

Alembic Pharmaceuticals

Performance Highlights

Y/E March (` cr)	4QFY2017	3QFY2017	% chg (qoq)	4QFY2016	% chg (yoy)
Net Sales	737	770	(4.3)	626	17.8
Other Income	2	1	0.0	4	(45.6)
Operating Profit	134	145	(7.3)	142	(5.9)
Interest	2	1	141.3	1	39.2
Adj. Net Profit	93	87	7.5	91	2.4

Source: Company, Angel Research

Alembic Pharma posted marginally lower than expected results for 4QFY2017. In Rupee terms, revenues grew by 17.8% yoy to `737cr (`770cr expected) v/s `626cr in 4QFY2016. In sales terms, the company posted growth on the back of international formulations, which grew by 44% yoy, while the Indian domestic formulations grew by 6.0% yoy. On the operating front, EBITDA margin came in at 18.2% (19.9% expected) v/s 22.7% in 4QFY2016, a dip of 460bps yoy. Thus, PAT came in at `93cr (`101cr expected) v/s `91.2cr in 4QFY2016, up 2.4% yoy.

We recommend an Accumulate rating.

Results marginally below expectations: In Rupee terms, revenues grew by 17.8% yoy to `737cr (`770cr expected) v/s `626cr in 4QFY2016. In sales terms, the company posted growth on the back of international formulations, which grew by 44% yoy, while the Indian domestic formulations grew by 6.0% yoy. API business on the other hand posted a yoy growth of 9.0%. On the operating front, EBITDA margin came in at 18.2% (19.9% expected) v/s 22.7% in 4QFY2016, a dip of 460bps qoq. The dip was mainly on the back of lower gross margins, which came in at 72.8% v/s 80.2% in 4QFY2016. Thus, PAT came in at `93cr (`101cr expected) v/s `91.2cr in 4QFY2016, up 2.4% yoy.

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 22.5% in sales, while profitability will witness a CAGR of 17.3% yoy. **We maintain our Accumulate rating on the stock.**

Key Financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E
Net Sales	3,145	3,101	3,966	4,656
% chg	53.2	(1.4)	27.9	17.4
Net Profit	720	403	481	555
% chg	154.1	(44.0)	19.4	15.3
EPS (`)	38.2	21.4	25.5	29.5
EBITDA Margin (%)	31.9	19.7	20.5	20.4
P/E (x)	15.8	28.2	23.6	20.5
RoE (%)	57.9	23.0	22.8	21.5
RoCE (%)	51.0	25.3	25.7	25.3
P/BV (x)	7.1	6.0	4.9	4.0
EV/Sales (x)	3.5	3.6	2.9	2.5
EV/EBITDA (x)	11.0	18.4	14.1	12.0

Source: Company, Angel Research; Note: CMP as of May 5, 2017

ACCUMULATE

CMP	₹593
Target Price	₹648

Investment Period -

Sector	Pharmaceutical
Market Cap (₹ cr)	11,181
Net Debt (₹ cr)	-9
Beta	0.7
52 Week High / Low	709/518
Avg. Daily Volume	28,108
Face Value (₹)	2
BSE Sensex	29,859
Nifty	9,285
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	72.7
MF / Banks / Indian Fls	4.2
FII / NRIs / OCBs	11.0
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	5.0	16.2	33.6
Alembic Pharma	6.8	0.7	113.3

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2017 performance (Consolidated)

Y/E March (` cr)	4QFY2017	3QFY2017	% chg (qoq)	4QFY2016	% chg (yoy)	FY2017	FY2016	% chg (yoy)
Net sales	737	770	(4.3)	626	17.8	3,101	3,145	(1.4)
Other income	2	1		4	(45.6)	6	9	(31.7)
Total income	739	771	(4.1)	629	17.5	3,108	3,154	
Gross profit	537	565	(4.9)	502	7.0	2243	2376	(5.6)
Gross margin	72.8	73.3		80.2		72.3	75.5	
Operating profit	134	145	(7.3)	142	(5.9)	611	1002	(39.0)
Operating margin (%)	18.2	18.8		22.7		19.7	31.9	
Interest	2	1	141.3	1		5	4	28.0
Depreciation	22	21	3.4	24	(10.5)	83	72	15.2
PBT	112	124	(9.2)	120	(6.6)	529	936	(43.5)
Provision for taxation	16	39	(58.0)	29	(42.3)	122	216	(43.4)
PAT before Extra-ordinary item	95	87	10.2	91	4.4	407	720	(43.5)
(Profit)/Loss of Associate Company	2	0		0		4	0	
PAT after Extra-ordinary item & MI	93	87	7.5	91	2.4	403	720	(44.0)
EPS (`)	4.9	4.6		4.8		21.4	33.3	

Source: Company, Angel Research

Exhibit 2: 4QFY2017 – Actual vs Angel estimates

(` cr)	Actual	Estimates	Variation (%)
Net Sales	737	770	(4.3)
Other Income	2	1	98.0
Operating Profit	134	153	(12.7)
Interest	2	1	39.2
Tax	16	31	(46.6)
Net Profit	93	101	(8.0)

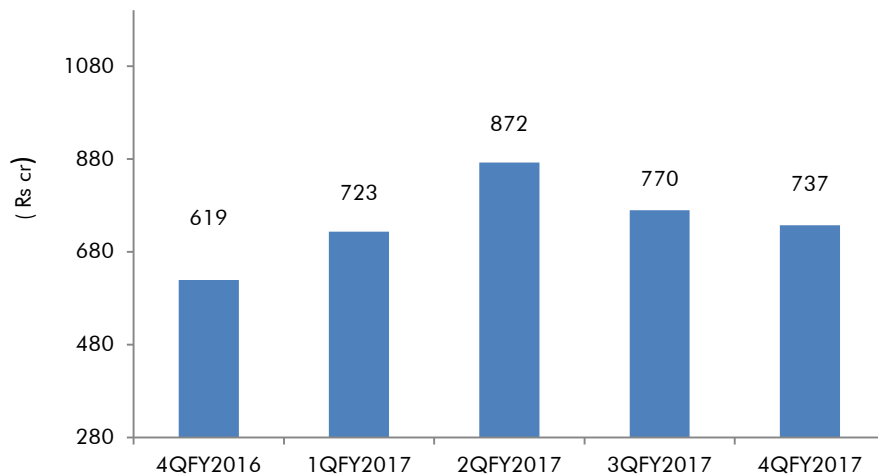
Source: Company, Angel Research

Sales marginally below expectations: In Rupee terms, revenues grew by 17.8% yoy to `737cr (`770cr expected) v/s `626cr in 4QFY2016. In sales terms, the company posted growth on the back of international formulations, which grew by 44% yoy, while the Indian domestic formulations grew by 6.0% yoy. API business on the other hand posted a yoy growth of 9.0%.

In domestic formulation (`286cr), specialty business, which constituted around 58% of the domestic sales grew by 13.0% yoy, while acute segment, which constituted around 33% of domestic formulations, dipped by 8%. The Veterinary segment, which constituted around 9% of domestic formulations, posted a yoy growth of 13.0%. In International formulation business (`200cr), US formulation business grew by 54% yoy.

International sales during the quarter contributed around 38.6% of sales in 4QFY2017, while Indian branded formulation sales contributed around 38.6% of sales in 4QFY2017. In terms, of filling, the company has filed 10 products in US, while 20 products were filled in FY2017.

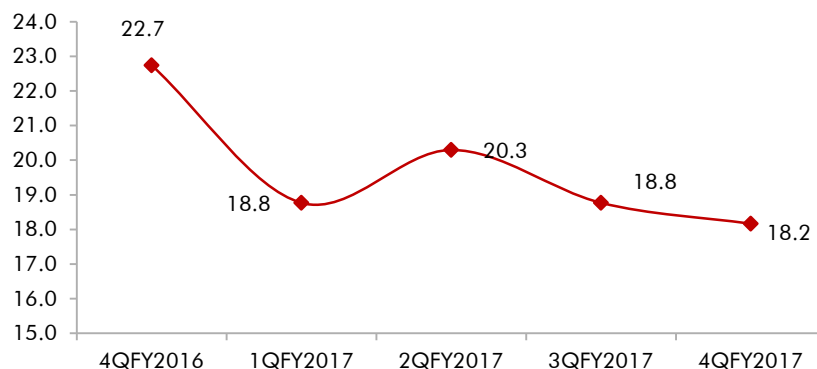
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM lower than expectation: On the operating front, EBITDA margin came in at 18.2% (19.9% expected) v/s 22.7% in 4QFY2016, a dip of 460bps qoq. The dip was mainly on the back of lower gross margins, which came in at 72.8% v/s 80.2% in 4QFY2016. The R&D expenses came in at 15.2% of sales v/s 17.8% of sales in 4QFY2016. Also, the employee expenses rose by 42.2% yoy.

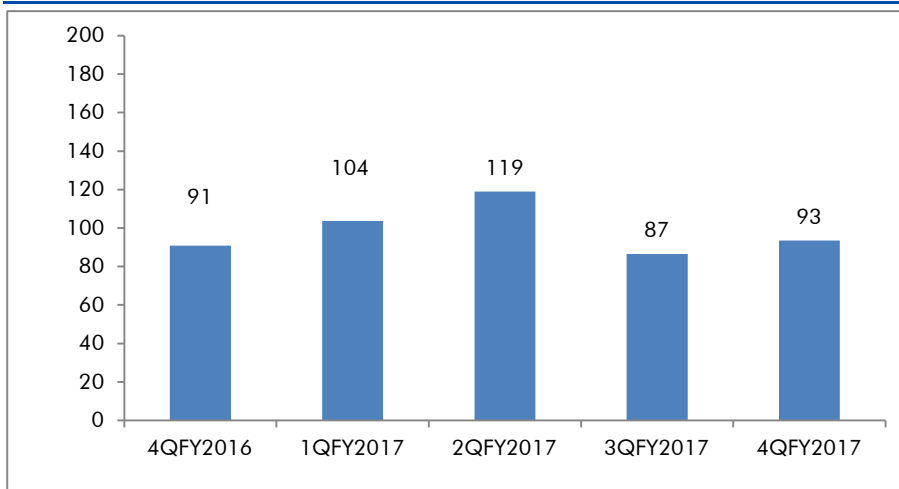
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit below expectations: PAT came in at `93cr (`101cr expected) v/s `91.2cr in 4QFY2016, up 2.4% yoy. While the EBDITA margins came in lower than expected, the dip in Net profit was kept in check owing to a yoy dip of 42.3%, in the taxations.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- R&D expenses to be high, as company plans to file 100 ANDA's over the next three years.
- Oncology injectable filing to start from 2HFY2018. Oncology oral solids and injectable facilities to be operational by 1HFY2018 end.
- General injectable and Derma filings in the US to start from FY2019. The company is working on 40 derma projects, of which 10-12 filings to happen by early FY2019.
- Capex for FY2017 to be ₹700cr.

Investment arguments

Focus on chronic segment to drive domestic formulation growth: Alembic Pharmaceuticals has been restructuring its business portfolio, which would aid in improving its growth and operating performance. The company's domestic formulation business contributed 38% to its total sales in FY2017. The company has a strong field force of ~3,600 medical representatives. Going forward, the company expects its domestic formulation business to at least grow in-line with the industry growth rate, before it sees an improvement in the share of the high growth chronic segment. For FY2017-19E, we expect the domestic formulation business to grow at a CAGR of 13.5%.

Exports - US the key growth driver: On the exports front, the formulation business contributed 30% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for ~95 ANDAs till date and received 52 approvals. The company, going forward, expects to keep its momentum high in terms of number of filings, by filing around 100 ANDAs over the next three years. For FY2017-19E, we expect exports to register a CAGR of 20.0%, mainly on the back of base effect impact of FY2016 (sales grew by 46%, due to launch of Abilify).

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 22.5% in sales, while profitability will be under pressure on the back of higher R&D spend. The Net profit is expected to grow by CAGR of 17.3% yoy during FY2017-19E. **We recommend an Accumulate rating on the stock.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Domestic formulation sales growth (%)	13.0	14.0
Exports sales growth (%)	20.0	20.0
Operating margins (%)	20.5	20.4
Capex (₹ cr)	700	200
Net Debt/Equity (x)	0.1	0.0

Source: Company, Angel Research

Exhibit 7: Recommendation summary

	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2018E		FY16-18E	FY2018E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	593	648	9.2	23.2	2.6	12.9	(18.2)	25.7	22.8
Aurobindo Pharma	Buy	590	877	48.7	12.5	2.1	8.8	18.1	22.5	26.1
Cadila Healthcare	Neutral	466	-	-	24.3	3.8	17.6	13.5	23.6	27.1
Cipla	Sell	549	465	(15.2)	22.4	2.5	15.1	14.2	12.2	13.9
Dr Reddy's	Neutral	2,602	-	-	19.9	2.4	10.2	(2.7)	15.3	15.2
Dishman Pharma	Sell	313	143	(54.3)	27.7	3.0	13.1	16.3	13.0	13.5
GSK Pharma	Neutral	2,445	-	-	40.5	6.1	29.8	16.9	37.5	34.5
Indoco Remedies	Accumulate	225	240	6.6	14.1	1.7	9.1	33.2	19.1	20.1
Ipca labs	Accumulate	538	613	14.0	28.0	1.9	12.5	34.8	8.6	9.5
Lupin	Buy	1,251	1,809	44.7	18.0	3.0	11.1	17.2	24.4	20.9
Sanofi India*	Neutral	4,181	-	-	26.6	3.3	19.0	16.8	22.5	26.4
Sun Pharma	Buy	631	847	34.3	17.9	3.7	11.3	26.5	18.9	20.1

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

Company Background

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

Profit & Loss Statement (Consolidated)

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Gross sales	2,064	3,181	3,131	4,010	4,708
Less: Excise duty	11	36	29	44	52
Net sales	2,053	3,145	3,101	3,966	4,656
Other operating income	5.7	3.6	3.7	3.7	3.7
Total operating income	2,058	3,149	3,105	3,970	4,660
% chg	10.3	53.0	(1.4)	27.8	17.4
Total expenditure	1,653	2,143	2,490	3,151	3,704
Net raw materials	715	769	858	1,097	1,288
Other mfg costs	90	138	136	185	205
Personnel	307	421	559	671	805
Other	542	814	937	1,198	1,407
EBITDA	400	1,002	611	815	951
% chg	11.7	150.9	(39.0)	33.4	16.8
(% of Net Sales)	19.5	31.9	19.7	20.5	20.4
Depreciation& amortisation	44	72	83	139	171
Interest & other charges	2	4	5	10	12
Other income	0	6	2	2	2
(% of PBT)	0	-	-	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	360	936	525	669	771
% chg	16.8	160.2	(43.8)	27.2	15.3
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	360	936	525	669	771
Tax	76	216	122	187	216
(% of PBT)	21.2	23.1	23.3	28.0	28.0
PAT (reported)	283	720	403	481	555
Add: Share of earnings of asso.	-	(0)	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	283	720	403	481	555
ADJ. PAT	283	720	403	481	555
% chg	20.0	154.1	(44.0)	19.4	15.3
(% of Net Sales)	13.8	22.9	13.0	12.1	11.9
Basic EPS (`)	15.0	38.2	21.4	25.5	29.5
Fully Diluted EPS (`)	15.0	38.2	21.4	25.5	29.5
% chg	20.0	154.1	(44.0)	19.4	15.3

Balance Sheet (Consolidated)

Y/E March (' cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
SOURCES OF FUNDS					
Equity share capital	37.7	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-	-
Reserves & surplus	847	1,563	1,863	2,290	2,791
Shareholders funds	885	1,601	1,901	2,328	2,829
Minority Interest					
Other Long Term Liabilities	15.8	33.9	69.8	69.8	69.8
Long Term Provisions	6.4	7.4	-	-	-
Total loans	239	133	80	200	150
Deferred tax liability	31	50	37	37	37
Total liabilities	1,177	1,824	2,088	2,635	3,085
APPLICATION OF FUNDS					
Gross block	907	1,208	1,636	2,336	2,536
Less: acc. depreciation	313	385	468	607	777
Net block	595	824	1,169	1,730	1,759
Capital work-in-progress	-	-	-	-	-
Goodwill	35	44	27	27	27
Long Term Loans and Adv.	118	83	120	120	120
Investments	2.3	2.1	50.2	50.2	50.2
Current assets	891	1,507	1,321	1,500	2,412
Cash	55	451	160	15	28
Loans & advances	120	409	191	245	908
Other	716	647	970	1,241	1,476
Current liabilities	464	635	599	765	1,257
Net current assets	426	872	723	735	1,155
Mis. Exp. not written off	-	-	-	-	1.0
Total assets	1,177	1,824	2,088	2,634	3,085

Cash Flow Statement (Consolidated)

Y/E March ('cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	360	936	525	669	771
Depreciation	44	72	83	139	171
(Inc)/Dec in Working Capital	66	191	(218)	(311)	(479)
Less: Other income	-	-	-	-	-
Direct taxes paid	76	216	122	187	216
Cash Flow from Operations	393	982	268	309	247
(Inc.)/Dec.in Fixed Assets	(222)	(301)	(428)	(700)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(222)	(301)	(428)	(700)	(200)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	164	(87)	(24)	120	(50)
Dividend Paid (Incl. Tax)	(55)	(55)	(55)	(55)	(55)
Others	(250)	(144)	(53)	181	71
Cash Flow from Financing	(141)	(286)	(131)	246	(34)
Inc./(Dec.) in Cash	31	396	(291)	(145)	13
Opening Cash balances	24	55	451	160	15
Closing Cash balances	55	451	160	15	28

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	39.5	15.5	27.7	23.2	20.1
P/CEPS	34.1	14.1	23.0	18.0	15.4
P/BV	12.6	7.0	5.9	4.8	4.0
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	5.5	3.4	3.6	2.9	2.4
EV/EBITDA	28.2	10.8	18.1	13.9	11.8
EV / Total Assets	9.6	5.9	5.3	4.3	3.6
Per Share Data (₹)					
EPS (Basic)	15.0	38.2	21.4	25.5	29.5
EPS (fully diluted)	15.0	38.2	21.4	25.5	29.5
Cash EPS	17.4	42.0	25.8	32.9	38.5
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	46.9	84.9	100.9	123.5	150.1
Dupont Analysis					
EBIT margin	17.3	29.6	17.0	17.0	16.8
Tax retention ratio	78.8	76.9	76.7	72.0	72.0
Asset turnover (x)	2.2	2.5	1.9	1.7	1.6
ROIC (Post-tax)	29.6	57.4	24.6	21.4	19.8
Cost of Debt (Post Tax)	0.9	1.5	3.7	5.0	0.0
Leverage (x)	0.1	0.0	0.0	0.0	0.1
Operating ROE	33.8	57.6	24.6	21.7	21.0
Returns (%)					
ROCE (Pre-tax)	30.2	51.0	25.3	25.7	25.3
Angel ROIC (Pre-tax)	38.7	77.0	32.7	30.1	27.8
ROE	36.3	57.9	23.0	22.8	21.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	3.0	2.2	2.0	1.9
Inventory / Sales (days)	61.5	55.2	70.7	59.0	69.7
Receivables (days)	56.3	41.2	40.4	16.3	20.6
Payables (days)	79.3	84.8	88.9	36.3	45.7
WC cycle (ex-cash) (days)	60.3	45.9	57.8	59.0	72.3
Solvency ratios (x)					
Net debt to equity	0.2	(0.2)	(0.0)	0.1	0.0
Net debt to EBITDA	0.5	(0.3)	(0.1)	0.2	0.1
Interest Coverage (EBIT / Int.)	199.5	252.8	103.1	68.9	63.7

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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

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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