

Alembic Pharmaceuticals

Performance Highlights

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (qoq)	2QFY2016	% chg (yoy)
Net Sales	872	727	19.9	1008	(13.5)
Other Income	0	1	(97.2)	1	(95.9)
Operating Profit	177	156	13.6bp	375	(52.8)bp
Interest	1	1	(10.3)	1	
Adj. Net Profit	120	104	15.5	289	(58.5)

Source: Company, Angel Research

Alembic Pharmaceuticals posted sales of ₹872cr (vs. ₹1,008cr in 2QFY2016), a dip of 13.5% yoy, mainly on back of base effect. International business declined owing to lower contribution from Abilify. On the operating front, the gross margin is expected to come in at 72.5% (vs. 77.5% in 2QFY2016) and EBIDTA margin at 20.3% (vs. 37.2% in 2QFY2016). Consequently, the PAT is expected to come in at ₹120cr (vs. ₹289cr in 2QFY2016), a yoy dip of 58.5%. **We maintain our Neutral rating on the stock.**

Results below expectations: Alembic Pharmaceuticals posted sales of ₹872cr (vs. ₹1,008cr in 2QFY2016), a dip of 13.5% yoy, mainly on back of base effect. International business declined owing to lower contribution from Abilify. On the operating front, the gross margin is expected to come in at 72.5% (vs. 77.5% in 2QFY2016) and EBIDTA margin at 20.3% (vs. 37.2% in 2QFY2016). Consequently, the PAT is expected to come in at ₹120cr (vs. ₹289cr in 2QFY2016), a yoy dip of 58.5%.

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)	45.0	17.7	27.8	21.6
RoE (%)	36.3	57.9	25.5	25.3
RoCE (%)	30.2	51.0	27.2	27.5
P/BV (x)	14.4	8.0	6.4	5.0
EV/Sales (x)	6.2	3.9	3.6	3.0
EV/EBITDA (x)	32.1	12.3	17.6	13.8

Source: Company, Angel Research; Note: CMP as of November 4, 2016

NEUTRAL

CMP	₹676
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	12,363
Net Debt (₹ cr)	814
Beta	0.5
52 Week High / Low	727/514
Avg. Daily Volume	19,547
Face Value (₹)	2
BSE Sensex	27,274
Nifty	8,434
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	74.4
MF / Banks / Indian Fls	3.7
FII / NRIs / OCBs	11.3
Indian Public / Others	10.6

Abs. (%)	3m	1yr	3yr
Sensex	(1.0)	3.2	29.1
Alembic Pharma	15.7	0.2	241.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2017 performance (Consolidated)

Y/E March (₹ cr)	2QFY2017	1QFY2017	% chg (qoq)	2QFY2016	% chg (yoy)	1HFY2017	1HFY2016	% chg (yoy)
Net sales	872	727	19.9	1,008	(13.5)	1,595	1,585	0.6
Other income	0	1	(97.2)	1	(95.9)	1	2	(27.5)
Total income	872	728		1,009	(13.6)	1,596	1,587	
Gross profit	632	536	17.8	782	(19.2)	1168	1151	1.5
Gross margin	72.5	73.7		77.5		73.2	72.6	
Operating profit	177	156	13.6	375	(52.8)	333	476	(30.0)
Operating margin (%)	20.3	21.4		37.2		20.9	30.0	
Interest	1	1	(10.3)	1		2	1	103.0
Depreciation	21	19	6.4	13	55.4	40	26	53.8
PBT	156	137	13.6	362	(57.0)	294	451	(34.9)
Provision for taxation	33	33	(0.4)	74	(54.9)	66	92	(27.8)
PAT before Extra-ordinary item	122	104	18.1	289	(57.6)	227	360	(36.9)
(Profit)/Loss of Associate Company	4	(2)		(0)		-4	0	
PAT after Extra-ordinary item & MI	120	104	15.5	289	(58.5)	224	360	(37.9)
EPS (₹)	6.4	5.5		15.3		11.9	19.1	

Source: Company, Angel Research

Exhibit 2: 2QFY2017 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	872	750	16.2
Other Income	0	1	(95.9)
Operating Profit	177	164	7.7
Interest	1	1	(12.7)
Tax	33	33	(0.5)
Net Profit	120	112	6.0

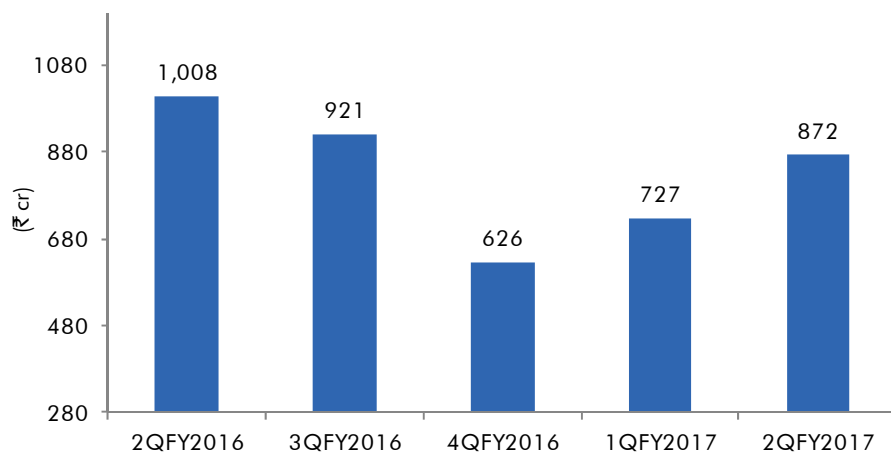
Source: Company, Angel Research

Sales above expectation: The sales came in at ₹872cr (vs. ₹750cr expected vs. ₹1,008cr in 2QFY2016), a dip of 13.5% yoy, mainly on back of base effect. International formulation business (₹352cr in 2QFY2017) posted a yoy dip of 38.4%, while the Indian formulation (₹338cr in 2QFY2017) posted a yoy growth of 19.0%. API posted sales of ₹164cr in 2QFY2017, a yoy growth of 19.7%.

The growth in the Indian formulations segment was driven by the specialty segment which grew by 16% yoy, while the acute segment grew by 22% 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 (₹292.5cr) posted a growth of 14.0% yoy. Indian generics posted sales of ₹25cr in 2QFY2017. Till date, the company has filed 82 products (4 in 2QFY2017) in USA.

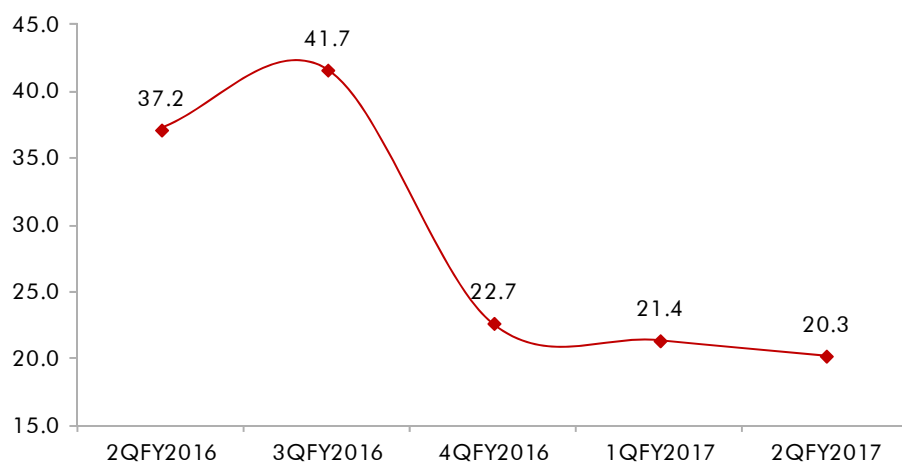
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM lower than expectation: On the operating front, the gross margin came in at 72.5% (vs. 73.4% expected vs. 77.5% in 2QFY2016) and EBITDA margin at 20.3% (vs. 21.9% expected vs. 37.2% in 2QFY2016). The R&D expenses, during the quarter, came in at 12.5% of sales (vs. 7.7% of sales in 2QFY2016).

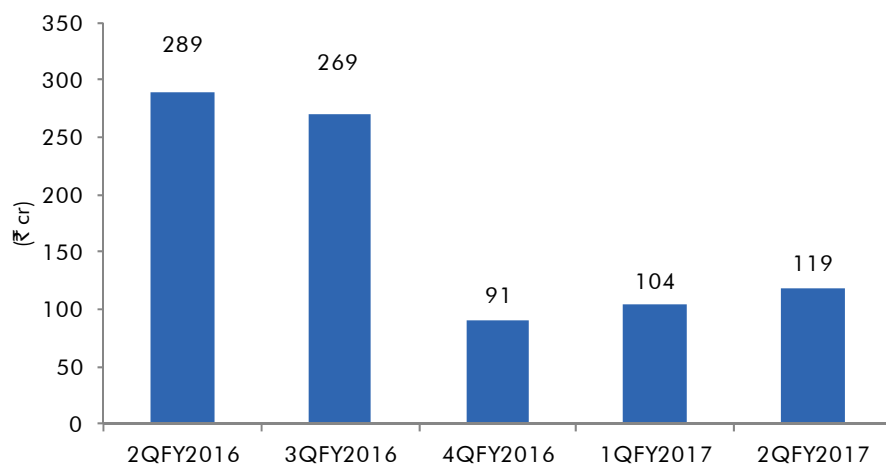
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit above expectation: The Adj. net profit stood at ₹120cr (vs. ₹289cr in 2QFY2017), a yoy de-growth of 58.5%. This was against the expectation of ₹112cr.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- Oncology oral solids and injectable facilities to be operational by FY2017 end.
- 12-16 US ANDA approvals expected till FY2018 end.
- R&D expenses to be ₹400-450cr in FY2017.
- 33 pending ANDAs, of which ~40% are Para IV/ FTFs.
- Capex for FY2017 to be ₹600cr.

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 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 ~82 ANDAs till date and received 49 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 our 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	656	-	-	21.6	2.9	13.4	(10.8)	27.5	25.3
Aurobindo Pharma	Accumulate	727	877	20.7	15.4	2.5	10.7	18.1	22.5	26.1
Cadila Healthcare	Neutral	390	-	-	18.4	3.1	14.3	13.4	22.7	25.7
Cipla	Neutral	545	-	-	20.0	2.5	13.8	20.4	13.5	15.2
Dr Reddy's	Neutral	3,077	-	-	21.5	2.8	12.4	1.7	16.2	15.9
Dishman Pharma	Neutral	227	-	-	20.1	2.3	9.9	3.1	10.3	10.9
GSK Pharma	Neutral	2,775	-	-	46.7	6.0	42.1	15.9	33.7	30.6
Indoco Remedies	Neutral	276	-	-	17.7	2.1	11.3	31.5	19.1	19.2
Ipca labs	Accumulate	583	613	5.1	29.6	2.0	13.4	36.5	8.8	9.4
Lupin	Buy	1,421	1,809	27.3	20.5	3.9	12.6	17.2	24.4	20.9
Sanofi India*	Neutral	4,276	-	-	25.3	3.4	18.2	21.2	24.9	28.4
Sun Pharma	Buy	653	944	44.6	19.9	3.9	12.6	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)	52.4	43.7	17.2	26.9	21.6
P/CEPS	44.7	37.7	15.6	22.2	17.9
P/BV	18.3	14.0	7.7	6.2	4.9
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	6.7	6.1	3.8	3.5	2.9
EV/EBITDA	34.7	31.2	12.0	17.1	13.4
EV / Total Assets	15.6	10.6	6.6	5.4	4.3
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)