

Alembic Pharma

Performance Highlights

Y/E March (₹ cr)	1QFY2013	4QFY2012	% chg (qoq)	1QFY2012	% chg (yoy)
Net Sales	366	338	8.4	343	6.6
Other Income	0	2	(88.9)	0.8	(72.5)
Operating Profit	52	39	33.2	50.4	3.9
Interest	6	5	6.7	6.8	(15.2)
Net Profit	31	20	51.6	28	11.9

Source: Company, Angel Research

Alembic's 1QFY2013 results have come below expectations. On the sales front, the company grossed sales of ₹366cr, registering a revenue growth of 6.6% yoy, lower than our expectations of ₹390cr. On the operating front, the company posted an OPM of 14.3% vs an expectation of 15.3%. This, along with lower than expected net sales, lead the net profits to come below expectations at ₹31cr (expectation was of ₹33cr). At the current market price, the stock is trading at an attractive valuation. **Hence, we maintain our Buy view on the stock.**

Results below expectations: Alembic reported revenue growth of 6.6% yoy to ₹366cr, mainly driven by the domestic formulation business growing by 14% yoy. However, the exports segment grew by a mere 1% yoy, impacted by de-growth of active pharmaceutical ingredient (API) exports (which de-grew by 37% yoy). On the operating front, the company posted an OPM of 14.3% vs expectations of 15.3%, which along with lower than expected net sales lead to the net profits coming below expectations at ₹31cr (vs expectations of ₹33cr).

Outlook and valuation: Alembic's growth and profitability profile has improved post the restructuring carried out by the management. Over FY2012-14, we expect the company to post a CAGR of 13.3% and 14.6% in sales and net profit respectively. At the current market price, the stock is trading at attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹91.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	1,177	1,444	1,624	1,855
% chg	-	22.6	12.5	14.2
Net Profit	85	130	125	171
% chg	-	52.3	(4.2)	37.2
EPS (₹)	4.5	6.9	6.6	9.1
EBITDA Margin (%)	12.1	14.1	14.2	15.6
P/E (x)	13.0	8.5	8.9	6.5
RoE (%)	26.3	37.6	27.9	29.9
RoCE (%)	19.0	25.0	26.2	29.4
P/BV (x)	3.7	2.8	2.2	1.7
EV/Sales (x)	1.2	0.9	0.8	0.7
EV/EBITDA (x)	9.8	6.3	5.6	4.3

Source: Company, Angel Research

BUY

CMP	₹59
Target Price	₹91

Investment Period	12 Months
-------------------	-----------

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	2,205
Net Debt (₹ cr)	152
Beta	0.6
52 Week High / Low	67/34
Avg. Daily Volume	48,382
Face Value (₹)	2
BSE Sensex	17,558
Nifty	5,320
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	74.1
MF / Banks / Indian Fls	2.3
FII / NRIs / OCBs	7.3
Indian Public / Others	16.3

Abs. (%)	3m	1yr	3yr
Sensex	6.9	2.5	17.0
Alembic Pharma	13.7	-	-

Since listed on September 20, 2011

Sarabjit Kour Nangra

+91- 22- 36357600 – 6806
 sarabjit@angelbroking.com

Exhibit 1: 1QFY2013 performance (Consolidated)

Y/E March (₹ cr)	1QFY2013	4QFY2012	% chg(qoq)	1QFY2012	% chg (yoy)	FY2012	FY2011	% chg (yoy)
Net sales	366	338	8.4	343	6.6	1,457	1,199	21.5
Other income	0	2	(88.9)	1	(72.5)	5	3	54.1
Total income	367	340		344	6.6	1,462	1,202	
Gross profit	191	185	3.6	172	11.2	749	609	23.1
Gross margin	52.2	54.7		50.1		51.4	50.8	
Operating profit	52	39	33.2	50	3.9	216	157	37.6
Operating margin (%)	14.3	11.6		14.7		14.8	13.1	
Interest	6	5	6.7	7	(15.2)	26	24	9.7
Depreciation	9	9	(2.9)	8	5.7	34	30	13.7
PBT	38	27	41.4	35	7.7	161	107	50.9
Provision for taxation	7	7	10.3	8	(7.6)	31	21	43.8
PAT before Extra-ordinary item	31	20	51.6	28	11.9	130	85	52.4
Extra-Ordinary Expenses	0	0		0		0	0	
PAT after Extra-ordinary item & MI	31	20.3	51.6	28	11.9	130	85	52.4
EPS (₹)	1.6	1.1		1.5		6.9	4.5	

Source: Company, Angel Research

Exhibit 2: 1QFY2013 – Actual vs. Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net Sales	366	390	(6.1)
Other Income	0	1	(72.5)
Operating Profit	52	60	(12.1)
Interest	6	8	(24.5)
Tax	7	10	(27.6)
Net Profit	31	33	(7.2)

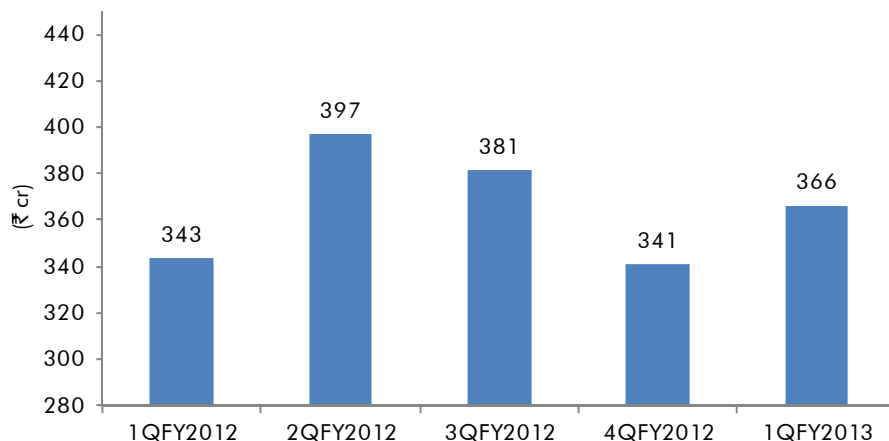
Source: Company, Angel Research

Results below expectations: Alembic reported a revenue growth of 6.6% yoy to ₹366cr, mainly driven by the domestic formulation business which grew by 14%. However, the exports segment grew by a mere 1% yoy with it being impacted by a de-growth (by 37% yoy) in the export of APIs. The main growth driver was the domestic business which grew by 10% yoy.

The other exports segments, namely the branded exports and international generics, de-grew by 33% yoy and 25% yoy respectively. The de-growth in the international generic formulations was mainly due to price erosion, product mix and capacity constraint.

The management expects FY2013 to be a strong year for the domestic formulations business, where the company expects to log in a 12-15% yoy growth, driven by the chronic segment. The company has filed 49 for abbreviated new drug applications (ANDAs) in the US year till date and received 20 approvals (including 2 tentative approvals).

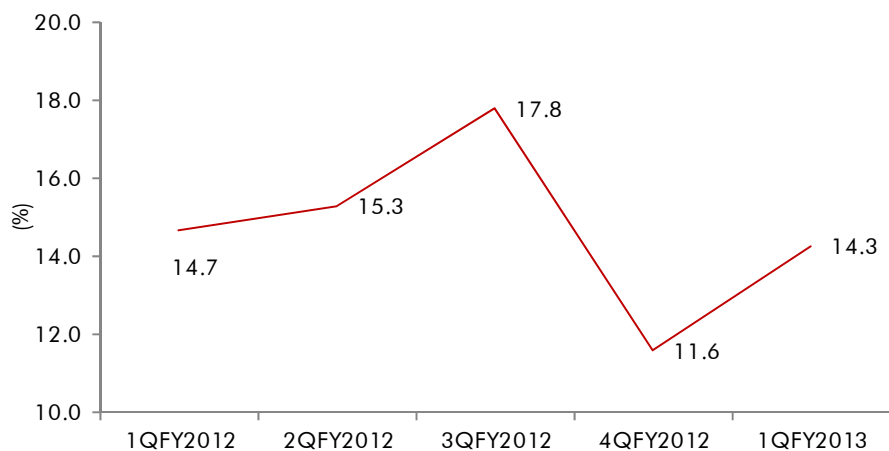
Exhibit 3:



Source: Company, Angel Research

OPM came just in line: The gross margins expanded by 214bps, on the back of higher contribution of domestic formulations. However, on the operating front, the margins came in at 14.3% vs 15.3% (the expectation), mainly on account of lower than expected sales.

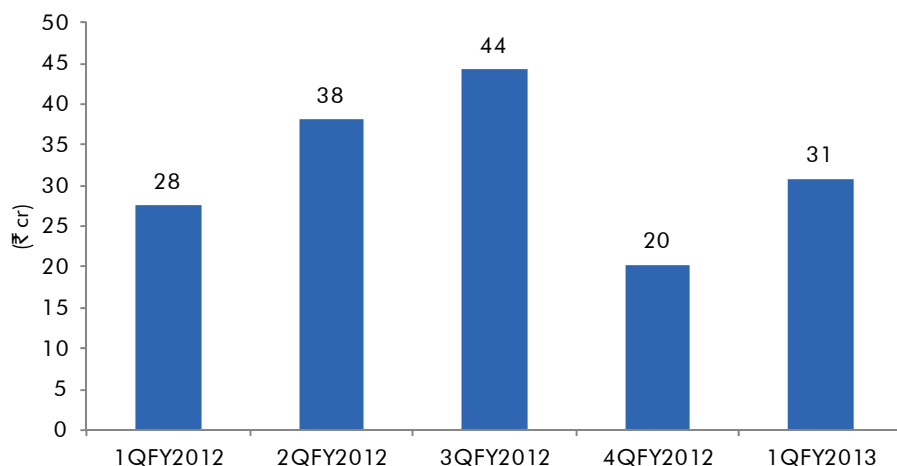
Exhibit 4:



Source: Company, Angel Research

Net profit below expectation: While the operating front grew only by 6.8% yoy, the reduction in the interest expense along with reduced taxes during the period aided an 11.9% yoy net profit growth. The net profits came in below expectations at ₹31cr vs expectations of ₹33cr.

Exhibit 5:



Source: Company, Angel Research

Concall Highlights

- For FY2013, the domestic formulation growth is expected to be at 12-15%. For API exports, growth would be 10-15% yoy in FY2013. International generics are expected to be muted over the next two to three quarters. Overall, the management expects the growth in export revenue to be around 15% in FY2013.
- The company launched the dermatology division during the quarter with a field force of 100 people to strengthen its position in the specialty business.
- The company filed 4 ANDAs in 1QFY2013.
- R&D Expenses are expected to be around 4% of sales in FY2013.
- OPM is expected to be around 15% for the next two years.
- Tax rate for FY2013 would be around 20% of PBT.
- For FY2013, the management has guided for ₹100cr of capex, of which ₹70cr would be towards the exports formulation plant, which would come on stream in 4QFY2013.

Investment arguments

Focus on Chronic segment to drive domestic formulation growth: Alembic has been restructuring its business portfolio, which would aid in improving the company's growth and operating performance. The company's domestic formulation business contributed 54% to its total sales in FY2012, with ~70% of its revenue coming from the anti-infective, respiratory, gynaecological and gastro therapeutic space. The company has a strong field force of ~3,300 medical representatives. Going forward, the company expects its domestic formulation business to at least grow in line with the industry growth rate, before the share of the high growth chronic segment improves from the current levels of ~30%. For FY2012-14, we expect the domestic formulation business to grow at 14.0% CAGR.

Exports- US the key growth driver: On the exports front, the formulation business contributed 20% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for 45 ANDAs year till date and received 20 approvals. The company, going forward, expects to keep its momentum high in terms of number of filings, by filing around 12-18 ANDAs per annum. FY2013 would see modest growth in exports as compared to its historical high growth rate on account of capacity constraints. However, FY2014 should witness the growth in exports to resume. For FY2012-14, we expect the exports to register a CAGR of 21.1%.

Outlook and valuation: Alembic's growth and profitability profile have improved post the restructuring carried out by the management. Over FY2012-14, we expect the company to post a CAGR of 13.3% and 14.6% in its sales and net profit respectively. At the current market price, the stock is trading at an attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹91.**

Exhibit 6: Key assumptions

	FY2013E	FY2014E
Sales growth (%)	12.5	14.2
R&D as % of sales	4.1	4.1
Operating margins (%)	14.2	15.6
Capex (₹ cr)	112	53
Net Debt/Equity (x)	0.7	0.4

Source: Company, Angel Research

Exhibit 7: Recommendation summary

Company	Reco.	CMP (₹)	Tgt Price (₹)	Upside			FY2014E		FY12-14E		FY2014E
				(%)	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Buy	59	91	55.4	6.5	0.7	4.3	14.6	29.4	29.9	
Aurobindo Pharma	Buy	103	156	51.2	8.2	0.9	6.4	61.1	10.4	16.4	
Aventis*	Neutral	2,207	-	-	21.1	2.7	17.7	12.0	16.1	17.0	
Cadila Healthcare	Accumulate	874	953	9.0	19.0	2.6	13.5	20.5	20.2	26.8	
Cipla	Accumulate	350	399	14.0	17.5	2.8	12.6	18.4	16.8	16.6	
Dr Reddy's	Accumulate	1,646	1,859	12.9	17.7	2.6	12.3	2.3	15.1	20.8	
Dishman Pharma	Accumulate	86	92	6.5	7.6	1.0	5.6	26.6	8.9	10.0	
GSK Pharma*	Neutral	2,105	-	-	25.5	5.1	16.4	8.7	38.9	29.0	
Indoco Remedies	Buy	56	92	63.3	6.4	0.9	5.0	32.8	15.5	17.0	
Ipca labs	Buy	406	475	17.1	11.1	1.6	7.8	29.5	26.1	26.0	
Lupin	Accumulate	581	647	11.3	18.6	2.6	13.2	26.7	22.9	24.7	
Orchid Chemicals	Buy	107	178	65.8	4.8	0.8	4.7	27.8	11.5	7.9	
Ranbaxy*	Neutral	483	-	-	16.2	1.8	11.2	44.8	15.8	28.9	
Sun Pharma	Neutral	676	-	-	29.9	4.8	12.6	0.0	22.8	15.6	

Source: Company, Angel Research; Note: *December year end

Background

Alembic Pharmaceuticals is a leading pharmaceutical company in India. The company is vertically integrated to develop pharmaceutical substances and Intermediates. Alembic is the market leader in Macrolides segment of anti-infective drugs in India. Alembic's manufacturing facilities are located in Vadodara and Baddi in Himachal Pradesh (for the domestic and non-regulated export market).The Panelav facility houses the API and formulation manufacturing (both US FDA approved) plants.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Gross sales	1,192	1,455	1,634	1,866
Less: Excise duty	14	11	10	11
Net sales	1,177	1,444	1,624	1,855
Other operating income	15.6	17.4	16.3	18.9
Total operating income	1,193	1,461	1,640	1,874
% chg	-	22.5	12.2	14.2
Total expenditure	1,035	1,241	1,394	1,566
Net raw materials	590	708	771	881
Other mfg costs	59	63	-	-
Personnel	141	168	189	216
Other	244	301	433	468
EBITDA	142	203	230	289
% chg		42.7	13.4	25.7
(% of Net Sales)	12.1	14.1	14.2	15.6
Depreciation & amortisation	30	34	37	39
Interest & other charges	24	26	31	35
Other income	3	0	0	0
(% of PBT)	2	0	0	0
Share in profit of Associates	-	-	-	-
Recurring PBT	107	161	163	216
% chg				
Extraordinary expense/(Inc.)	0	-	-	-
PBT (reported)	107	161	163	216
Tax	21	31	38	45
(% of PBT)	20.1	19.2	23.3	20.8
PAT (reported)	85	130	125	171
Add: Share of earnings of associate	-	-	-	-
Less: Minority interest (MI)	-	-	-	-
Prior period items	-	-	-	-
PAT after MI (reported)	85	130	125	171
ADJ. PAT	85	130	125	171
% chg	-	52.3	(4.2)	37.2
(% of Net Sales)	7.2	9.0	7.7	9.2
Basic EPS (₹)	4.5	6.9	6.6	9.1
Fully Diluted EPS (₹)	4.5	6.9	6.6	9.1
% chg	-	52.3	(4.2)	37.2

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS				
Equity share capital	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-
Reserves & surplus	259	357	460	609
Shareholders funds	297	395	498	647
Minority Interest				
Other Long Term Liabilities	11.8	12.3	12.3	12.3
Long Term Provisions	5.1	5.4	5.4	5.4
Total loans	275	234	234	234
Deferred tax liability	5	10	10	10
Total liabilities	594	657	759	908
APPLICATION OF FUNDS				
Gross block	434	441	551	651
Less: acc. depreciation	162	195	233	272
Net block	272	246	319	380
Capital work-in-progress	27	80	80	80
Goodwill				
Long Term Loans and Advances	7	35	35	35
Investments	3.3	3.3	3.3	3.3
Current assets	535	688	761	911
Cash	6	47	35	82
Loans & advances	114	182	211	241
Other	415	458	515	588
Current liabilities	249	396	438	501
Net current assets	286	292	322	410
Mis. Exp. not written off	-	-	-	-
Total assets	594	656	759	908

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	107	161	163	216
Depreciation	30	34	37	39
(Inc)/Dec in Working Capital	(49)	(77)	(55)	(15)
Less: Other income	-	-	-	-
Direct taxes paid	19	31	38	45
Cash Flow from Operations	69	87	107	195
(Inc.)/Dec.in Fixed Assets	(61)	(76)	(110)	(100)
(Inc.)/Dec. in Investments	-	-	-	-
Other income	-	-	-	-
Cash Flow from Investing	(61)	(76)	(110)	(100)
Issue of Equity	11	-	-	-
Inc./(Dec.) in loans	(59)	(40)	-	-
Dividend Paid (Incl. Tax)	(22)	(22)	(22)	(22)
Others	53	92	13	(26)
Cash Flow from Financing	(17)	30	(9)	(48)
Inc./(Dec.) in Cash	(9)	41	(12)	47
Opening Cash balances	15	6	47	35
Closing Cash balances	6	47	35	82

Key Ratios

Y/E March	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)				
P/E (on FDEPS)	13.0	8.5	8.9	6.5
P/CEPS	9.7	6.8	6.9	5.3
P/BV	3.7	2.8	2.2	1.7
Dividend yield (%)	1.7	1.7	2.5	3.4
EV/Sales	1.2	0.9	0.8	0.7
EV/EBITDA	9.8	6.3	5.6	4.3
EV / Total Assets	2.3	2.0	1.7	1.4
Per Share Data (₹)				
EPS (Basic)	4.5	6.9	6.6	9.1
EPS (fully diluted)	4.5	6.9	6.6	9.1
Cash EPS	6.1	8.7	8.6	11.1
DPS	1.0	1.0	1.5	2.0
Book Value	15.7	21.0	26.4	34.3
Dupont Analysis				
EBIT margin	9.6	11.7	11.9	13.5
Tax retention ratio	79.9	80.8	76.7	79.2
Asset turnover (x)	2.0	2.4	2.5	2.4
ROIC (Post-tax)	15.5	23.2	22.4	25.8
Cost of Debt (Post Tax)	5.5	8.3	10.0	11.8
Leverage (x)	0.9	0.7	0.4	0.3
Operating ROE	24.6	33.4	27.8	30.3
Returns (%)				
ROCE (Pre-tax)	19.0	25.0	26.2	29.4
Angel ROIC (Pre-tax)	20.1	26.0	27.0	30.7
ROE	26.3	37.6	27.9	29.9
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.1	3.3	3.3	3.1
Inventory / Sales (days)	66.1	61.1	63.8	63.4
Receivables (days)	64.0	57.7	61.4	61.0
Payables (days)	60.1	53.2	54.2	53.9
WC cycle (ex-cash) (days)	86	66	59	60
Solvency ratios (x)				
Net debt to equity	0.9	0.5	0.4	0.2
Net debt to EBITDA	1.9	0.9	0.9	0.5
Interest Coverage (EBIT / Interest)	4.7	6.5	6.3	7.2

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Alembic Pharma
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	------------------------------------	-----------------------------------------	--------------------