

## Alembic Pharma

### Performance Highlights

Y/E March (₹ cr)	2QFY2012	1QFY2012	% chg (qoq)	Angel Estimates
<b>Net Sales</b>	<b>396</b>	<b>344</b>	<b>15.1</b>	<b>317</b>
Other Income	-	1	(87.5)	1
Operating Profit	60	50	20.1	44
Interest	7	7	4.6	7
<b>Net Profit</b>	<b>38.0</b>	<b>28.3</b>	<b>34.5</b>	<b>23.4</b>

Source: Company, Angel Research

Alembic Pharma (Alembic) reported a strong performance for 2QFY2012. The company's growth was driven by exports and the domestic formulation business (which performed better than others), as restructuring of the business segment has now started showing results. Alembic reported robust sales growth and improvement in the OPM. At the CMP, the stock is trading at attractive valuations.

**Hence, we maintain our Buy view on the stock.**

**Results above estimates:** Alembic reported strong revenue growth of 23.9% yoy to ₹396cr. Although the domestic formulation business grew by just 9.7%, it performed well given the slow growth in the industry. However, the main growth driver was the exports segment, which grew by 51.2% yoy, driven by API and formulations business. OPM for the quarter came in at 15.3% (14.6% in 1QFY2012). The company recorded net profit of ₹38cr, primarily driven by revenue growth and expansion in OPM.

**Outlook and valuation:** The company's growth and profitability profile has improved post the restructuring carried out by management. Over FY2011-13, we expect the company to post a CAGR of 15.4% and 30.6% in sales and net profit, respectively. At the CMP, the stock is trading at attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹77.**

### Key Financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E
<b>Net Sales</b>	<b>1,184</b>	<b>1,370</b>	<b>1,576</b>
% chg	-	15.7	15.0
<b>Net Profit</b>	<b>85</b>	<b>119</b>	<b>146</b>
% chg	-	39.6	22.2
<b>EPS (₹)</b>	<b>4.5</b>	<b>6.3</b>	<b>7.7</b>
EBITDA Margin (%)	12.2	14.5	15.0
P/E (x)	9.6	6.9	5.6
RoE (%)	25.7	36.5	37.0
RoCE (%)	16.2	24.3	26.6
P/BV (x)	2.8	2.3	1.9
EV/Sales (x)	1.0	0.8	0.7
EV/EBITDA (x)	7.9	5.7	4.8

Source: Company, Angel Research

## BUY

CMP	₹44
Target Price	₹77

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	822
Beta	0.5
52 Week High / Low	51/39
Avg. Daily Volume	28,581
Face Value (₹)	10
BSE Sensex	17,465
Nifty	5,258
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	74.1
MF / Banks / Indian Fls	2.7
FII / NRIs / OCBs	7.4
Indian Public / Others	15.8

Abs. (%)	3m	1yr	3yr
Sensex	(3.6)	(14.2)	78.4
Alembic Pharma	-	-	-

Since listed on September 20, 2011

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**Exhibit 1: 2QFY2012 performance**

Y/E March (₹ cr)	2QFY2012	1QFY2012	% chg (qoq)	1HFY2012
<b>Net sales</b>	<b>396</b>	<b>344</b>	<b>15.1</b>	<b>739</b>
Other income	-	1	(87.5)	1
<b>Total income</b>	<b>396</b>	<b>345</b>		<b>740</b>
Gross profit	202	172	17.3	374
<b>Gross margin</b>	<b>51.0</b>	<b>50.0</b>		<b>50.6</b>
Operating profit	60	50	20.1	111
<b>Operating margin (%)</b>	<b>15.3</b>	<b>14.6</b>		<b>15.0</b>
Interest	7	7	4.6	14
Depreciation	8	8	3.2	17
PBT	45	36	24.5	81
Provision for taxation	7	8	(11.5)	15
<b>PAT before Extra-ordinary item</b>	<b>38</b>	<b>28</b>	<b>34.5</b>	<b>66</b>
Extra-Ordinary Expenses	-	-		-
<b>PAT after Extra-ordinary item &amp; MI</b>	<b>38.0</b>	<b>28.3</b>	<b>34.5</b>	<b>66</b>
<b>EPS (₹)</b>	<b>2.0</b>	<b>1.5</b>		<b>3.5</b>

Source: Company, Angel Research

**Exhibit 2: 2QFY2012 – Actual vs. Angel estimates**

₹ cr	Actual	Estimates	Variation (%)
Net Sales	396	317	24.8
Other Income	0	1	(87.8)
Operating Profit	60	44	36.3
Interest	7	7	1.1
Tax	7	8	(12.5)
Net Profit	38	23	62.6

Source: Company, Angel Research

**Results above estimates:** Alembic reported strong revenue growth of 23.9% yoy to ₹396cr. Although the domestic formulation business grew by just 9.7%, it performed well given the slow growth in the industry.

We expect growth momentum of the domestic formulation business to continue going ahead, as the restructuring exercise undertaken by management is now showing positive results. During the quarter, the low-margin domestic API segment's sales grew strongly by 40.3% yoy to ₹22cr (₹ 15.7cr), driven by volume offtake.

Exports, on the other hand, posted robust growth of 51.2%, driven by robust growth in API as well formulations, which grew by 49.5% and 52.4%, respectively. On the US regulatory filing front, the company has cumulative ANDA filings of 41 ANDAs in the US with 15 approvals.

**OPM impacted by higher contribution from the domestic API business:** Alembic reported OPM of 15.3%, which was higher on a qoq basis mainly on the back of the domestic formulation business, whose contribution has increased on a qoq basis (from 50% in 1QFY2012 to 57% in 2QFY2012).

**Net profit up 51.2%, driven by revenue growth and expansion in OPM:** Alembic recorded net profit of ₹38cr, primarily driven by revenue growth and operating profit (up 43% yoy).

### Investment arguments

**Restructuring to drive 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 57% to total sales in FY2011, with 75% of its revenue coming from the anti-infective, respiratory, gynaecological and gastro therapeutic space. The company has a strong field force of ~2,700 MRs. On the export front, the formulation business contributed 14% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, YTD the company has filed for 41 ANDAs and has received 15 approvals. The international API business contributes 28% to the total turnover. Going forward, the company expects its domestic formulation business to grow at industry pace. Further, revenue from the US generic market is expected to scale up on the back of product approvals.

**Profitability and return ratios to improve:** On the OPM front, we expect Alembic's margins to improve from current levels of 12.2% in FY2011 to 15.0% by FY2013, given the improving productivity of the field force going ahead. The company plans to reduce debt (currently at ₹339cr) going ahead, as it does not foresee any major capital expenditure requirements except the normal capex. Hence, it would be utilizing its operating cash flows to repay debt. Overall, Alembic has RoE of over 35%.

**Outlook and valuation:** The company's growth and profitability profile has improved post the restructuring carried out by management. Over FY2011-13, we expect the company to post a CAGR of 15.4% and 30.6% in its sales and net profit, respectively. At the CMP, the stock is trading at attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹77.**

**Exhibit 3: Key assumptions**

	FY2011E	FY2012E
Domestic Sales Growth (%)	10.3	11.2
Export Sales Growth (%)	9.6	8.6
Growth in Employee Expenses (%)	13.1	10
R&D as % of Sales	4.0	4.0
Operating Margins (%)	12.4	12
Capex (₹ cr)	38.5	38.6
Net Debt/Equity (x)	0.9	0.7

Source: Company, Angel Research

**Exhibit 4: Recommendation summary**

Company	Reco	CMP	Tgt Price	Upside	FY2013E		FY11-13E		FY2013E	
		(₹)	(₹)	(%)	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
<b>Alembic Pharma</b>	<b>Buy</b>	<b>44</b>	<b>77</b>	<b>76.8</b>	<b>5.6</b>	<b>0.4</b>	<b>4.8</b>	<b>30.6</b>	<b>26.6</b>	<b>37.0</b>
Aurobindo Pharma	Buy	129	217	67.8	6.8	1.0	5.5	29.5	13.8	19.0
Aventis*	Sell	2,310	1,937	(16.1)	25.7	3.2	21.2	15.6	15.8	17.1
Cadila Healthcare	Buy	755	1,053	39.5	14.7	2.4	11.6	21.6	28.3	35.2
Cipla	Buy	289	369	27.7	15.7	2.8	13.4	23.8	17.0	18.2
Dr Reddy's	Buy	1,639	1,920	17.1	17.1	3.0	11.7	22.7	17.7	25.2
Dishman Pharma	Buy	51	82	60.0	4.4	1.1	6.0	8.6	7.4	9.2
GSK Pharma*	Neutral	2,096	-	-	24.1	5.5	15.5	14.6	41.0	30.7
Indoco Remedies	Buy	385	658	70.8	5.9	0.8	4.6	25.8	17.6	19.3
Ipca labs	Buy	267	358	34.0	9.7	1.5	6.9	14.8	23.3	24.9
Lupin	Buy	475	593	24.9	16.0	2.6	13.3	24.0	23.9	30.8
Orchid Chemicals	Buy	174	270	55.2	4.7	1.2	5.5	29.6	11.7	23.4
Ranbaxy*	Accu.	512	578	12.9	9.7	1.6	6.7	43.1	26.8	25.9
Sun Pharma	Neutral	508	-	-	21.6	5.4	17.3	15.8	20.2	20.4

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

**Profit & Loss Statement (Consolidated)**

Y/E March (₹)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
<b>Gross sales</b>	<b>1,027</b>	<b>1,134</b>	<b>10,226</b>	<b>1,192</b>	<b>1,388</b>	<b>1,596</b>
Less: Excise duty	23	18	11	8	18	20
<b>Net Sales</b>	<b>1,003</b>	<b>1,116</b>	<b>10,216</b>	<b>1,184</b>	<b>1,370</b>	<b>1,576</b>
Other operating income	-	-	11.3	-	-	-
<b>Total operating income</b>	<b>1,003</b>	<b>1,116</b>	<b>10,227</b>	<b>1,184</b>	<b>1,370</b>	<b>1,576</b>
% chg	44.1	11.2	816.4	-	15.7	15.0
Total Expenditure	858	991	1,026	1,040	1,171	1,339
Net Raw Materials	492	559	569	590	651	748
Other Mfg costs	71	90	78	66	76	88
Personnel	98	132	145	141	164	188
Other	197	210	233	242	280	315
<b>EBITDA</b>	<b>145</b>	<b>125</b>	<b>9,190</b>	<b>144</b>	<b>199</b>	<b>236</b>
% chg	28.7	(13.7)	7236.2	(98.4)	38.1	18.6
(% of Net Sales)	14.5	11.2	90.0	12.2	14.5	15.0
Depreciation & Amortisation	33	38	43	30	39	43
<b>EBIT</b>	<b>112</b>	<b>87</b>	<b>9,147</b>	<b>115</b>	<b>161</b>	<b>194</b>
% chg	34.2	(22.6)	10417.5	(98.7)	39.9	20.6
(% of Net Sales)	11.2	7.8	89.5	9.7	11.7	12.3
Interest & other Charges	33	40	30	26	30	30
Other Income	12	5	4	18	18	18
(% of PBT)	13	10	0	17	12	10
<b>Recurring PBT</b>	<b>91</b>	<b>52</b>	<b>9,133</b>	<b>107</b>	<b>149</b>	<b>182</b>
% chg	3.3	(42.9)	17446.0	(98.8)	39.5	22.2
Extraordinary Expense/(Inc.)	(23)	43	-	-	-	-
<b>PBT (reported)</b>	<b>114</b>	<b>9</b>	<b>9,133</b>	<b>107</b>	<b>149</b>	<b>182</b>
Tax	1.4	(2)	4	21	30	36
(% of PBT)	1.2	-	0.0	20.1	20.0	20.0
<b>PAT (reported)</b>	<b>112</b>	<b>11</b>	<b>9,128</b>	<b>85</b>	<b>119</b>	<b>146</b>
<b>PAT after MI (reported)</b>	<b>112</b>	<b>11</b>	<b>9,128</b>	<b>85</b>	<b>119</b>	<b>146</b>
<b>ADJ. PAT</b>	<b>90</b>	<b>54</b>	<b>9,128</b>	<b>85</b>	<b>119</b>	<b>146</b>
% chg	1.6	(40.1)	16889.4	-	39.6	22.2
(% of Net Sales)	11.2	1.0	89.4	7.2	8.7	9.2
<b>Basic EPS (₹)</b>	<b>8.1</b>	<b>0.8</b>	<b>2.9</b>	<b>4.5</b>	<b>6.3</b>	<b>7.7</b>
<b>Fully Diluted EPS (₹)</b>	<b>8.1</b>	<b>0.8</b>	<b>2.9</b>	<b>4.5</b>	<b>6.3</b>	<b>7.7</b>
% chg	58.8	(90.3)	271.2	-	39.6	22.2

**Balance Sheet (Consolidated)**

Y/E March (₹)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	28	27.4	26.7	37.7	37.7	37.7
Reserves & Surplus	314	304	341	259	319	391
<b>Shareholders' Funds</b>	<b>341</b>	<b>331</b>	<b>368</b>	<b>296.7</b>	<b>356.4</b>	<b>430.2</b>
Total Loans	423	475	421	328	328	328
Deferred Tax Liability	(5)	6	1	5	5	5
<b>Total Liabilities</b>	<b>760</b>	<b>812</b>	<b>790</b>	<b>630</b>	<b>690</b>	<b>763</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	605	682	719	434	484	534
Less: Acc. Depreciation	239	277	317	162	200	243
<b>Net Block</b>	<b>367</b>	<b>405</b>	<b>402</b>	<b>272</b>	<b>283</b>	<b>291</b>
Capital Work-in-Progress	22	7	7	27	7	8
<b>Investments</b>	<b>14</b>	<b>8</b>	<b>12</b>	<b>3.3</b>	<b>3</b>	<b>3</b>
Current Assets	538	594	580	542	643	746
Cash	19	16	7	6	6	15
Loans & Advances	86	127	144	114	137	158
Other	433	451	429	421	500	573
Current liabilities	181	202	211	214	247	284
<b>Net Current Assets</b>	<b>357</b>	<b>392</b>	<b>369</b>	<b>328</b>	<b>396</b>	<b>462</b>
Mis. Exp. not written off	-	-	-	-	-	1.0
<b>Total Assets</b>	<b>760</b>	<b>812</b>	<b>790</b>	<b>630</b>	<b>690</b>	<b>763</b>

**Cash Flow Statement (Consolidated)**

Y/E March (₹)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	91	17	44	107	149	182
Depreciation	33	38	43	30	39	43
(Inc)/Dec in Working Capital	(110)	(4)	14	(49)	(68)	(55)
Less: Other income	12	5	4	-	-	-
Direct taxes paid	10	3	5	19	30	36
<b>Cash Flow from Operations</b>	<b>(8)</b>	<b>42</b>	<b>92</b>	<b>69</b>	<b>90</b>	<b>133</b>
(Inc.)/Dec.in Fixed Assets	(65)	(61)	(38)	(63)	(31)	(51)
(Inc.)/Dec. in Investments	(12)	2	(3)	(0)	(0)	-
Other income	12	5	4	-	-	-
<b>Cash Flow from Investing</b>	<b>(64)</b>	<b>(55)</b>	<b>(36)</b>	<b>(63)</b>	<b>(31)</b>	<b>(51)</b>
Issue of Equity	-	-	(0.74)	-	-	-
Inc./(Dec.) in loans	90	4	(54)	(32)	-	-
Dividend Paid (Incl. Tax)	(16)	(24.0)	(9.3)	(50)	(60)	(73)
Others	(135)	30	-	68	-	-
<b>Cash Flow from Financing</b>	<b>(61)</b>	<b>9</b>	<b>(64)</b>	<b>(7)</b>	<b>(60)</b>	<b>(73)</b>
Inc./(Dec.) in Cash	(133)	(3)	(9)	(1)	0	9
<b>Opening Cash balances</b>	<b>152</b>	<b>19</b>	<b>16</b>	<b>7</b>	<b>6</b>	<b>6</b>
<b>Closing Cash balances</b>	<b>19</b>	<b>16</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>15</b>

### Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	2.8	28.8	7.8	9.6	6.9	5.6
P/CEPS	2.2	6.4	0.0	7.1	5.2	4.4
P/BV	0.9	0.9	0.8	2.8	2.3	1.9
Dividend yield (%)	6.6	1.8	2.6	3.4	4.3	5.4
EV/Sales	0.7	0.7	0.1	1.0	0.8	0.7
EV/EBITDA	5.0	6.2	0.1	7.9	5.7	4.8
EV / Total Assets	0.9	0.9	0.9	1.8	1.7	1.5
<b>Per Share Data (₹)</b>						
EPS (Basic)	8.1	0.8	2.9	4.5	6.3	7.7
EPS (fully diluted)	8.1	0.8	2.9	4.5	6.3	7.7
Cash EPS	10.5	3.6	687.0	6.1	8.4	10.0
DPS	1.5	0.4	0.6	1.5	1.9	2.3
Book Value	24.7	24.1	27.5	15.7	18.9	22.8
<b>DuPont Analysis</b>						
EBIT margin	11.2	7.8	89.5	9.7	11.7	12.3
Tax retention ratio	(24.1)	-	100.0	79.9	80.0	80.0
Asset turnover (x)	1.5	1.5	13.0	1.7	2.1	2.2
ROIC (Post-tax)	-	-	1,159.3	13.0	19.6	21.6
Cost of Debt (Post Tax)	-	-	6.7	5.5	7.2	7.2
Leverage (x)	0.8	1.3	1.3	1.1	1.0	0.8
Operating ROE	-	-	2,607.5	21.4	32.0	33.4
<b>Returns (%)</b>						
ROCE (Pre-tax)	14.8	11.1	1,142.0	16.2	24.3	26.6
Angel ROIC (Pre-tax)	17.6	11.5	1,169.2	16.7	25.2	27.3
ROE	24.7	16.0	2,613.2	25.7	36.5	37.0
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	1.8	1.7	14.6	2.1	3.0	3.1
Inventory / Sales (days)	59	72.1	8.1	71.1	70.8	70.0
Receivables (days)	72	72.5	7.7	72.2	71.9	71.2
Payables (days)	49	56	62	67.4	68.9	68.2
WC cycle (ex-cash) (days)	104	117	13	105	95	97
<b>Solvency ratios (x)</b>						
Net debt to equity	1.2	1.4	1.1	1.1	0.9	0.7
Net debt to EBITDA	2.8	3.7	0.0	2.2	1.6	1.3
Interest Coverage (EBIT / Interest)	3.4	2.2	304.4	4.4	5.4	6.6

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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.*

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