

SELL

TP: Rs 3,000 | ▼ 9%

ALKEM LABS

| Pharmaceuticals

| 20 May 2023

Margin improvement key for revival

- Q4 EBITDA/PAT of Rs 3.5bn/Rs 710mn well short of consensus by 21%/79% primarily due to higher operating costs
- Increased sales and marketing spend, field force addition and US price erosion ate into margins
- Inspid US sales remain a challenge; maintain SELL with an unchanged TP of Rs 3,000

Saad Shaikh

research@bobcaps.in

Strong India growth on launches: Alkem's Q4FY23 EBITDA/PAT missed consensus estimates by 21%/79% due to higher operating costs, despite revenue being a 6% beat. Revenue/EBITDA/PBT grew 17%/5%/22% YoY to Rs 29bn/Rs 3.5bn/Rs 3.1bn but fell sequentially (-5%/-41%/-42%). India business outperformed the market despite a high base, led by strong growth in anti-infectives (+30% YoY), pain (23%), respiratory (27%), and dermatology (34%) therapies in the acute space, while chronic therapies such as anti-diabetic (+37%) and neuro (+36%) also fared well with market-beating growth. The recent launch of Sitagliptin helped the anti-diabetic portfolio in Q4.

Steep QoQ decline in US business: US revenue plunged 22% QoQ to US\$ 72mn due to a high base on account of one-time seasonal benefits in the previous quarter. Revenue grew 9% YoY (-22% QoQ) in rupee terms. Alkem's US business remains under significant pricing pressure with double-digit erosion. Management expects price erosion to stabilise at high single digits. The company has discontinued the St. Louis facility in the US (<2% contribution) as part of cost optimisation.

Cost controls guided to aid margin expansion: Gross/EBITDA margins contracted 170bps/140bps YoY to 56.7%/12.2% (-220bps/-750bps QoQ), with a steeper sequential decline on account of tailwinds from the US flu season in Q3. Overheads costs increased 32% YoY (+20% QoQ) to 22.2% of revenue in Q4 from 17.7%/19.6% in Q3FY23/Q4FY22. Alkem also incurred a one-time loss of Rs 1bn on account of fixed asset impairment at the St. Louis facility. Management has guided for 200bps EBITDA margin improvement to 16% in FY24 on the back of cost optimisation measures.

Maintain SELL: Relentless price erosion in the US market, elevated input costs and higher marketing spends have taken a toll on Alkem's margins through FY23. This apart, we expect the US business to remain sluggish as investments are recalibrated amid challenges to growth. We maintain our TP at Rs 3,000 based on an unchanged 15x FY25E EV/EBITDA multiple – a 15% discount to the stock's 5Y average – and retain SELL given 9% downside potential from the current price.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ALKEM IN/Rs 3,302
Market cap	US\$ 4.8bn
Free float	41%
3M ADV	US\$ 6.3mn
52wk high/low	Rs 3,625/Rs 2,855
Promoter/FPI/DII	57%/4%/17%

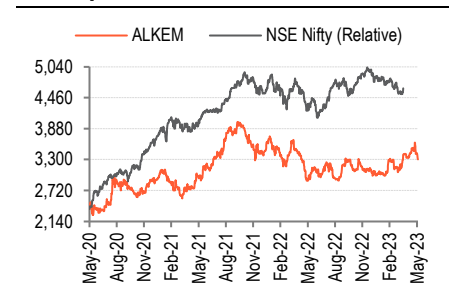
Source: NSE | Price as of 19 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,15,993	1,31,675	1,45,175
EBITDA (Rs mn)	16,095	20,510	23,506
Adj. net profit (Rs mn)	10,872	15,902	18,632
Adj. EPS (Rs)	90.9	133.0	155.9
Consensus EPS (Rs)	90.9	133.4	161.4
Adj. ROAE (%)	14.4	19.1	19.6
Adj. P/E (x)	36.3	24.8	21.2
EV/EBITDA (x)	24.4	18.9	16.0
Adj. EPS growth (%)	(34.5)	46.3	17.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Sales	29,026	24,839	16.9	30,409	(4.5)	1,15,993	1,06,342	9.1
EBITDA	3,533	3,372	4.8	5,991	(41.0)	16,095	20,529	(21.6)
Depreciation	783	831	(5.8)	784	-	3,104	3,040	-
EBIT	2,749	2,541	8.2	5,206	-	12,990	17,490	(25.7)
Interest	290	170	70.7	271	7.1	1,074	524	-
Other Income	687	205	234.6	453	51.5%	2,161	1,627	-
PBT	3,146	2,576	22.1	5,389	(41.6)	14,078	18,592	(24.3)
Less: Taxation	1,440	1,345	-	789	-	2,980	1,640	81.7
Less: Minority Interest	(33)	6	-	53	-	226	347	-
Recurring PAT	1,740	1,225	42.0	4,547	(61.7)	10,872	16,606	(34.5)
Exceptional items	(1,030)	(150)	-	0	-	(1,030)	(150)	-
Reported PAT	710	1,076	(34.0)	4,547	(84.4)	9,842	16,456	(40.2)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	56.7	58.5	(173)	58.9	(218)	57.7	60.7	(299)
EBITDA Margin	12.2	13.6	(141)	19.7	(753)	13.9	19.3	(543)
Tax / PBT	45.8	52.2	-	14.6	-	21.2	8.8	-
NPM	6.0	4.9	106	15.0	(896)	9.4	15.6	(624)
EPS (Rs)	14.6	10.3	-	38.0	-	90.9	138.9	-

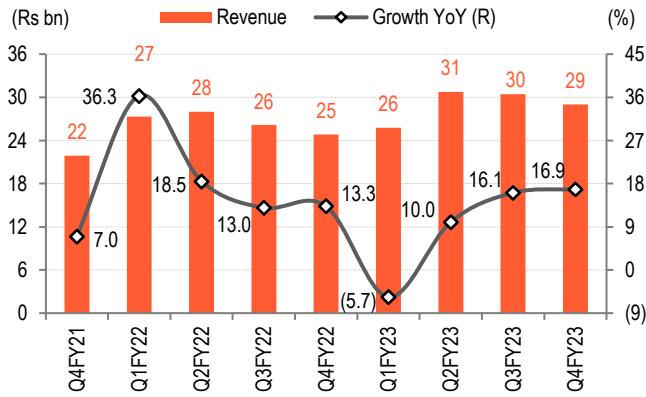
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
India	20,113	17,187	17.0	19,922	1.0	80,011	74,045	8.1
US	5,916	5,419	9.2	7,612	(22.3)	25,133	23,290	7.9
RoW	2,654	1,991	33.3	2,316	14.6	9,260	7,783	19.0
Net Sales	28,683	24,597	16.6	29,850	(3.9)	1,14,404	1,05,118	8.8
Other Op. Income	343	242	42.0	559	(38.7)	1,589	1,224	29.8
Revenue	29,026	24,839	16.9	30,409	(4.5)	1,15,993	1,06,342	9.1
USDINR	82.2	75.2	9.2	82.4	(0.3)	81	75	9.0
US Revenue (US\$ mn)	72	72	0.0	92	(22.1)	309	313	(1.0)

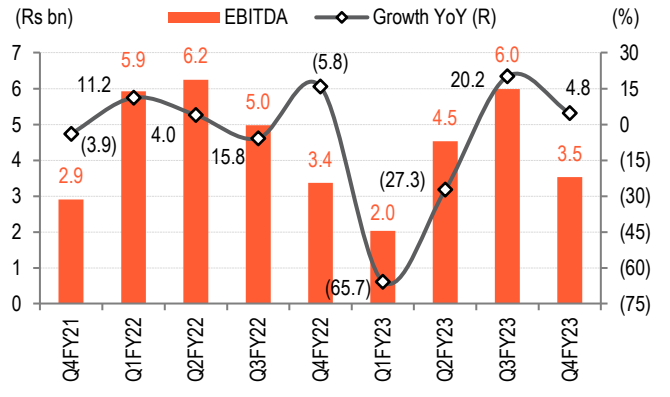
Source: Company, BOBCAPS Research

Fig 3 – Revenue



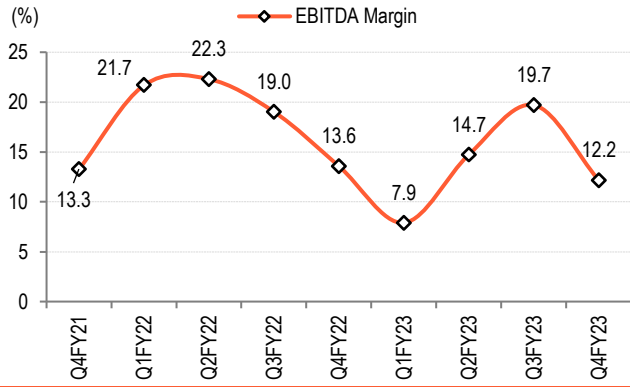
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



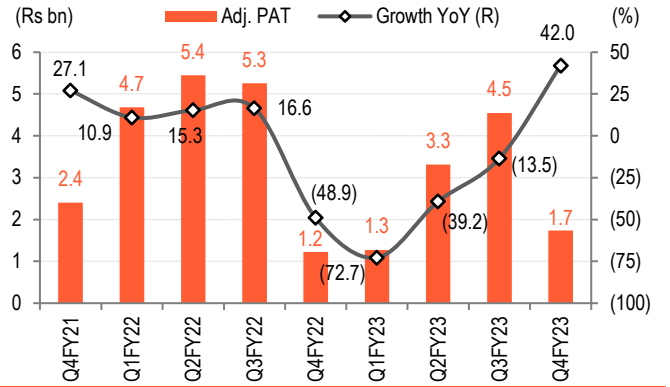
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. PAT



Source: Company, BOBCAPS Research

Earnings call highlights

- **India:** Alkem launched several successful products in the India market in Q4FY23, including Dapanorm Trio and Sitagliptin. New product contribution during the year was at 3.1%, surpassing the market rate of 2.3%.
 - **Trade generics:** Trade generics contributed 21% of revenue in FY23 and grew in high single digits for the year. Management expects similar growth in FY24.
 - **NLEM:** Benefits of price hikes in the NLEM portfolio are likely to flow from June, and Alkem expects to see significant benefits in Q2.
 - **Filed force:** The current field force strength is 17,000 at the group level, including 12,000 MRs and 5,000 managers.
- **US:** Alkem has filed 4 ANDAs with the USFDA and received 3 tentative approvals in Q4FY23 (12 ANDAs filed in FY23). US sales contributed 20.6% of the Q4 total.
- **ROW:** A focus on a few key geographies over the past years has yielded fruit and ROW is now sizable. The company expects continued growth but at a lower trajectory owing to a high base. It is focusing on quality business and margins rather than chasing revenue.
- **Biosimilars:** Total biosimilar sales in FY23 including Alkem, Enzene biosimilars and Enzene CDMO stood at Rs 1.6bn.
- **Enzene Bio-sciences:** Enzene is still recording EBITDA losses due to higher R&D expense. The business is growing at 2x and expects to double sales in FY24 as well. Enzene has received approval for the launch of three more mAbs in the Indian market (Adalimumab, Cetuximab and Bevacizumab), and Alkem indicated that the company has made significant strides in conducting global trials for the launch of select biosimilars in regulated markets.
- **SG&A:** Muted sales and marketing in previous years as well as field force addition pushed SG&A expenses up YoY and QoQ in Q4. Other expenses (SG&A plus R&D) are guided to be in the range of 23-24% for FY24.
- **Margin guidance:** Management has guided for 200bps EBITDA margin improvement in FY24 to 16% on the back of cost optimisation measures. Gross margin is expected to improve on the back of softening API prices, ongoing cost optimisation measures, operating leverage and productivity improvement of the newly added field force.
- **St. Louis plant:** Alkem has recognised a one-off impairment loss of Rs 1bn on deferred tax assets related to closure of the St. Louis plant in the US. The company expects to save Rs 1bn-1.1bn a year (Rs 800mn-900mn in FY24) in operating expenses on account of this closure.
- **Tax rate:** The tax rate is guided to be relatively low, in the range of 14-15% for FY24, as the Sikkim facility has a tax benefit till FY26.

Valuation methodology

Relentless price erosion in the US market, elevated input costs and higher marketing spends have taken a toll on Alkem's margins through FY23. This apart, we expect the US business to remain sluggish as investments are recalibrated amid challenges to growth. We maintain our TP at Rs 3,000 based on an unchanged 15x FY25E EV/EBITDA multiple – a 15% discount to the stock's five-year average – and retain SELL given 9% downside potential from the current price.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	131.7	145.2	132.2	145.7	(0.4)	(0.4)
EBITDA	20.5	23.5	21.2	24.2	(3.2)	(3.0)
EBITDA margin (%)	15.6	16.2	16.0	16.6	(45bps)	(45bps)
EPS (Rs)	133	156	135	160	(1.4)	(2.6)

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E
Domestic	80.0	89.4	100.0
US Revenues	25.1	30.3	32.0
Non - US revenues	9.3	10.2	11.2
Other operating income	1.6	1.8	2.0

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **Uptick in domestic business:** Alkem draws ~70% of its revenue from domestic formulations, primarily from acute therapies, apart from a growing chronic business. An uptick in chronic business and outperformance in the acute segment would pose upside risks to our estimates.
- **Policy announcement on trade generics:** The government's push towards reducing healthcare costs by promoting trade generics could take Alkem's sales ahead of estimates as it is a leader in the space.
- **Above-expected US performance:** Easing pricing pressure and more launches than expected in the US market could boost performance beyond estimates.
- **Easing margin pressure:** Prudent cost management could alleviate margin pressure, taking profitability ahead of estimates.
- **Currency movement:** Sharp INR depreciation against the USD represents an upside risk to our expectations.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,301	1,520	BUY
Alembic Pharma	ALPM IN	1.3	551	615	HOLD
Alkem Labs	ALKEM IN	4.8	3,302	3,000	SELL
Aurobindo Pharma	ARBP IN	4.2	590	635	BUY
Cipla	CIPLA IN	9.0	916	1,170	BUY
Divi's Labs	DIVI IN	10.0	3,098	3,200	HOLD
Dr Reddy's Labs	DRRD IN	8.9	4,392	4,900	HOLD
Eris Lifesciences	ERIS IN	1.0	621	800	BUY
Glenmark Life Sciences	GLS IN	0.8	526	600	BUY
Laurus Labs	LAURUS IN	2.0	312	340	HOLD
Lupin	LPC IN	4.3	774	700	HOLD
Sun Pharma	SUNP IN	27.0	926	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 May 2023

Glossary

Glossary of Abbreviations			
ANDA	Abbreviated New Drug Application	mABs	Monoclonal Antibodies
API	Active Pharmaceutical Ingredient	MR	Marketing Representatives
CDMO	Contract Development and Manufacturing Operations	NLEM	National List of Essential Medicines

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	88,650	1,06,342	1,15,993	1,31,675	1,45,175
EBITDA	19,423	20,529	16,095	20,510	23,506
Depreciation	2,746	3,040	3,104	3,467	3,747
EBIT	16,678	17,489	12,991	17,043	19,759
Net interest inc./(exp.)	(589)	(524)	(1,074)	(503)	(402)
Other inc./(exp.)	2,332	1,627	2,161	2,267	2,688
Exceptional items	0	0	0	0	0
EBT	18,421	18,592	14,078	18,807	22,044
Income taxes	2,243	1,640	2,980	2,633	3,086
Extraordinary items	0	(150)	(1,030)	0	0
Min. int./Inc. from assoc.	328	347	226	272	326
Reported net profit	15,850	16,456	9,842	15,902	18,632
Adjustments	0	(150)	(1,030)	0	0
Adjusted net profit	15,850	16,606	10,872	15,902	18,632

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	10,694	11,734	11,650	16,012	17,653
Other current liabilities	7,343	7,739	10,178	10,390	11,455
Provisions	4,874	6,064	7,421	8,424	9,288
Debt funds	16,702	26,682	13,967	11,173	8,939
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	64,262	75,142	81,086	92,353	1,05,554
Shareholders' fund	64,501	75,381	81,325	92,592	1,05,793
Total liab. and equities	1,04,113	1,27,599	1,24,542	1,38,591	1,53,128
Cash and cash eq.	19,905	25,786	26,169	32,178	39,688
Accounts receivables	16,072	18,846	21,322	24,907	27,460
Inventories	23,124	30,055	26,075	30,244	33,345
Other current assets	10,072	16,790	14,696	14,935	16,466
Investments	3,328	3,710	6,218	6,218	6,218
Net fixed assets	27,679	29,017	26,829	27,361	27,614
CWIP	3,933	3,395	3,232	2,748	2,335
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,04,113	1,27,599	1,24,542	1,38,591	1,53,128

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	17,070	6,223	21,331	17,456	19,166
Capital expenditures	(4,000)	(5,000)	(4,000)	(4,000)	(4,000)
Change in investments	(714)	(382)	(2,508)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,714)	(5,382)	(6,508)	(4,000)	(4,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	75	9,980	(12,715)	(2,793)	(2,235)
Interest expenses	(589)	(524)	(1,074)	(503)	(402)
Dividends paid	(4,182)	(4,739)	(3,169)	(4,636)	(5,431)
Other financing cash flows	1,323	324	2,518	485	412
Cash flow from financing	(3,373)	5,040	(14,440)	(7,447)	(7,656)
Chg in cash & cash eq.	8,982	5,881	383	6,009	7,510
Closing cash & cash eq.	19,905	25,786	26,169	32,178	39,688

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	132.6	137.6	82.3	133.0	155.9
Adjusted EPS	132.6	138.9	90.9	133.0	155.9
Dividend per share	30.0	34.0	22.7	33.3	39.0
Book value per share	524.4	613.0	647.7	741.9	852.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.5	3.7	3.4	2.9	2.6
EV/EBITDA	20.4	19.2	24.4	18.9	16.0
Adjusted P/E	24.9	23.8	36.3	24.8	21.2
P/BV	6.3	5.4	5.1	4.5	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	86.0	89.3	77.2	84.6	84.5
Interest burden (PBT/EBIT)	110.5	106.3	108.4	110.4	111.6
EBIT margin (EBIT/Revenue)	18.8	16.4	11.2	12.9	13.6
Asset turnover (Rev./Avg TA)	29.3	29.0	29.4	33.1	33.2
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.2	1.1
Adjusted ROAE	27.6	24.4	14.4	19.1	19.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	6.2	20.0	9.1	13.5	10.3
EBITDA	31.9	5.7	(21.6)	27.4	14.6
Adjusted EPS	40.6	4.8	(34.5)	46.3	17.2
Profitability & Return ratios (%)					
EBITDA margin	21.9	19.3	13.9	15.6	16.2
EBIT margin	18.8	16.4	11.2	12.9	13.6
Adjusted profit margin	17.9	15.6	9.4	12.1	12.8
Adjusted ROAE	27.6	24.4	14.4	19.1	19.6
ROCE	25.1	20.9	15.4	19.4	20.5
Working capital days (days)					
Receivables	66	65	67	70	70
Inventory	95	103	82	85	85
Payables	44	40	37	45	45
Ratios (x)					
Gross asset turnover	2.3	2.4	2.4	2.6	2.6
Current ratio	3.0	3.6	3.0	2.9	3.0
Net interest coverage ratio	28.3	33.4	12.1	33.9	49.1
Adjusted debt/equity	(0.1)	0.0	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
 Brand Name: **BOBCAPS**
 Trade Name: **www.barodaetrade.com**
 CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
 Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

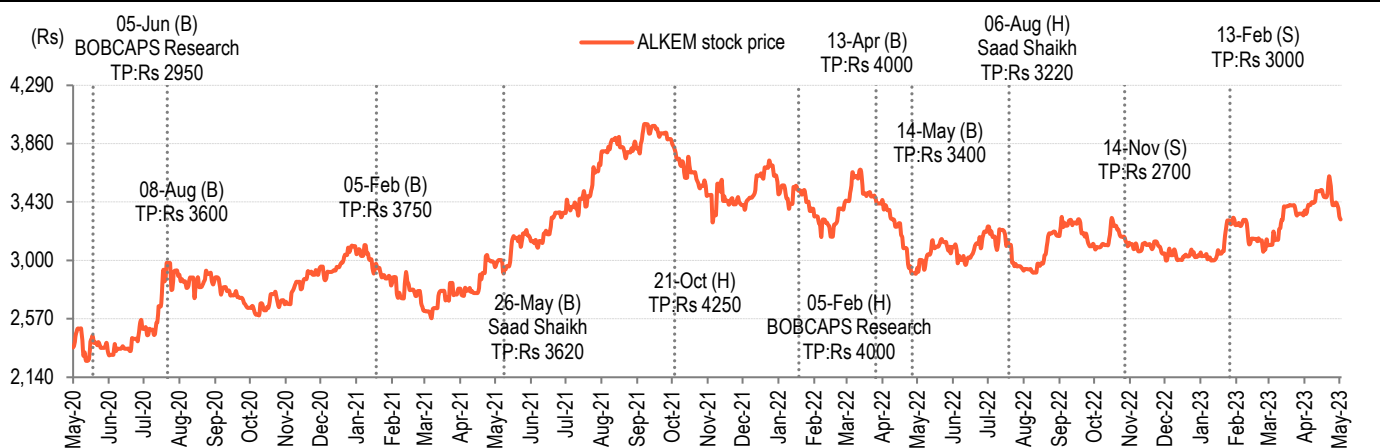
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- BUY** – Expected return >+15%
- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ALKEM LABS (ALKEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS’s activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS’s clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “Losses”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd (“MSL”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as “MAYBANK”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.