

## Alkem Laboratories Limited

January 05, 2021

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Working capital limits (Fund based/Non fund based)	300.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Assigned
<b>Total facilities</b>	<b>300.00</b> <b>(Three hundred crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ALKEM factor in strong business profile backed by presence in various therapeutic segments in domestic as well as global markets. ALKEM has a dominant market position in domestic market for acute therapeutic segment. The ratings also derive strength from experienced promoters and management team and long track record of company in pharmaceutical industry, steady growth in operational performance as well as healthy financial risk profile with comfortable liquidity position. The ratings also factor in strong product portfolio catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned rating strengths are partially offset by ALKEM's higher dependence on acute segment in the domestic market. Acute segment accounted for 79% of company's operating income in FY20. Moreover, increasing pricing pressure in domestic and export markets amidst intense competition as well as foreign exchange fluctuation risk might impact operating profitability. The company also has significant presence in regulated markets (especially USA and UK), hence is exposed to regulatory risk that is inherent in pharmaceutical industry.

### Key rating sensitivities

#### Positive factors:

- Improvement in PBILDT margins above 30% on sustained basis through increased market share in US market coupled with improvement in revenue share from chronic segment
- Decrease in working capital cycle to 60 days on a consistent basis based on prudent working capital management

#### Negative factors

- Decrease in PBILDT margins below 15% on sustained basis owing to decrease in scale of operations
- Increase in overall gearing to 0.5 times on a sustained basis, resulting from large debt funded capex/acquisitions or from increase in working capital requirement

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Extensive experience of promoters with established track record of operations**

Incorporated in 1973 i.e. with a track record of more than 40 years, the company was founded by late Mr. Samprada Singh along with his brother Mr. Basudeo Singh who is presently Executive Chairman of the company with experience of over four decades in pharmaceutical industry. The day-to-day operations of the company are managed by a team of qualified and experienced management spearheaded by Mr. Sandeep Singh (Grandson of Mr. Samprada Singh), who is presently Managing Director of Alkem. Mr. Sandeep Singh has more than 17 years of experience in similar line of business.

##### **Strong market position with presence in various therapeutic segments**

ALKEM has presence in acute therapy areas (79% of revenue in FY20) which includes Anti-infective, Gastro-intestinal, Pain management etc., Vitamins/ Minerals/ Nutrients products (8% of revenue in FY20) and chronic therapy areas (13% of revenue in FY20) including Neuro/CNS, Cardiac, Anti-diabetes, and Dermatology. Over the years, ALKEM has established its position as one of the leading companies in India for acute therapy, with a strong market position in anti-infective and gastro-intestinal segments. ALKEM's top 10 brands (from acute segment) hold top two spots in respective molecular category (as per IQVIA MAT). The Company launched 37 new products including line extensions during FY20 in domestic market. One of them is Alfluenza (Favipiravir) which can be used for treatment of mild to moderate COVID-19 patients. Going ahead, company plans to focus on increasing its market share in chronic segment over medium term.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Established marketing network with wide geographical reach and diversified geographical profile**

The company has a wide geographical presence with sales to regulated as well as semi-regulated markets like India, USA, Australia, Philippines, Chile, Kazakhstan, Europe, Middle East and East Africa etc. Exports accounted for 33% of total revenue in FY20 and balance 67% was contributed by domestic sales.

The company has presence in more than 40 countries across the globe. In US, company operates through limited risk distribution model wherein company supplies its products to large distributors who further market the products. Over the years, the company has developed pan India supply chain and distribution network of over 7,000 stockists which ensures assured demand offtake for existing and new products.

**Accredited manufacturing facilities supported with well-equipped R&D facilities**

ALKEM has 21 manufacturing facilities (out of which 19 are in India and 2 are in the United States) and 6 R&D centers located across India. In India, manufacturing facilities are located in Daman, Baddi, Indore and Sikkim. The manufacturing facilities possess regulatory approvals from agencies such as USFDA, MHRA - UK, SAHPRA-South Africa, TGA - Australia, ANVISA - Brazil, WHO - Geneva, TPD - Health Canada, PPB - Kenya, NDA - Uganda, MOH - Sudan, INVIMA - Colombia, TFDA - Tanzania, Zimbabwe, BfArM-Germany & Other Africa, Asian & CIS Countries. They are routinely audited to ensure compliance with Current Good Manufacturing Practices (cGMP).

**Strong operational performance**

ALKEM's operating income registered a compound annual growth rate (CAGR) of 13.77% during FY18 to FY20. The total operating income of the company increased by 13.39% to Rs.8424 crore in FY20 from Rs.7430 crore in FY19 owing to improvement in demand for acute segment products in domestic business coupled with increase in market share in chronic segments such as anti-diabetes and dermatology segments. Moreover, ALKEM launched 37 new products including line extensions during the year in the domestic market. The revenue from US increased by 16% mainly on account of market share gains in the existing products as well as contributions from the new product launches coupled with favourable exchange rate movement. The company filed 18 new ANDAs for FY20, of which 19 have been approved.

PBILDT margin improved to 18.71% in FY20 from 16.11% in FY19 and PAT margin to 13.64% during FY20 from 10.41% during FY19. Improvement in profitability is majorly contributed by company's ongoing cost containment measures coupled with improvement in capacity utilisation.

Further, the PBILDT margins improved to 27.28% in H1FY21 compared to 18.40% in H1FY20. Improvement in profitability is majorly contributed by improved operating efficiency coupled with new product launches.

**Healthy financial risk profile**

ALKEM's financial risk profile is marked by healthy profitability and strong cash flows resulting in improved capital structure and debt coverage ratios. Overall gearing (consolidated) stood comfortable at 0.29 times as on March 31, 2020 (PY:0.18 times). Increase in overall gearing as on March 2020 is mainly on account of increase in working capital requirement on account of COVID related lockdown. The interest coverage ratio improved to 24.23 times during FY20 compared to 21.91 times during FY19 owing to improved PBILDT.

The total outside liabilities to net worth ratio is comfortable at 0.61 times as on March 31, 2020 mainly on account of healthy tangible net worth. Due to strong accruals, debt coverage ratios also remained comfortable as seen by adequate total debt to Gross Cash Accruals of 1.45 times as on March 31, 2020. During FY21, the company's capex is expected to be around Rs.300 crore which would be funded through internal accruals.

**Key Rating Weaknesses****High dependence on the acute therapeutic segment in the domestic market**

Major portion of ALKEM's revenue comes from the acute therapeutic segment (about 79% in FY20), which relatively is slow growing and low margin segment. There is also intense competition resulting in pricing pressure, with about 21% of the products under price control. In recent years, ALKEM is consciously increasing its focus on chronic segment products including cardiovascular, neuropsychiatry, and oncology. However, acute segment will continue to remain significant revenue contributor over the medium term.

**Foreign exchange fluctuation risk**

The company derived about 33% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY20, on consolidated basis ALKEM Laboratories Limited reported Rs.1606.12 crore earnings (previous year Rs.1223.77 crore) and an outgo of Rs.248.29 crore (Previous year Rs.210.50 crore) in foreign currency. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Australian dollars, Chilean Peso, and Kazakistani Tenge. The company sources 95% of total raw material requirements through distributors based in India (who procure from China). Direct imports accounts for only 5% of raw material costs. The company undertakes hedging of forex receivables through PCFC limits. The company has reported net forex gains amounting to Rs.33.95 crore in FY20.

### **Regulatory Risk**

ALKEM has its presence in multiple countries across the world and it has 21 production units. Considering the nature of the product usage and application, and consequent impacts, ALKEM is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have an impact on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

### **Intense competition from both MNCs and Indian companies in India and abroad**

ALKEM faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

### **Liquidity: Strong**

ALKEM's liquidity remained strong marked by strong cash accruals, healthy current ratio of 1.43x times as on March 31, 2020 and average utilization of fund based working capital limits of around 67% during last 12 months ended July 2020. Cash flow from operations also remained healthy at around Rs.775 crore during FY20. The company has very low repayment obligations over medium term. Further, company's gross cash accruals are sufficient for capex (majorly maintenance) over medium term. Further, cash and cash equivalents of around Rs.172 crore as on September 30, 2020 provides additional liquidity cushion.

**Analytical approach:** Consolidated. CARE has considered ALKEM credit assessment on consolidated since ALKEM has considerable overseas operations and inter linkages with its subsidiaries. (List of subsidiaries given in annexure).

### **Applicable Criteria**

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Rating Methodology – Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios - Non- Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### **About the Company**

Incorporated in 1973, Alkem Laboratories Limited (ALKEM) has more than 40 years of experience in pharmaceutical industry. The company was founded by late Mr.Samprada Singh along with his brother Mr. Basudeo Singh (presently Executive Chairman of group). The Company is engaged in the development, manufacturing and marketing of pharmaceuticals with operational footprints across 50+ countries. The company was engaged in contract manufacturing from 1973 till 2005. ALKEM Group launched its first product in 2006 since then the product portfolio expanded to more than 800+ products in various therapeutic segments. The company offers a wide range of products spanning across multiple Therapeutic Area (TA) such as Anti-infective, Gastroenterology, Pain Relief/Analgesic, Anti-diabetic, Cardiology, Oncology, Dermatology, Osteoporosis, Gynaecology Neurology/Central Nervous System (CNS) and Vitamins, Minerals & Nutrients.

ALKEM has 21 manufacturing facilities (out of which 19 are in India and 2 are in the United States) and 6 R&D centres located across India. In India, manufacturing facilities are located in Daman, Baddi, Indore and Sikkim. All the manufacturing facilities possess necessary regulatory approvals.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7430	8424
PBILDT	1197	1576
PAT	774	1149
Overall gearing (times)	0.18	0.29
Interest coverage (times)	21.91	24.23

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	300.00	CARE AA+; Stable / CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	300.00	CARE AA+; Stable / CARE A1+	-	-	-	-

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

**Annexure 4: List of subsidiaries**

Names of Entities Consolidated	% Shareholding
Pharmacor Pty Ltd	100.00
Cachet Pharmaceuticals Pvt Ltd	100.00
Ascend Laboratories SpA	100.00
Enzene Biosciences Ltd	100.00
Ascend Gmbh (formerly, Alkem Pharma Gmbh)	100.00
Indchemie Health Specialities Pvt Ltd	51.00
The PharmaNetwork, LLP	100.00
Alkem Laboratories Korea Inc	100.00
Ascends Laboratories SDN BHD	100.00
S & B Holdings BV	100.00
Pharmacor Ltd	100.00
Alkem Laboratories Corporation	100.00
S & B Pharma Inc	100.00
Alkem Laboratories (Pty) Ltd	100.00
ThePharmaNetwork, LLC	100.00
Ascend Laboratories, LLC	100.00
Ascend Laboratories (UK) Ltd	100.00
Alkem Foundation	100.00
Ascend Laboratories Ltd	100.00
Pharma Network SpA	100.00
Ascend Laboratories SAS	100.00

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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### Disclaimer

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