

Alembic Pharmaceuticals

Performance Highlights

Y/E March (` cr)	1QFY2018	4QFY2018	% chg (qoq)	1QFY2017	% chg (yoy)
Net Sales	648	737	(12.1)	737	(12.0)
Other Income	0	2	0.0	1	(71.7)
Operating Profit	101	134	(24.3)	157	(35.4)
Interest	1	2	(50.8)	1	(30.5)
Adj. Net Profit	67	93	(28.3)	104	(35.7)

Source: Company, Angel Research

Alembic Pharma posted marginally lower than expected results for 1QFY2018. In Rupee terms, revenues de-grew by 12.0% yoy to `648cr (`737cr expected) v/s. `737cr in 1QFY2017. International formulation came in at `282cr v/s. `309cr in 1QFY2017, a yoy dip of 8.7%. Indian formulation sales came in at `236cr v/s. `299cr in 1QFY2017, a yoy dip of 21.0%. On the operating front, EBITDA margin came in at 16.0% (13.8% expected) v/s. 21.3% in 1QFY2017, a dip of 565bps yoy. Thus, PAT came in at `67cr (`62cr expected) v/s. `104cr in 1QFY2017, down 35.7% yoy. **We recommend an Accumulate rating.**

Results below expectations: In Rupee terms, revenues de-grew by 12.0% yoy to `648cr (`737cr expected) v/s. `737cr in 1QFY2017. International formulation came in at `282cr v/s. `309cr in 1QFY2017, a yoy dip of 8.7%. US formulation sales were at `211cr during the quarter. Indian formulation sales came in at `236cr v/s. `299cr in 1QFY2017, a yoy dip of 21.0%. API sales were flat at `130cr v/s. `129cr in 1QFY2017. On the operating front, EBITDA margin came in at 16.0% (13.8% expected) v/s. 21.3% in 1QFY2017, a dip of 565bps yoy. R&D expense was 14.5% of sales v/s. 10.9% of sales in 1QFY2017. Apart from lower sales, a 36.3% yoy rise in the employee expenses impacted the OPM dip. Though the dip was restricted by a 39.1% dip in the other expenses. Thus, PAT came in at `67cr (`62cr expected) v/s. `104cr in 1QFY2017, down 35.7% yoy.

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 21.6% in sales, while profitability will witness a CAGR of 12.8% 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	3,903	4,584
% chg	53.2	(1.4)	25.8	17.4
Net Profit	720	403	411	513
% chg	154.1	(44.0)	2.0	24.7
EPS (`)	38.2	21.4	21.8	27.2
EBITDA Margin (%)	31.9	19.7	18.2	19.2
P/E (x)	14.3	25.4	24.9	20.0
RoE (%)	57.9	23.0	19.8	20.6
RoCE (%)	51.0	25.3	22.6	24.3
P/BV (x)	6.4	5.4	4.5	3.8
EV/Sales (x)	3.1	3.3	2.6	2.2
EV/EBITDA (x)	9.9	16.6	14.4	11.7

Source: Company, Angel Research; Note: CMP as of July 28, 2017

ACCUMULATE

CMP	₹544
Target Price	₹600

Investment Period	12months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	10,256
Net Debt (₹ cr)	-9
Beta	0.3
52 Week High / Low	709/492
Avg. Daily Volume	22,342
Face Value (₹)	2
BSE Sensex	32,310
Nifty	10,015
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	72.7
MF / Banks / Indian Fls	4.4
FII / NRIs / OCBs	11.1
Indian Public / Others	11.9

Abs. (%)	3m	1yr	3yr
Sensex	8.0	14.5	24.3
Alembic Pharma	-11.0	-11.3	61.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 performance (Consolidated)

Y/E March (` cr)	1QFY2018	4QFY2017	% chg (qoq)	1QFY2017	% chg (yoy)	FY2017	FY2016	% chg (yoy)
Net sales	648	737	(12.1)	737	(12.0)	3,101	3,145	(1.4)
Other income	0	2		1	(71.7)	6	9	(31.7)
Total income	648	739	-12.3	737	(12.1)	3,108	3,154	
Gross profit	466	537	(13.1)	543	(14.2)	2243	2376	(5.6)
Gross margin	71.9	72.8		73.7		72.3	75.5	
Operating profit	101	134	(24.3)	157	(35.4)	611	1002	(39.0)
Operating margin (%)	15.6	18.2		21.3		19.7	31.9	
Interest	1	2	(50.8)	1		5	4	28.0
Depreciation	22	22	0.0	19	12.7	83	72	15.2
PBT	79	112	(29.7)	137	(42.4)	529	936	(43.5)
Provision for taxation	15	16	(6.1)	33	(53.5)	122	216	(43.4)
PAT before Extra-ordinary item	63	95	(33.5)	104	(38.8)	407	720	(43.5)
(Profit)/Loss of Associate Company	(3)	2		0		4	0	
PAT after Extra-ordinary item & MI	67	93	(28.3)	104	(35.7)	403	720	(44.0)
EPS (`)	3.5	4.9		5.5		21.4	38.2	

Source: Company, Angel Research

Exhibit 2: 1QFY2018 – Actual vs Angel estimates

(` cr)	Actual	Estimates	Variation (%)
Net Sales	648	737	(12.1)
Other Income	0	1	(87.9)
Operating Profit	101	102	(0.5)
Interest	1	2	(50.6)
Tax	15	17	(6.2)
Net Profit	67	62	8.4

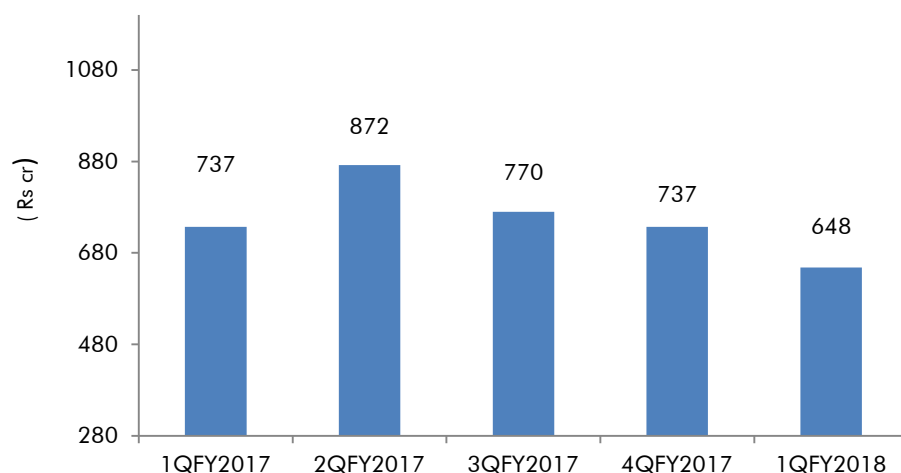
Source: Company, Angel Research

Sales below expectations: Alembic Pharma posted marginally lower than expected results for 1QFY2018. In Rupee terms, revenues de-grew by 12.0% yoy to `648cr (`737cr expected) v/s. `737cr in 1QFY2017. International formulation came in at `282cr v/s. `309cr, a yoy dip of 8.7%. US formulation sales were at `211cr during the quarter. Indian formulation sales came in at `236cr v/s. `299cr, a yoy dip of 21.0%. API sales were flat at `130cr v/s. `129cr in 1QFY2017.

In domestic formulation (`236cr), specialty business, which constituted around 62% of the domestic sales de-grew by 23.0% yoy, while acute segment, which constituted around 27% of domestic formulations, dipped by 22%. The Veterinary segment, which constituted around 11% of domestic formulations, posted a yoy growth of 9.0%. In International formulation business (`282cr), US formulation business (75% of international formulation sales) de-grew by 5% yoy. The Non-US international formulation sales during the quarter dipped by 17.0%.

International sales during the quarter contributed around 43.5% of sales in 1QFY2018, while Indian branded formulation sales contributed around 36.4% of sales in 1QFY2018. In terms of filing, the company has filed 6 products in US, while 6 products were approved in 1QFY2018.

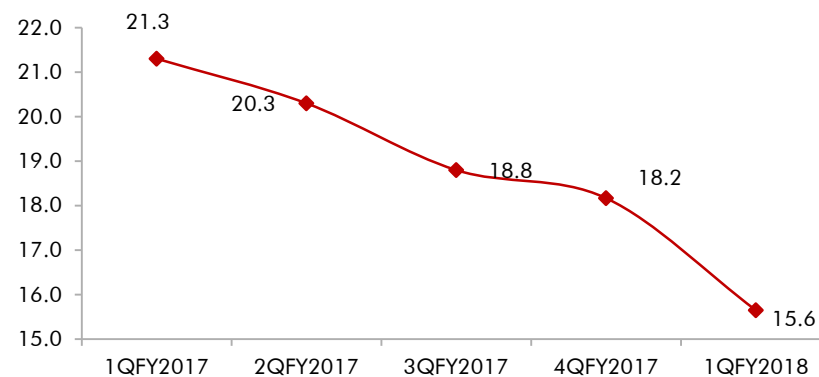
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM better than expectation: On the operating front, EBITDA margin came in at 15.6% (13.8% expected) v/s. 21.3% in 1QFY2017, a dip of 565bps qoq. The dip was mainly on the back of lower gross margins, which came in at 71.9% v/s. 73.7% in 1QFY2017. R&D expense during the quarter was 14.5% of sales v/s. 10.9% of sales in 1QFY2017. Apart from lower sales, a 36.3% yoy rise in the employee expenses impacted the OPM dip. Though the dip was restricted by a 39.1% dip in the other expenses.

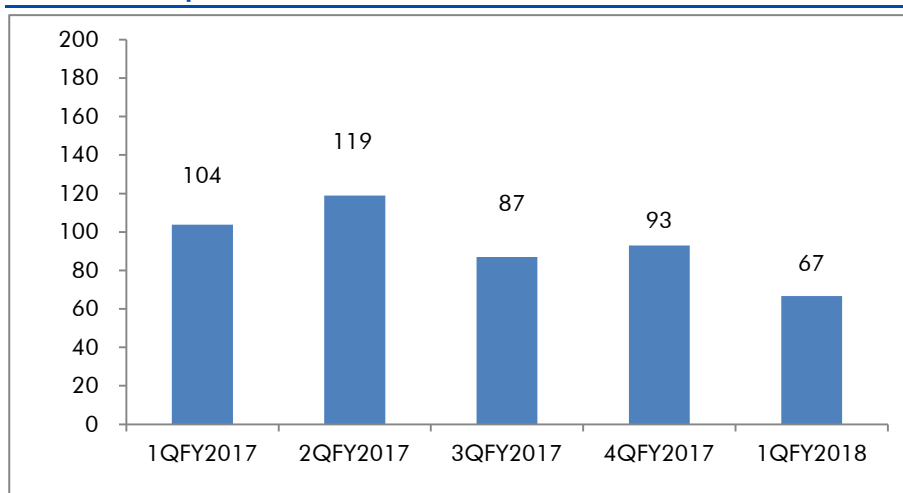
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit below expectations: PAT came in at `67cr (`62cr expected) v/s. `104cr in 1QFY2017, down 35.7% yoy. The tax expenses which dipped by 53.5% restricted the dip in the net profit to 35.7%, while PBT dipped by 42.4% yoy.

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 onwards. The company is working on 40 derma projects, of which 10-12 filings to happen by early FY2019.
- Capex for FY2018 to be `500cr.

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 11.0%.

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 ~101 ANDAs till date and received 58 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 17.5%.

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 21.6% 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 12.8% yoy during FY2017-19E. **We recommend an Accumulate rating on the stock.**

Exhibit 6: Key assumptions

	FY2018E	FY2019E
Domestic formulation sales growth (%)	8.0	14.0
Exports sales growth (%)	15.0	20.0
Operating margins (%)	18.6	19.7
Capex (₹ cr)	500	200
Net Debt/Equity (x)	0.0	0.0

Source: Company, Angel Research

Exhibit 7: Recommendation summary

	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2019E		FY17-19E	FY2019E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	544	600	10.3	20.0	2.2	11.7	12.8	24.3	20.6
Aurobindo Pharma	Accumulate	724	823	13.7	14.1	2.2	9.9	14.2	25.3	22.7
Cadila Healthcare	Sell	545	450	(17.5)	25.6	4.1	20.3	21.0	17.3	22.9
Cipla	Sell	565	461	(18.5)	22.7	2.4	14.7	39.2	11.0	13.2
Dr Reddy's	Neutral	2,462	-	-	20.7	2.4	13.4	27.8	11.3	13.7
Dishman Pharma	Under Review	301	-	-	18.9	1.3	10.1	(6.8)	2.9	2.5
GSK Pharma	Neutral	2,431	-	-	40.8	5.5	30.4	31.7	29.1	26.5
Indoco Remedies	Sell	201	153	(24.0)	15.8	1.5	10.3	23.0	11.0	15.0
Ipca labs	Buy	484	620	28.0	19.2	1.5	9.8	27.9	12.8	11.2
Lupin	Buy	1,063	1,526	43.6	15.3	2.1	8.9	10.4	20.6	17.8
Sanofi India*	Neutral	4,269	-	-	27.8	2.9	17.2	9.2	23.9	25.8
Sun Pharma	Buy	551	712	29.3	17.0	3.2	12.6	(0.5)	15.1	18.8

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	3,846	4,514
Less: Excise duty	11	36	29	42	50
Net sales	2,053	3,145	3,101	3,803	4,464
Other operating income	5.7	3.6	3.7	3.7	3.7
Total operating income	2,058	3,149	3,105	3,807	4,468
% chg	10.3	53.0	(1.4)	22.6	17.4
Total expenditure	1,653	2,143	2,490	3,095	3,585
Net raw materials	715	769	858	1,090	1,235
Other mfg costs	90	138	136	185	196
Personnel	307	421	559	671	805
Other	542	814	937	1,149	1,349
EBITDA	400	1,002	611	709	880
% chg	11.7	150.9	(39.0)	16.0	24.1
(% of Net Sales)	19.5	31.9	19.7	18.6	19.7
Depreciation & amortisation	44	72	83	132	157
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	569	713
% chg	16.8	160.2	(43.8)	8.3	25.3
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	360	936	525	569	713
Tax	76	216	122	159	200
(% of PBT)	21.2	23.1	23.3	28.0	28.0
PAT (reported)	283	720	403	410	514
Add: Share of earnings of asso.	-	(0)	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	283	720	403	410	514
ADJ. PAT	283	720	403	410	514
% chg	20.0	154.1	(44.0)	1.6	25.3
(% of Net Sales)	13.8	22.9	13.0	10.8	11.5
Basic EPS (₹)	15.0	38.2	21.4	21.7	27.2
Fully Diluted EPS (₹)	15.0	38.2	21.4	21.7	27.2
% chg	20.0	154.1	(44.0)	1.6	25.3

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	2,219	2,678
Shareholders funds	885	1,601	1,901	2,256	2,715
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	2,563	2,972
APPLICATION OF FUNDS					
Gross block	907	1,208	1,636	2,136	2,336
Less: acc. depreciation	313	385	468	600	756
Net block	595	824	1,169	1,537	1,580
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	1,590	2,426
Cash	55	451	160	166	103
Loans & advances	120	409	191	234	908
Other	716	647	970	1,190	1,415
Current liabilities	464	635	599	734	1,205
Net current assets	426	872	723	856	1,221
Mis. Exp. not written off	-	-	-	-	1.0
Total assets	1,177	1,824	2,088	2,563	2,972

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	360	936	525	569	713
Depreciation	44	72	83	132	157
(Inc)/Dec in Working Capital	66	191	(218)	(129)	(534)
Less: Other income	-	-	-	-	-
Direct taxes paid	76	216	122	159	200
Cash Flow from Operations	393	982	268	413	136
(Inc.)/Dec.in Fixed Assets	(222)	(301)	(428)	(500)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(222)	(301)	(428)	(500)	(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)	6	(63)
Opening Cash balances	24	55	451	160	166
Closing Cash balances	55	451	160	166	103

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	36.2	14.3	25.4	25.0	20.0
P/CEPS	31.3	13.0	21.1	18.9	15.3
P/BV	11.6	6.4	5.4	4.5	3.8
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
EV/Sales	5.0	3.1	3.3	2.7	2.3
EV/EBITDA	25.9	9.9	16.6	14.5	11.7
EV / Total Assets	8.8	5.4	4.8	4.0	3.5
Per Share Data (₹)					
EPS (Basic)	15.0	38.2	21.4	21.7	27.2
EPS (fully diluted)	15.0	38.2	21.4	21.7	27.2
Cash EPS	17.4	42.0	25.8	28.7	35.5
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	46.9	84.9	100.9	119.7	144.0
Dupont Analysis					
EBIT margin	17.3	29.6	17.0	15.2	16.2
Tax retention ratio	78.8	76.9	76.7	72.0	72.0
Asset turnover (x)	2.2	2.5	1.9	1.8	1.7
ROIC (Post-tax)	29.6	57.4	24.6	19.2	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)	0.0
Operating ROE	33.8	57.6	24.6	19.0	20.1
Returns (%)					
ROCE (Pre-tax)	30.2	51.0	25.3	22.5	24.3
Angel ROIC (Pre-tax)	38.7	77.0	32.7	27.0	27.7
ROE	36.3	57.9	23.0	19.7	20.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	3.0	2.2	2.0	2.0
Inventory / Sales (days)	61.5	55.2	70.7	63.5	74.7
Receivables (days)	56.3	41.2	40.4	16.6	20.6
Payables (days)	79.3	84.8	88.9	36.1	45.3
WC cycle (ex-cash) (days)	60.3	45.9	57.8	60.1	73.9
Solvency ratios (x)					
Net debt to equity	0.2	(0.2)	(0.0)	0.0	0.0
Net debt to EBITDA	0.5	(0.3)	(0.1)	0.0	0.1
Interest Coverage (EBIT / Int.)	199.5	252.8	103.1	58.8	59.0

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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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