

Alembic Pharmaceuticals

Performance Highlights

Y/E March (₹ cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)
Net Sales	789	648	21.8	879	(10.2)
Other Income	8	0	0.0	0	19075.0
Operating Profit	178	101	75.8	177	0.7
Interest	0	1	(60.7)	1	(63.5)
Adj. Net Profit	122	67	82.2	120	1.4

Source: Company, Angel Research

Alembic Pharma posted marginally lower than expected sales for 2QFY2018. In Rupee terms, revenues de-grew by 10.2% yoy to ₹789cr (₹980cr expected) v/s. ₹879cr in 2QFY2017. International formulation came in at ₹262cr v/s. ₹352cr in 2QFY2017, a yoy dip of 26.0%. Indian formulation sales came in at ₹385cr v/s. ₹363cr in 2QFY2017, a yoy growth of 6.0%. On the operating front, EBITDA margin came in at 22.6% (15.4% expected) v/s. 20.3% in 2QFY2017, an expansion of 230bps yoy. Thus, PAT came in at ₹122cr (₹108cr expected) v/s. ₹120cr in 2QFY2017, up 1.4% yoy. **We recommend a Buy rating.**

Results Highlights: In Rupee terms, revenues de-grew by 10.2% yoy to ₹789cr (₹980cr expected) v/s. ₹879cr in 2QFY2017. International formulation came in at ₹262cr v/s. ₹352cr in 2QFY2017, a yoy dip of 26.0%. Indian formulation sales came in at ₹385cr v/s. ₹363cr in 2QFY2017, a yoy growth of 6.0%. On the operating front, EBITDA margin came in at 22.6% (15.4% expected) v/s. 20.3% in 2QFY2017, an expansion of 230bps yoy. R&D expense was 16.3% of sales v/s. 12.5% of sales in 2QFY2017. Apart from lower sales, a 34.5% yoy rise in the employee expenses impacted the OPM dip, although the dip was restricted by a 52.0% decline in the other expenses. Thus, PAT came in at ₹122cr (₹108cr expected) v/s. ₹120cr in 2QFY2017, up 1.4% yoy.

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 12.4% in sales, while profitability will witness a CAGR of 5.7% yoy. **We maintain our Buy rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net Sales	3,145	3,101	3,346	3,915
% chg	53.2	(1.4)	7.9	17.0
Net Profit	720	403	396	450
% chg	154.1	(44.0)	(1.8)	13.7
EPS (₹)	38.2	21.4	21.0	23.9
EBITDA Margin (%)	31.9	19.7	19.6	19.2
P/E (x)	13.5	24.0	24.5	21.5
RoE (%)	57.9	23.0	19.1	18.4
RoCE (%)	51.0	25.3	20.5	20.6
P/BV (x)	6.1	5.1	4.3	3.7
EV/Sales (x)	3.0	3.1	2.9	2.5
EV/EBITDA (x)	9.3	15.6	14.6	12.9

Source: Company, Angel Research; Note: CMP as of November 17, 2017

BUY

CMP	₹514
Target Price	₹600
Investment Period	12months

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	9,681
Net Debt (₹ cr)	-9
Beta	0.3
52 Week High / Low	709/470
Avg. Daily Volume	19,513
Face Value (₹)	2
BSE Sensex	33,343
Nifty	10,284
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	72.7
MF / Banks / Indian FIs	4.9
FII / NRIs / OCBs	10.7
Indian Public / Others	11.7

Abs. (%)	3m	1yr	3yr
Sensex	6.7	27.1	18.3
Alembic Pharma	-0.1	-15.7	13.1

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2018 performance (Consolidated)

Y/E March (₹ cr)	2QFY2018	1QFY2018	% chg (qoq)	2QFY2017	% chg (yoy)	1HFY2018	1HFY2017	% chg (yoy)
Net sales	789	648	21.8	879	(10.2)	1,437	1,616	(11.1)
Other income	8	0		0	19,075.0	8	1	537.4
Total income	797	648	22.9	872	(9.4)	1,445	1,617	
Gross profit	576	466	23.5	632	(8.9)	1042	1166	(10.7)
Gross margin	72.9	71.9		72.5		72.5	72.2	
Operating profit	178	101	75.8	177	0.7	280	335	(16.4)
Operating margin (%)	22.6	15.6		20.3		19.5	20.7	
Interest	0	1	(60.7)	1		1	2	(47.5)
Depreciation	26	22	17.4	21	24.4	47	40	18.7
PBT	160	79	102.8	156	2.8	239	294	(18.6)
Provision for taxation	37	15	136.2	33	10.3	52	66	(21.6)
PAT before Extra-ordinary item	123	63	94.7	122	0.8	187	227	(17.8)
(Profit)/Loss of Associate Company	3	(3)		4		-1	4	
PAT after Extra-ordinary item & MI	122	67	82.2	120	1.4	188	224	(15.8)
EPS (₹)	6.4	3.5		6.4		10.0	12.2	

Source: Company, Angel Research

Exhibit 2: 2QFY2018 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	789	980	(19.5)
Other Income	8	0	19,075.0
Operating Profit	178	151	18.3
Interest	0	1	(61.1)
Tax	37	16	126.7
Net Profit	122	108	12.4

Source: Company, Angel Research

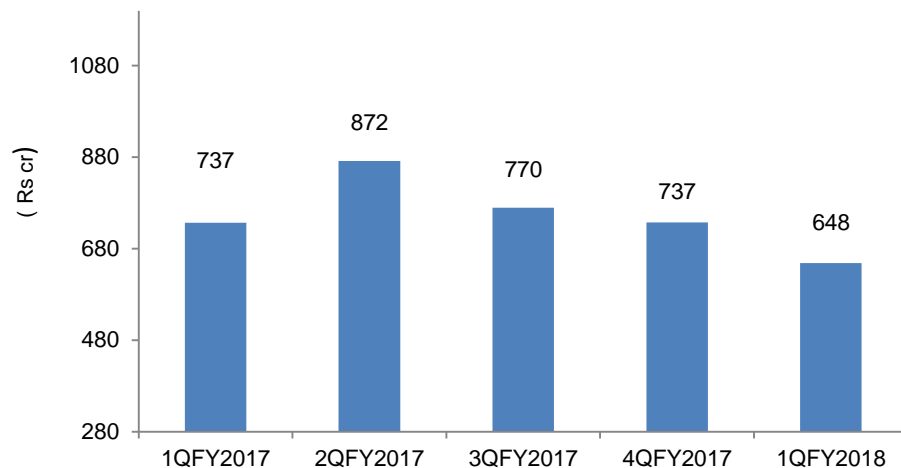
Sales below expectations: Alembic Pharma posted lower than expected results for 2QFY2018. In Rupee terms, revenues de-grew by 10.2% yoy to ₹789cr (₹980cr expected) v/s. ₹879cr in 2QFY2017. International formulation came in at ₹262cr v/s. ₹352cr in 2QFY2017, a yoy dip of 26.0%. Indian formulation sales came in at ₹385cr v/s. ₹363cr in 2QFY2017, a yoy growth of 6.0%. API sales were down by 13.4% yoy to end the period at ₹142cr v/s. ₹164cr in 2QFY2017.

In domestic formulation (₹385cr), specialty business, which constituted ~56% of the domestic sales grew by 10.0% yoy, while acute segment, which constituted ~34% of domestic formulations, grew by 1%. The Veterinary segment, which constituted ~10% of domestic formulations, posted a yoy growth of 4.0%. In International formulation business (₹262cr), US formulation business (73% of international formulation sales) de-grew by 29% yoy. The non-US international formulation sales during the quarter also dipped by 14.0%.

International sales during the quarter contributed ~33.2% of sales, while Indian branded formulation sales contributed ~48.8% of sales in 2QFY2018. In terms of

filling, the company has filed 3 products in US, while 4 products were approved in 2QFY2018.

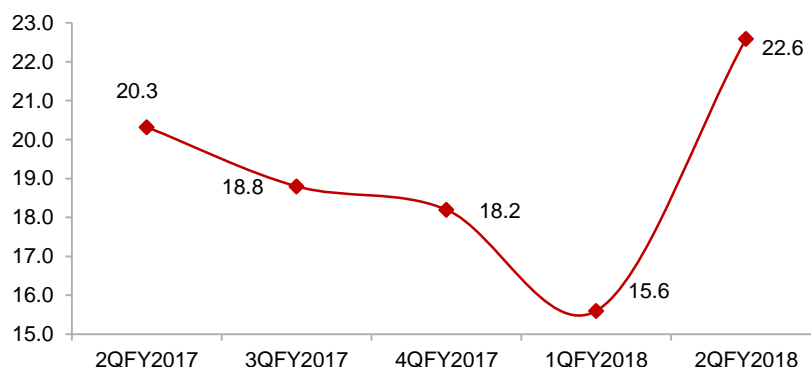
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM better than expectation: On the operating front, EBITDA margin came in at 22.6% (15.4% expected) v/s. 20.3% in 2QFY2017, an expansion of 230bps yoy. The dip was mainly on the back of lower gross margins, which came in at 72.9% v/s. 72.5% in 2QFY2017. R&D expense during the quarter was 16.3% of sales v/s. 12.5% of sales in 2QFY2017. Apart from lower sales, a 34.5% yoy rise in the employee expenses impacted the OPM dip, although the dip was restricted by a 52.0% decline in the other expenses.

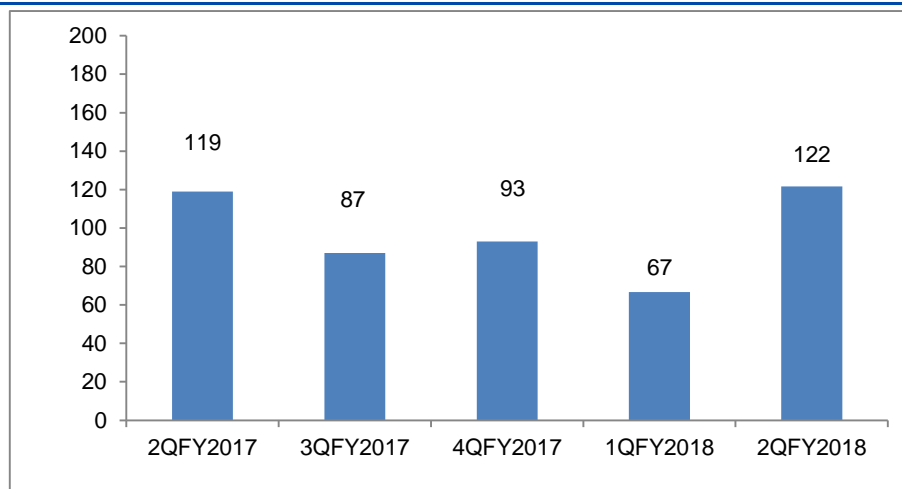
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit higher than expectations: PAT came in at `122cr (`108cr expected) v/s. `120cr in 2QFY2017, up 1.4% yoy. The other income of `8cr V/s `1.2cr aided the net profit to come in higher than expected.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- Company filed 3 ANDA's in 2QFY2018 (overall 9 filed in 1HFY2018), taking cumulative ANDA filings to 104. Cumulatively, 50 ANDA's are awaiting approval.
- Indian business is expected to grow in line with the industry growth in FY2018.
- R&D expenses to be high, as company plans to file 100 ANDA's over the next three years.
- EBDITA Margins expected to be 20% in FY2018E.
- Capex for 2HFY2018 to be `280cr.

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 ~104 ANDAs till date and received 50 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 5.1%.

Outlook and valuation: Over FY2017-19E, we expect the company to post a CAGR of 12.4% 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 5.7% yoy during FY2017-19E. **We recommend a Buy 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 (%)	FY2019E			FY17-19E	FY2019E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	514	600	16.8	21.5	2.5	12.9	5.7	20.6	18.4
Aurobindo Pharma	Buy	708	823	16.3	13.8	2.1	9.6	14.2	25.3	22.7
Cadila Healthcare	Reduce	446	411	(7.9)	21.7	3.5	17.3	18.9	16.5	22.2
Cipla	Sell	609	426	(24.1)	25.0	2.7	16.0	39.3	10.9	13.1
Dr Reddy's	Reduce	2,325	2,040	(12.3)	22.8	2.8	13.7	18.5	10.8	12.4
Dishman Pharma	Under Review	301	-	-	19.3	2.7	11.5	23.3	4.5	4.4
GSK Pharma	Sell	2,511	2000	(20.4)	51.4	6.4	37.7	19.3	25.8	23.5
Indoco Remedies	Sell	267	153	(42.8)	16.7	2.1	14.9	16.2	10.1	14.5
Ipca labs	Neutral	529	-	-	22.1	1.7	11.2	24.7	12.4	11.0
Lupin	Buy	829	1,091	31.6	16.7	2.1	9.7	(6.6)	13.7	13.7
Sanofi India*	Neutral	4,485	-	-	27.4	3.2	17.1	12.8	25.8	27.5
Sun Pharma	Accumulate	517	558	7.9	20.9	3.5	15.4	(12.9)	12.3	15.2

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	3,383	3,958
Less: Excise duty	11	36	29	37	44
Net sales	2,053	3,145	3,101	3,346	3,915
Other operating income	5.7	3.6	3.7	3.7	3.7
Total operating income	2,058	3,149	3,105	3,349	3,919
% chg	10.3	53.0	(1.4)	7.9	17.0
Total expenditure	1,653	2,143	2,490	2,690	3,162
Net raw materials	715	769	858	925	1,122
Other mfg costs	90	138	136	185	172
Personnel	307	421	559	643	771
Other	542	814	937	937	1,096
EBITDA	400	1,002	611	656	753
% chg	11.7	150.9	(39.0)	7.3	14.9
(% of Net Sales)	19.5	31.9	19.7	19.6	19.2
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	516	587
% chg	16.8	160.2	(43.8)	(1.7)	13.7
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	360	936	525	516	587
Tax	76	216	122	120	137
(% of PBT)	21.2	23.1	23.3	23.3	23.3
PAT (reported)	283	720	403	396	450
Add: Share of earnings of asso.	-	(0)	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	283	720	403	396	450
ADJ. PAT	283	720	403	396	450
% chg	20.0	154.1	(44.0)	(1.8)	13.7
(% of Net Sales)	13.8	22.9	13.0	11.8	11.5
Basic EPS (`)	15.0	38.2	21.4	21.0	23.9
Fully Diluted EPS (`)	15.0	38.2	21.4	21.0	23.9
% chg	20.0	154.1	(44.0)	(1.8)	13.7

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	2,205	2,600
Shareholders funds	885	1,601	1,901	2,243	2,638
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	2,549	2,895
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	1,488	2,201
Cash	55	451	160	235	52
Loans & advances	120	409	191	206	908
Other	716	647	970	1,047	1,241
Current liabilities	464	635	599	646	1,057
Net current assets	426	872	723	842	1,144
Mis. Exp. not written off	-	-	-	-	1.0
Total assets	1,177	1,824	2,088	2,549	2,895

Cash Flow Statement (Consolidated)

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	360	936	525	516	587
Depreciation	44	72	83	132	157
(Inc)/Dec in Working Capital	66	191	(218)	28	(594)
Less: Other income	-	-	-	-	-
Direct taxes paid	76	216	122	120	137
Cash Flow from Operations	393	982	268	556	12
(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)	29	(74)
Cash Flow from Financing	(141)	(286)	(131)	94	(179)
Inc./(Dec.) in Cash	31	396	(291)	75	(183)
Opening Cash balances	24	55	451	160	235
Closing Cash balances	55	451	160	235	52

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratio (x)					
P/E (on FDEPS)	34.2	13.5	24.0	24.5	21.5
P/CEPS	29.6	12.2	19.9	18.3	16.0
P/BV	11.0	6.1	5.1	4.3	3.7
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
EV/Sales	4.8	3.0	3.1	2.9	2.5
EV/EBITDA	24.5	9.3	15.6	14.6	12.9
EV / Total Assets	8.3	5.1	4.6	3.8	3.4
Per Share Data (₹)					
EPS (Basic)	15.0	38.2	21.4	21.0	23.9
EPS (fully diluted)	15.0	38.2	21.4	21.0	23.9
Cash EPS	17.4	42.0	25.8	28.0	32.2
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	46.9	84.9	100.9	119.0	140.0
Dupont Analysis					
EBIT margin	17.3	29.6	17.0	15.7	15.2
Tax retention ratio	78.8	76.9	76.7	76.7	76.7
Asset turnover (x)	2.2	2.5	1.9	1.6	1.5
ROIC (Post-tax)	29.6	57.4	24.6	19.0	17.8
Cost of Debt (Post Tax)	0.9	1.5	3.7	5.4	0.0
Leverage (x)	0.1	0.0	0.0	(0.0)	0.0
Operating ROE	33.8	57.6	24.6	18.6	18.0
Returns (%)					
ROCE (Pre-tax)	30.2	51.0	25.3	20.5	20.6
Angel ROIC (Pre-tax)	38.7	77.0	32.7	25.0	23.4
ROE	36.3	57.9	23.0	19.1	18.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.6	3.0	2.2	1.8	1.8
Inventory / Sales (days)	61.5	55.2	70.7	69.7	78.2
Receivables (days)	56.3	41.2	40.4	17.7	20.6
Payables (days)	79.3	84.8	88.9	38.7	45.1
WC cycle (ex-cash) (days)	60.3	45.9	57.8	63.8	79.1
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)	(0.1)	0.1
Interest Coverage (EBIT / Int.)	199.5	252.8	103.1	53.4	48.7

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