

Alembic Pharmaceuticals

Performance Highlights

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg (qoq)	1QFY2016	% chg (yoy)
Net Sales	727	626	16.2	583	24.8
Other Income	1	4	(61.3)	1	46.9
Operating Profit	156	142	9.6	101	54.2
Interest	1	1	(17.7)	1	
Adj. Net Profit	104	91	13.8	72	44.6

Source: Company, Angel Research

For 1QFY2017, Alembic Pharmaceuticals posted sales of ₹727cr V/s ₹780cr expected and V/s ₹583cr in 1QFY2016, ie a yoy growth of 24.8%. Formulations (₹607.6cr) grew 29.3% yoy, while API (₹128cr) grew 7.0% yoy. On the operating profit front, the OPM came in at 21.4% V/s 17.4% in 1QFY2016 and V/s 22.7% expected. Expansion in the OPM was mainly on back of gross margin expansion to 73.7% (V/s 63.4% in 1QFY2016). R&D Exp during the quarter was 10.9% of sales V/s 8.2% in 1QFY2016. This led the company to post an Adj. net profit of ₹104cr V/s ₹72cr in 1QFY2016, a yoy growth of 44.6%. **We maintain our Neutral rating.**

Results below expectations: For 1QFY2017, the company posted sales of ₹727cr V/s ₹780cr expected and V/s ₹583cr in 1QFY2016, a yoy growth of 24.8%. Formulations (₹607.6cr) grew 29.3% yoy, while API (₹128cr) grew by 7.0% yoy. The formulations growth was driven by international formulations (₹309cr) posting a yoy growth of 72.0%, while Indian formulations (₹278cr) grew 6.0% yoy. On the operating front, the OPM came in at 21.4% V/s 17.4% in 1QFY2016 and V/s 22.7% expected. Expansion in the OPM was mainly on back of gross margin expansion to 73.7% (V/s 63.4% in 1QFY2016). This led the company to post an Adj. net profit of ₹104cr V/s ₹72cr in 1QFY2016, a yoy growth of 44.6%.

Outlook and valuation: Over FY2016-18E, we expect the company to post a CAGR of 13.9% in sales while profitability will be under pressure on back of higher R&D spend, which is likely to reach 13-14% of sales in FY2017-FY2018E.

We recommend a Neutral rating on the stock.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	2,053	3,145	3,483	4,083
% chg	10.2	53.2	10.8	17.2
Net Profit	283	720	459	572
% chg	20.0	154.1	(36.2)	24.7
EPS (₹)	15.0	38.2	24.3	30.4
EBITDA Margin (%)	19.5	31.9	20.2	21.4
P/E (x)	41.4	16.3	25.5	20.5
RoE (%)	36.3	57.9	25.5	25.3
RoCE (%)	30.2	51.0	27.2	27.5
P/BV (x)	13.2	7.3	5.8	4.6
EV/Sales (x)	5.8	3.6	3.3	2.7
EV/EBITDA (x)	29.6	11.3	16.2	12.7

Source: Company, Angel Research; Note: CMP as of August 3, 2016

NEUTRAL

CMP ₹622
 Target Price -

Investment Period -

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	11,746
Net Debt (₹ cr)	814
Beta	0.7
52 Week High / Low	755/514
Avg. Daily Volume	23,306
Face Value (₹)	2
BSE Sensex	27,982
Nifty	8,623
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	74.1
MF / Banks / Indian Fls	3.5
FII / NRIs / OCBs	11.1
Indian Public / Others	11.3

Abs. (%)	3m	1yr	3yr
Sensex	3.1	(8.7)	28.2
Alembic Pharma	4.7	(12.3)	341.3

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2017 performance (Consolidated)

Y/E March (₹ cr)	1QFY2017	4QFY2016	% chg (qoq)	1QFY2016	% chg (yoy)	FY2016	FY2015	% chg (yoy)
Net sales	727	626	16.2	583	24.8	3,145	2,053	53.2
Other income	1	4	(61.3)	1	46.9	9	6	51.7
Total income	728	629		584	24.8	3,154	2,059	
Gross profit	536	502	6.9	369	45.1	2376	1338	77.6
Gross margin	73.7	80.2		63.4		75.5	65.2	
Operating profit	156	142	9.6	101	54.2	1002	400	150.6
Operating margin (%)	21.4	22.7		17.4		31.9	19.5	
Interest	1	1	(17.7)	1		4	2	84.0
Depreciation	19	24	(20.6)	13	50.3	72	44	64.1
PBT	137	120	13.9	89	54.6	936	359	160.6
Provision for taxation	33	29	16.4	19	77.4	216	76	184.2
PAT before Extra-ordinary item	104	91	13.6	72	44.6	720	283	154.3
Extra-Ordinary Expenses	(2)	0		(0)		0	0	
PAT after Extra-ord. item & MI	104	91	13.8	72	44.6	720	283	154.3
EPS (₹)	5.5	4.8		3.8		38.2	15.0	

Source: Company, Angel Research

Exhibit 2: 1QFY2017 – Actual vs Angel estimates

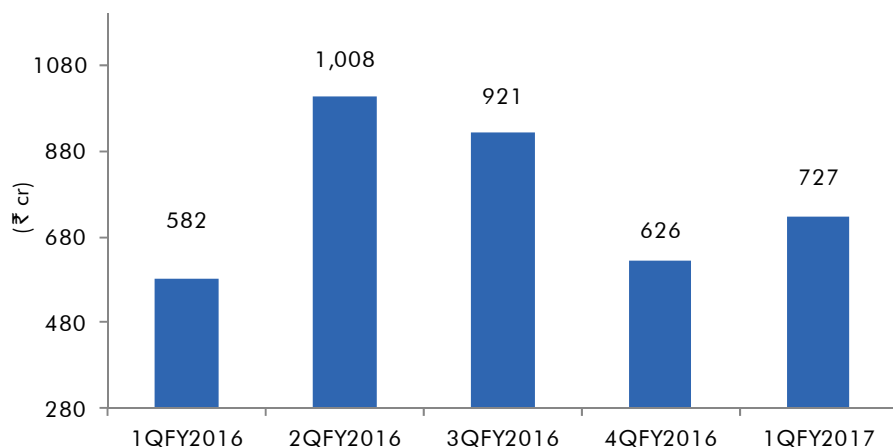
(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	727	780	(6.8)
Other Income	1	1	41.0
Operating Profit	156	177	(11.9)
Interest	1	1	78.3
Tax	33	28	19.6
Net Profit	102	137	(25.4)

Source: Company, Angel Research

Sales below expectation: For 1QFY2017, the company posted sales of ₹727cr V/s ₹780cr expected and V/s ₹583cr in 1QFY2016, a yoy growth of 24.8%. The formulations (₹607.6cr) grew 29.3% yoy while API (₹128cr) grew 7.0% yoy. The formulations growth was driven by international formulation (₹309cr) which grew 72.0% yoy, while Indian formulations (₹278cr) grew 6.0% yoy.

The growth in sales was driven by the international formulations business (₹309cr) which posted a yoy growth of 72.0%, while Indian formulations (₹278cr) posted a 6.0% yoy growth. The growth in the Indian formulations segment was driven by the specialty segment which grew by 16% yoy, while the acute segment de-grew by 10% yoy during the period. During FY2016, the specialty segment had a 60% share in domestic formulations while the rest was accounted by the acute segment (40%). The API business (₹128cr) posted a growth of 7.0% yoy. Till date, the company has filed 78 products (2 in 1QFY2017) in USA.

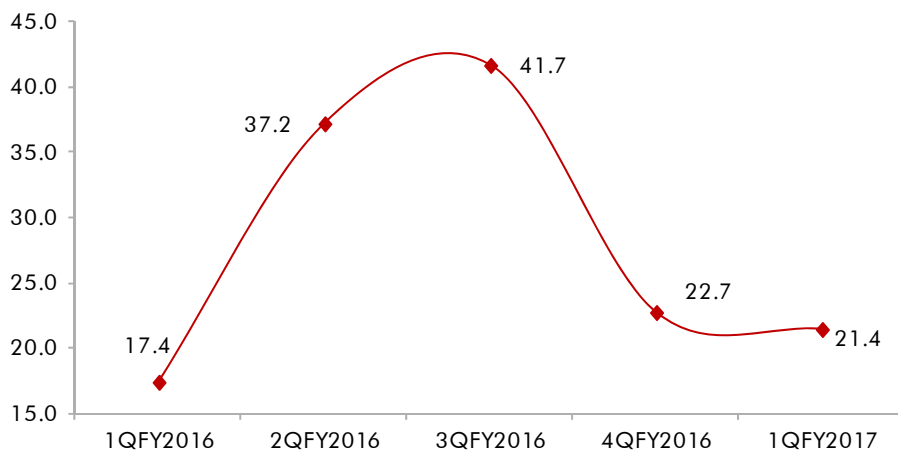
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM lower than expectation: On the operating profit front, the OPM came in at 21.4% V/s 17.4% in 1QFY2016 and V/s 22.7% expected. Expansion in the OPM was mainly on back of gross margin expansion to 73.7% V/s 63.4% in 1QFY2016. R&D expenses during the quarter were 10.9% of sales V/s 8.2% in 1QFY2016.

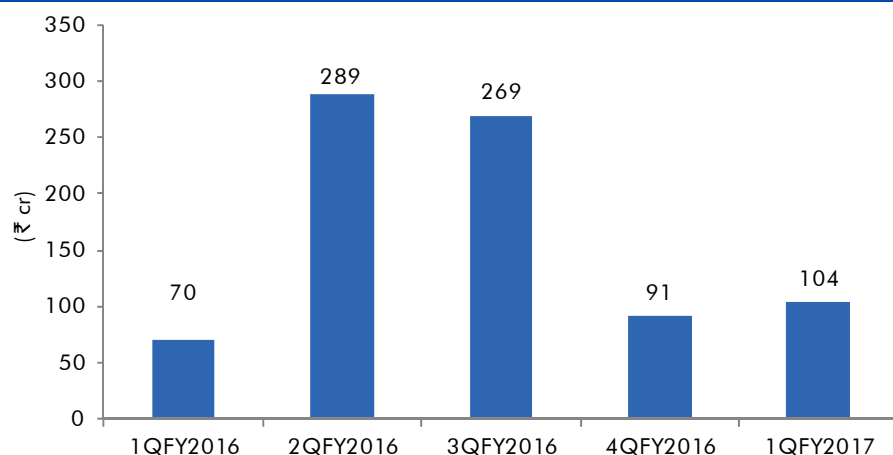
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit below expectation: The Adj. net profit stood at ₹104cr V/s ₹70cr in 1QFY2016, a yoy growth of 46.1%. This was against the expectation of ₹137cr.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- The company has given ₹500cr of capex guidance for FY2017; ₹1,500cr to be spent over next 2.5 years. Oncology injectable facility to be operational by FY2017 end.
- 6-8 US ANDA approvals expected in FY2017.
- API I and II successfully audited by the USFDA without any Form 483.

Investment arguments

Focus on chronic segment to drive domestic formulation growth: Alembic Pharma has been restructuring its business portfolio, which would aid in improving its growth and operating performance. The company's domestic formulation business contributed 44% to its total sales in FY2016. 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 FY2016-18E, we expect the domestic formulation business to grow at a CAGR of 15.0%.

Exports- US the key growth driver: On the exports front, the formulation business contributed by 30% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for ~76 ANDAs till date and received 47 approvals. The company, going forward, expects to keep its momentum high in terms of number of filings, by filing around 10-12 ANDAs per annum. For FY2016-18E, we expect exports to register a CAGR of 13.6%, mainly on back of base effect impact of FY2016 (sales grew by 46% due to launch of Abilify).

Outlook and valuation: Over FY2016-18E, we expect the company to post a CAGR of 13.9% in sales, while profitability will be under pressure on back of higher R&D spend, which is likely to reach 13-14% of sales in FY2017-FY2018E. **We recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	FY2017E	FY2018E
Domestic formulation sales growth (%)	16.0	14.0
Exports sales growth (%)	8.0	20.0
R&D as % of sales	14.0	13.0
Operating margins (%)	20.2	21.4
Capex (₹ cr)	400	200
Net Debt/Equity (x)	(0.1)	(0.2)

Source: Company, Angel Research

Exhibit 7: Recommendation summary

	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2018E EV/Sales (x)	FY2018E EV/EBITDA (x)	FY16-18E CAGR in EPS (%)	FY2018E RoCE (%)	FY2018E RoE (%)
Alembic Pharma	Neutral	622	-	-	20.5	2.7	12.8	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	749	877	17.2	15.8	2.6	11.0	18.1	22.5	26.1
Cadila Healthcare	Buy	347	399	15.3	17.4	2.6	11.8	15.8	24.3	26.6
Cipla	Neutral	529	-	-	19.5	2.5	13.4	20.4	13.5	15.2
Dr Reddy's	Neutral	2,942	-	-	18.6	2.7	10.9	6.9	18.1	17.1
Dishman Pharma	Neutral	164	-	-	15.8	1.7	8.0	(1.1)	9.6	10.2
GSK Pharma*	Neutral	3,139	-	-	52.9	6.8	36.2	15.9	35.8	31.8
Indoco Remedies	Sell	313	225	(19.6)	20.1	2.3	12.8	31.5	19.1	19.2
Ipca labs	Buy	508	613	20.6	25.8	1.8	11.7	17.9	11.8	14.9
Lupin	Accumulate	1,680	1,809	7.7	24.2	4.0	14.9	17.2	24.4	20.9
Sanofi India	Neutral	4,545	-	-	26.9	3.4	19.5	21.2	24.9	28.4
Sun Pharma	Buy	838	944	12.6	25.6	5.2	16.7	22.0	33.1	18.9

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)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Gross sales	1,871	2,064	3,181	3,522	4,128
Less: Excise duty	8	11	36	39	45
Net sales	1,863	2,053	3,145	3,483	4,083
Other operating income	3.2	5.7	3.6	3.6	3.6
Total operating income	1,866	2,058	3,149	3,487	4,087
% chg	22.8	10.3	53.0	10.7	17.2
Total expenditure	1,506	1,653	2,143	2,779	3,210
Net raw materials	713	715	769	1,045	1,225
Other mfg costs	82	90	138	153	180
Personnel	247	307	421	506	607
Other	463	542	814	1,075	1,198
EBITDA	358	400	1,002	704	873
% chg	43.7	11.7	150.9	(29.7)	24.0
(% of Net Sales)	19.2	19.5	31.9	20.2	21.4
Depreciation & amortisation	40	44	72	99	120
Interest & other charges	10	2	4	10	11
Other income	0	0	6	-	-
(% of PBT)	0	0	-	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	308	360	936	596	743
% chg	49.4	16.8	160.2	(36.3)	24.7
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	308	360	936	596	743
Tax	75	76	216	137	171
(% of PBT)	24.4	21.2	23.1	23.0	23.0
PAT (reported)	236	283	720	459	572
Add: Share of earnings of asso.	-	-	(0)	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	236	283	720	459	572
ADJ. PAT	236	283	720	459	572
% chg	43.0	20.0	154.1	(36.2)	24.7
(% of Net Sales)	12.7	13.8	22.9	13.2	14.0
Basic EPS (₹)	12.5	15.0	38.2	24.3	30.4
Fully Diluted EPS (₹)	12.5	15.0	38.2	24.3	30.4
% chg	43.0	20.0	154.1	(36.2)	24.7

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity share capital	37.7	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-	-
Reserves & surplus	638	847	1,563	1,967	2,485
Shareholders funds	676	885	1,601	2,005	2,523
Minority Interest	-	-	-	-	-
Other Long Term Liabilities	12.7	15.8	33.9	14.3	14.3
Long Term Provisions	6.7	6.4	7.4	7.4	7.4
Total loans	78	239	133	150	150
Deferred tax liability	23	31	50	50	50
Total liabilities	795	1,177	1,824	2,227	2,744
APPLICATION OF FUNDS					
Gross block	665	907	1,208	1,608	1,808
Less: acc. depreciation	268	313	385	483	603
Net block	397	595	824	1,125	1,206
Capital work-in-progress	21	-	-	-	-
Goodwill		35	44		
Long Term Loans and Adv.	42	118	83	83	83
Investments	3.4	2.3	2.1	3.3	3.3
Current assets	755	891	1,507	1,955	2,554
Cash	24	55	451	398	729
Loans & advances	147	120	409	453	531
Other	584	716	647	1,104	1,294
Current liabilities	422	464	635	940	1,102
Net current assets	333	426	872	1,015	1,452
Mis. Exp. not written off	-	-	-	-	-
Total assets	795	1,177	1,824	2,227	2,744

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	308	360	936	596	743
Depreciation	40	44	72	99	120
(Inc)/Dec in Working Capital	(84)	66	191	(358)	169
Less: Other income	-	-	-	-	-
Direct taxes paid	75	76	216	137	171
Cash Flow from Operations	190	393	982	199	861
(Inc.)/Dec.in Fixed Assets	(81)	(222)	(301)	(400)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(81)	(222)	(301)	(400)	(200)
Issue of Equity	-	-	-	-	-
Inc./Dec.) in loans	(109)	164	(87)	(2)	-
Dividend Paid (Incl. Tax)	(55)	(55)	(55)	(55)	(55)
Others	(34)	184	160	51	51
Cash Flow from Financing	(197)	293	19	(6)	(4)
Inc./Dec.) in Cash	8	31	396	(53)	331
Opening Cash balances	16	24	55	451	398
Closing Cash balances	24	55	451	398	729

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	49.7	41.4	16.3	25.5	20.5
P/CEPS	42.4	35.8	14.8	21.0	16.9
P/BV	17.3	13.2	7.3	5.8	4.6
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	6.3	5.8	3.6	3.3	2.7
EV/EBITDA	32.9	29.6	11.3	16.2	12.7
EV / Total Assets	14.8	10.0	6.2	5.1	4.0
Per Share Data (₹)					
EPS (Basic)	12.5	15.0	38.2	24.3	30.4
EPS (fully diluted)	12.5	15.0	38.2	24.3	30.4
Cash EPS	14.7	17.4	42.0	29.6	36.7
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	35.8	46.9	84.9	106.4	133.8
DuPont Analysis					
EBIT margin	17.0	17.3	29.6	17.4	18.5
Tax retention ratio	75.6	78.8	76.9	77.0	77.0
Asset turnover (x)	2.5	2.2	2.5	2.2	2.1
ROIC (Post-tax)	32.5	29.6	57.4	29.2	30.2
Cost of Debt (Post Tax)	5.6	0.9	1.5	5.4	5.4
Leverage (x)	0.2	0.1	0.0	0.0	0.0
Operating ROE	38.2	33.8	57.6	29.2	30.2
Returns (%)					
ROCE (Pre-tax)	39.9	30.2	51.0	27.2	27.5
Angel ROIC (Pre-tax)	44.5	38.7	77.0	38.4	39.2
ROE	40.0	36.3	57.9	25.5	25.3
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.0	2.6	3.0	2.5	2.4
Inventory / Sales (days)	56.5	61.5	54.1	70.5	78.4
Receivables (days)	49.5	56.3	43.5	56.3	62.3
Payables (days)	79.8	79.3	37.8	41.7	46.9
WC cycle (ex-cash) (days)	58.6	60.3	45.9	54.3	59.8
Solvency ratios (x)					
Net debt to equity	0.1	0.2	(0.2)	(0.1)	(0.2)
Net debt to EBITDA	0.2	0.5	(0.3)	(0.4)	(0.7)
Interest Coverage (EBIT / Int.)	32.3	199.5	252.8	61.3	71.8

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Disclosure of Interest Statement

Alembic Pharma

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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)