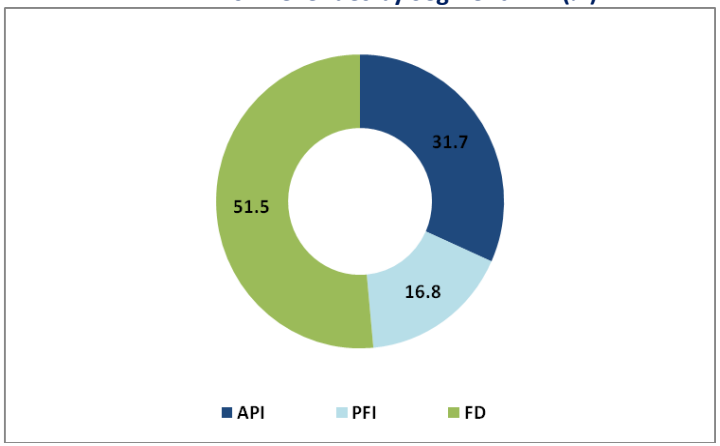
*Investors may maintain Rs.138 as Red flag level below which investment position needs to be reviewed, including the possibility to exit.

Financial Summary

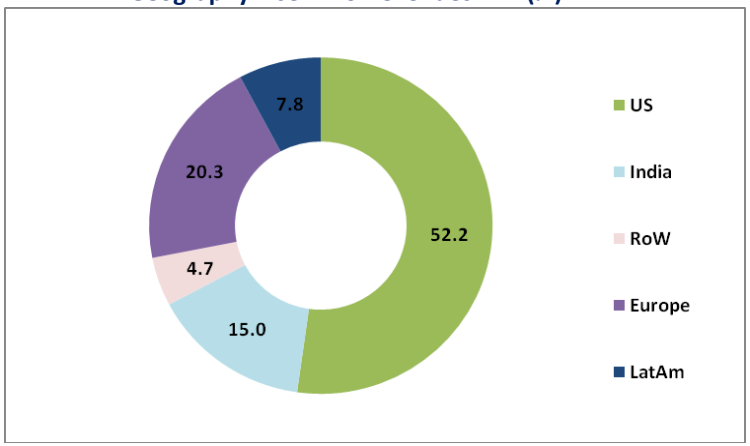
Particulars (Rs cr)	Q3 FY20	Q3 FY19	YoY (%)	Q2 FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Total Revenues	704	631.8	11.4	699.5	0.6	2,279	2,689	3,033	3,482
EBITDA	163.2	113.3	44.0	143.5	13.7	384	563	640	748
Depreciation	39	27	44.4	30.3	28.7	106	133	143	160
Other Income	3.5	5.9	-40.7	8.7	-59.8	27	19	23	28
Interest Cost	6.7	7.5	-10.7	6.9	-2.9	29	27	23	19
Tax	24.9	26.5	-6.0	19.3	29.0	89	100	125	150
APAT	64	60.3	6.1	96	-33.3	237	317	374	445
EPS (Rs)						9.3	12.5	14.7	17.5
RoE (%)						16.7	18.9	18.8	18.9
P/E (x)						18.5	13.8	11.8	9.9
EV/EBITDA						12.6	8.5	7.5	6.4

(Source: Company, HDFC sec)

FY20E Revenues by Segment Mix (%)



Geographywise FY19 Revenues Mix (%)



Source: Company, HDFC sec Research

Business Segments of the company

Active Pharma Ingredients (API)

Granules is among the top supplier of five key APIs globally. It is second largest API supplier of Paracetamol globally and holds ~40-45% share of market. Company's positioning in these products has been advantageous both in terms of quality and pricing. Generally, company enters into long-term contracts with its customers, which also includes its ability to pass raw material cost inflation. Management indicated that the company only manufactures products for which it has strong cost advantage and capability to offer multiple products across the value chain to its customers. We expect API revenue to grow at steady pace owing to improving capacity utilization and addition in the products portfolio. APIs forms 32% of its revenues as on FY20E.

Pharma Formulation Intermediates (PFI)

Pharmaceutical Formulation Intermediates (PFIs) is an intermediate product between API and Formulation. Company has pioneered the concept of commercializing PFIs and provides value proposition by offering large capacity to its customers. PFIs use results in substantial cost saving, as it forms ~80% of asset cost in finished dosage manufacturing. Also, customer saves a significant amount on vendor development cost. Since setting up a PFI manufacturing facility requires incurring capital expenditure, by procuring the PFIs from Granules India, the customers can reduce their expenditure by a great extent. Company provides formulation development, analytical development and regulatory submission facilities to its customers. The Company through its PFI facilities at Jeedimetla and Gagillapur processes these intermediates to be compressed into Finished Dosage forms. In FY19, company derived 17% of total revenue from PFI segment and has an installed capacity of 24,640 TPA of PFI.

Finished Dosages (FD)

Granules entered into the US market with focus on niche and high-volumes products. Company has filed as Para II/III, which implies molecules, which are old and off-patent. With backward integration into API, company is able to capitalize the cost advantage and strong operational efficiencies. US generic business has gained strong traction with 10 launches. Currently, company has 39 ANDAs filed and 19 pending for approval from the US FDA. Company guides to file ~6-8 ANDAs in FY20. Out of 20 approved ANDAs, 8 are OTC while 12 are prescription drugs (Rx). Company expects 8-9 launches in FY21 with an addressable market size of about US$ 2.5 bn based on IQVIA. In FY19, Granules set up its own front-end team to scale-up the US business. We believe launch of own label products will help to improve overall margins.

Key Levers/Triggers for the company

- Over the years, Granule India has stepped up its contribution from finished dosages from 25% in FY11 to 46% in FY19 and increased further at ~51% in 9M FY20, which is a higher value and higher margin business segment. Predominantly, we believe the product mix would further improve in favor of FDs going ahead (~55% in FY22E). We expect this business to register 21% CAGR over FY19-22E through market share gain in existing products coupled with new launches. Finished dosage is a high-margin business vertical as compared to APIs/PFIs.
- The three major growth drivers for the company will be, optimal utilization of increased capacities, scaling up of US generics business, commercialization of multiple API and oncology blocks in Vizag. Company said that they have done progress in all the three parts in FY19 and it would continue further in the coming years.
- EBITDA margins have seen the benefit from improving product mix and operating efficiencies with better capacity utilisations. Also, the launch of own label products in US, new facility commenced at Vizag and Metformin capacity will contribute to the margins.
- Promoter have announced that the recent Buyback would lead to meaningful reduction of the pledge share post the closure of buyback (expect less than 5% pledge share from current 37% pledge). Promoter had pledged more shares, just in case there is a drop in share price due to the current volatility in the market.
- In addition to the formulation business from its legacy molecules, Granules commenced its own commercial operation in the US generics market in FY19. Accordingly, there has been significant ramp-up in the formulation business - it is the key driver for earnings growth as well. With formulation revenues forming ~51% of revenue as on 9M FY20, we expect growth momentum to continue on the back of the strong ANDA pipeline pending for approval. It has filed 28 Rx ANDAs, received approval for 12 and has ~16 under review. Further, it has nine products under the development phase.
- Management said that Q4 FY20 won't be impacted much due to Covid-19. Company would post > Rs 300cr PAT for FY20, surpassing its guidance. The demand and pricing for the products is very good and will have positive impact of this in the coming quarters.
- Capitalization of R&D expenses (Most other pharma companies expense out R&D), expensing out (including interest and depreciation) on commercialization of Vizag plant from FY22 with its impact on financials. However Granules India capitalized ~2/3rd of its R&D spending in FY17-19; going forward management has guided for capitalizing ~50% of the total R&D expenditure and ultimately may expense out the whole R&D expenses.

Company Profile

Granules India is a vertically integrated pharmaceuticals company and is the largest manufacturer of key APIs like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol for the developed and emerging markets. With five key API products, company is amongst the largest supplier of these products globally**.** It is second largest API supplier of Paracetamol and holds ~40-45% of total market. Currently, it has eight manufacturing facilities and exports to ~75 countries. Company has a formulation facility with total capacity to produce ~21bn dosages of FD per annum. Granules India has three business verticals namely Active Pharmaceutical Ingredient (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosage (FD). About 51% of total revenues (9M FY20) are derived from FD, followed by ~32% revenue from APIs and the balance from PFI segment.

Key Downside Risks

- Regulatory Risk: Granules supplies to export markets, and being a pharma player it is imperative to secure approvals from several regulatory bodies across the globe. We note that some regulatory bodies including the USFDA, UK-MHRA, EDQM, WHO GMP, Health Canada etc. have approved Granules' facilities. Any adverse action from authorities would be risk for the company.
- Foreign exchange Risk: Large part of revenue comes from exports (~85% in FY20E), but at the same time a large component (around 35%) of its raw material requirements is imported. Hence, the company enjoys a natural hedge. Also, much of debt is in foreign currency which poses a risk.
- Concentration Risk: In the generics and API businesses, the companies have high dependency on select products. Hence, they face the risk of low diversity in products. Incidentally, Granules derives around 85% of revenue from its five key molecules. However, the growth plan of the company involves diversification across product classes and gaining a higher share from multiple products in US generic formulations.
- Surge in raw material cost may lead to lower margins for the company.
- Slower than expected pick up in finished dosage (FD) segment may hinder growth prospects for the company.

Income Statement

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Total Revenues	**1685**	**2279**	**2689**	**3033**	**3482**
Growth (%)	19.4	35.3	18	12.8	14.8
Operating Expenses	1406	1895	2126	2394	2734
EBITDA	**279**	**384**	**563**	**640**	**748**
Growth (%)	-6.8	37.8	46.4	13.7	16.9
EBITDA Margin (%)	**16.6**	**16.9**	**20.9**	**21.1**	**21.5**
Depreciation	76	106	133	143	160
EBIT	**203**	**279**	**430**	**497**	**588**
Other Income	11	27	19	23	28
Interest expenses	33	29	27	23	19
PBT	**180**	**277**	**420**	**500**	**596**
Tax	63	89	100	125	150
PAT	**133**	**237**	**317**	**374**	**445**
Growth (%)	-19.2	78.1	33.8	18	19
EPS	5.2	9.3	12.5	14.7	17.5

Balance Sheet

As at March	FY18	FY19	FY20E	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	**25.4**	**25.4**	**25.4**	**25.4**	**25.4**
Reserves	1279	1504	1799	2134	2526
Shareholders' Funds	**1304**	**1529**	**1824**	**2159**	**2552**
Long Term Debt	433	479	460	395	336
Net Deferred Taxes	54	66	73	76	83
Long Term Provisions & Others	8	13	15	19	22
Total Source of Funds	**1799**	**2086**	**2372**	**2650**	**2992**
APPLICATION OF FUNDS					
Net Block & Intangibles	1291	1441	1528	1526	1584
Long Term Loans & Advances	192	255	271	292	323
Total Non Current Assets	**1491**	**1702**	**1804**	**1824**	**1913**
Current Investments	0	0	0	0	0
Inventories	280	384	420	457	510
Trade Receivables	628	674	822	917	1043
Short term Loans & Advances	2	4	5	5	6
Cash & Equivalents	116	89	127	283	381
Other Current Assets	161	132	129	136	147
Total Current Assets	**1187**	**1283**	**1500**	**1798**	**2087**
Short-Term Borrowings	525	454	422	380	312
Trade Payables	274	324	367	420	484
Other Current Liab & Provisions	76	114	138	153	175
Short-Term Provisions	3	4	6	7	8
Total Current Liabilities	**879**	**899**	**933**	**972**	**1008**
Net Current Assets	308	384	567	826	1079
Total Application of Funds	**1799**	**2086**	**2372**	**2650**	**2992**

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	196	326	417	499	595
Non-operating & EO items	-11	-27	-19	-23	-28
Interest Expenses	33	29	27	23	19
Depreciation	76	106	133	143	160
Working Capital Change	-203	-104	-145	-113	-173
Tax Paid	-63	-89	-100	-125	-150
OPERATING CASH FLOW (a)	**28**	**240**	**314**	**404**	**423**
Capex	-454	-256	-220	-130	-200
Free Cash Flow	-426	-16	94	274	223
Investments	-60	-61	-15	-22	-31
Non-operating income	11	27	19	23	28
INVESTING CASH FLOW (b)	**-503**	**-290**	**-216**	**-129**	**-202**
Debt Issuance / (Repaid)	307	62	-10	-57	-50
Interest Expenses	-33	-29	-27	-23	-19
FCFE	-152	17	57	194	154
Share Capital Issuance	3	0	0	0	0
Dividend	-30	-30	-22	-39	-55
FINANCING CASH FLOW (c)	**246**	**3**	**-59**	**-119**	**-124**
NET CASH FLOW (a+b+c)	**-229**	**-47**	**38**	**156**	**97**

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
EBITDA Margin	16.6	16.9	20.9	21.1	21.5
EBIT Margin	12	12.2	16	16.4	16.9
APAT Margin	7.9	10.4	11.8	12.3	12.8
RoE	12	16.7	18.9	18.8	18.9
RoCE	11.3	14	19.1	21	22.5
Solvency Ratio					
Net Debt/EBITDA (x)	3	2.2	1.3	0.8	0.4
D/E	0.7	0.6	0.5	0.4	0.3
Net D/E	0.6	0.6	0.4	0.2	0.1
PER SHARE DATA					
EPS	5.2	9.3	12.5	14.7	17.5
CEPS	8.2	13.5	17.7	20.3	23.8
BV	51	60	72	85	100
Dividend	1	1	0.8	1.3	1.8
Turnover Ratios (days)					
Debtor days	136	108	112	110	109
Inventory days	59	53	57	55	54
Creditors days	84	73	75	76	77
VALUATION					
P/E	33.3	18.5	13.8	11.8	9.9
P/BV	3.4	2.9	2.4	2	1.7
EV/EBITDA	17.4	12.6	8.5	7.5	6.4
EV / Revenues	2.8	2	1.7	1.5	1.3
Dividend Payout	19.1	10.7	6	8.8	10.3

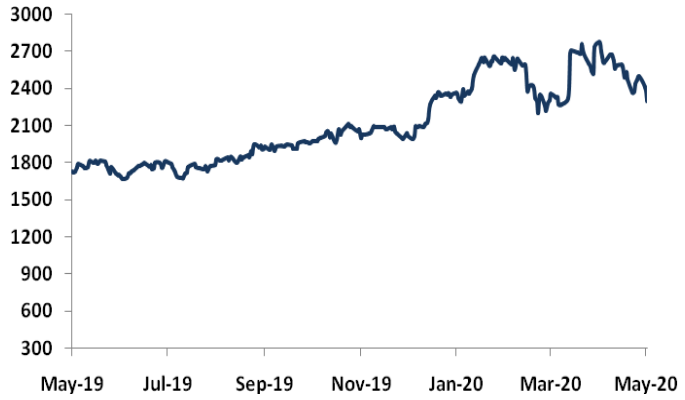
Source: Company, HDFC sec Research

Disclosure

Company	Analyst	Team	Holding
Ajanta Pharma	Kushal Rughani	Retail Research	No
Alkem Labs	Kushal Rughani	Retail Research	No
Granules India	Kushal Rughani	Retail Research	No

Ajanta Pharma

Alkem Labs



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