

Alembic Pharma

Performance Highlights

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg (qoq)	3QFY2015	% chg (yoy)
Net Sales	921	1008	(8.6)	507	81.8
Other Income	4	1	262.9	1	266.7
Operating Profit	384	375	2.3	102	276.3
Interest	1	1	42.5	1	42.5
Net Profit	269	289	(6.7)	71	281.4

Source: Company, Angel Research

Alembic Pharmaceuticals (Alembic Pharma) posted better-than-expected results for 3QFY2016. It posted an 81.8% yoy growth in sales for the quarter to ₹921cr V/s ₹507cr in 3QFY2015 (and V/s an expected ₹700cr). Sales growth was mainly driven by the international business, which posted a 248% yoy growth, while the Indian branded formulation business posted a 15% yoy growth. Consequently, on the operating front, the EBITDA margin came in at 41.7% V/s 20.1% in 3QFY2015 (and V/s an expected 27.5%). The same was aided by gross margin expansion, which came in at 77.6% V/s 65.6% in 3QFY2015. The R&D expenditure during the quarter was 7.6% of sales V/s 6.0% of sales in 3QFY2015. Thus, the PAT came in at ₹269cr V/s ₹71cr in 3QFY2015 (and V/s an expected ₹160cr), a yoy growth of 281.4%. **We maintain our Neutral rating on the stock considering fuller valuations.**

Results better than expectations: Alembic Pharma posted better-than-expected results for 3QFY2016. It posted an 81.8% yoy growth in sales for the quarter to ₹921cr V/s ₹507cr in 3QFY2015 (and V/s an expected ₹700cr). Sales growth was mainly driven by the international business, which posted a 248% yoy growth, while the Indian branded formulation business posted a 15% yoy growth. Consequently, on the operating front, the EBITDA margin came in at 41.7% V/s 20.1% in 3QFY2015 (and V/s an expected 27.5%). The same was aided by gross margin expansion, which came in at 77.6% V/s 65.6% in 3QFY2015. The R&D expenditure during the quarter was 7.6% of sales V/s 6.0% of sales in 3QFY2015. Thus, the PAT came in at ₹269cr V/s ₹71cr in 3QFY2015 (and V/s an expected ₹160cr), a yoy growth of 281.4%.

Outlook and valuation: Alembic Pharma's growth and profitability profile has improved post the restructuring carried out by the Management. Over FY2015-17E, we expect the company to post a CAGR of 36.1% and 38.2% in sales and net profit, respectively. **We recommend a Neutral rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	1,863	2,053	3,274	3,802
% chg	22.9	10.2	59.5	16.1
Net Profit	236	283	660	541
% chg	43.0	20.0	133.0	(18.0)
EPS (₹)	12.5	15.0	35.0	28.7
EBITDA Margin (%)	19.2	19.5	26.9	19.4
P/E (x)	49.4	41.1	17.7	21.5
RoE (%)	40.0	36.3	55.6	31.2
RoCE (%)	39.9	30.2	49.3	31.3
P/BV (x)	17.2	13.2	7.8	5.9
EV/Sales (x)	6.3	5.7	3.5	3.0
EV/EBITDA (x)	32.7	29.4	13.0	15.3

Source: Company, Angel Research; Note: CMP as of January 29, 2016

NEUTRAL

CMP	₹618
Target Price	-

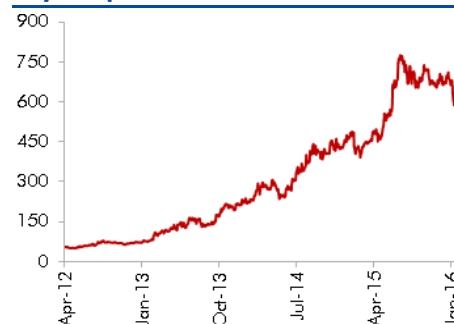
Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	11,645
Net Debt (₹ cr)	814
Beta	0.8
52 Week High / Low	792/382
Avg. Daily Volume	33,825
Face Value (₹)	2
BSE Sensex	24,871
Nifty	7,564
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	74.1
MF / Banks / Indian Fls	8.1
FII / NRIs / OCBs	4.5
Indian Public / Others	13.3

Abs. (%)	3m	1yr	3yr
Sensex	(7.3)	(16.2)	24.4
Alembic Pharma	(9.1)	28.9	708.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance (Consolidated)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg(qoq)	3QFY2015	% chg (yoy)	9MFY2016	9MFY2015	% chg (yoy)
Net sales	921	1,008	(8.6)	507	81.8	2,511	1,551	61.9
Other income	4	1	262.9	1	266.7	5	3	82.0
Total income	925	1,009		508	82.1	2,517	1,554	
Gross profit	715	782	(8.5)	332	115.1	1866	1010	84.7
Gross margin	77.6	77.5		65.6		74.3	65.1	
Operating profit	384	375	2.3	102	276.3	860	303	183.9
Operating margin (%)	41.7	37.2		20.1		34.3	19.5	
Interest	1	1	42.5	1	42.5	2	1	138.0
Depreciation	22	13	63.1	12	81.9	48	33	44.9
PBT	365	362	0.7	90	303.7	815	271	200.9
Provision for taxation	95	74	29.3	19	392.1	187	58	223.1
PAT before Extra-ordinary item	269	289	(6.7)	71	281.4	628	213	195.5
Extra-Ordinary Expenses	0	0		0		0	0	
PAT after Extra-ordinary item & MI	269	289	(6.7)	71	281.4	628	213	195.5
EPS (₹)	14.3	15.3		3.7		33.3	11.3	

Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net Sales	921	700	31.6
Other Income	4	1	266.7
Operating Profit	384	191	100.7
Interest	1	1	42.5
Tax	95	19	392.1
Net Profit	269	160	67.8

Source: Company, Angel Research

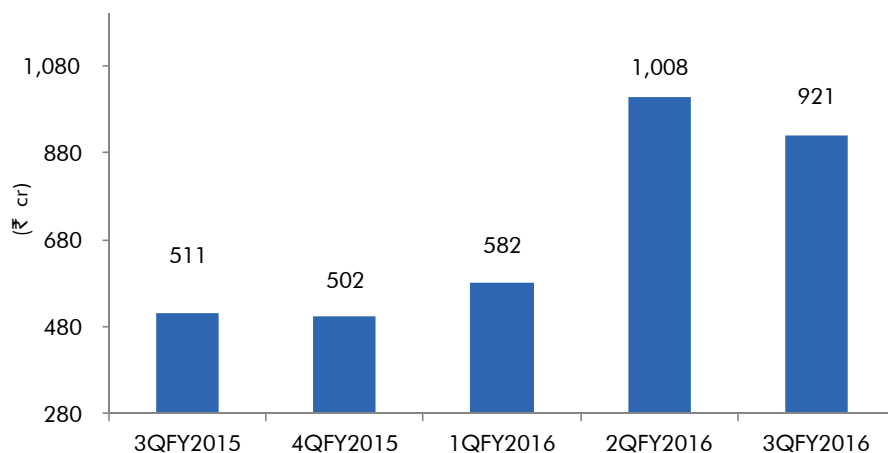
Sales much above our expectations: The company posted better-than-expected results for 3QFY2016. It posted an 81.8% yoy growth in sales to ₹921cr V/s ₹507cr in 3QFY2015 and V/s an expected ₹700cr.

Sales growth was mainly driven by the international business, which posted a 248% yoy growth, while the Indian branded formulation business posted a 15% yoy growth. However the Indian generic business posted a 40% yoy dip in sales. Overall, formulations accounted for 86% of sales V/s 78% in 3QFY2015. APIs on the other hand posted a yoy growth of 24%.

In the Indian market, for 9MFY2016, the acute segment constituted ~40% of domestic sales while the chronic segment accounted for the remaining. The international generic segment posted growth, mainly on back of gAbilify.

The current ANDA filings are at 74 including 29 pending approvals, of which, ~50% are Para IV and shared exclusivity filings.

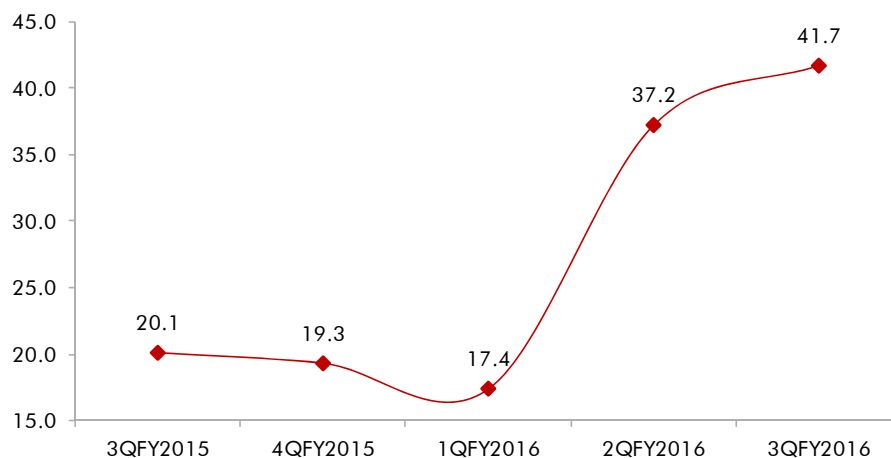
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM better than expectation: Consequently, on the operating front, the EBITDA margin came in at 41.7% V/s 20.1% in 3QFY2015 (V/s 27.5% expected), aided by gross margins of 77.6% V/s 65.6% in 3QFY2015. The R&D expenditure during the quarter was 7.6% of sales V/s 6.0% of sales in 3QFY2015. Going ahead, the Management expects R&D expenses to stabilize at 8% of sales due to increased complexity of filings.

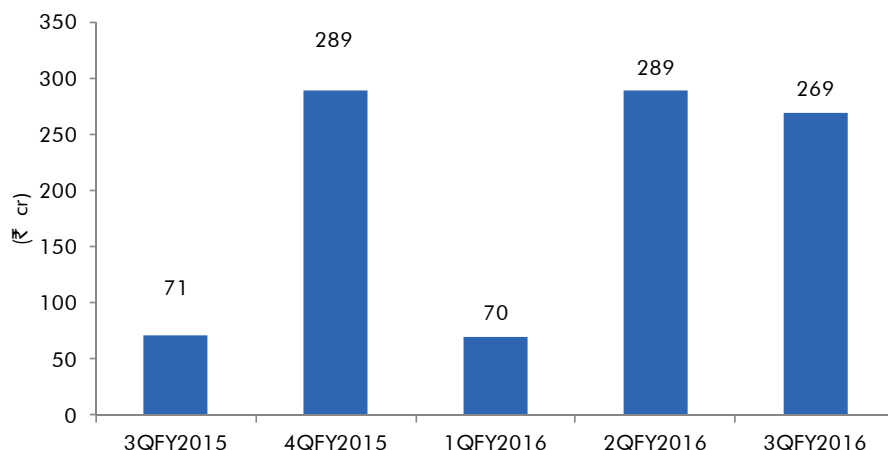
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit above expectation: Thus, the PAT came in at ₹270cr V/s ₹71cr in 3QFY2015 (and V/s an expected ₹160cr), a yoy growth of 281%.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- US sales for gAbilify during the quarter pertain to July-September sales as the amount was received from the partner in 3QFY2016. As per the Management, the partner has regained lost market share of gAbilify to some extent during the quarter amid increased competition. Ex-gAbilify also, US sales registered yoy growth.
- USFDA audits were conducted in September and May 2015 for the formulation and API plants, respectively. The other two API facilities are expecting USFDA inspections in the near future.
- The company has guided for ~8% R&D spend for FY2016. of the total R&D expenses 80-85% are expected to be spent for generic formulations (injectables & dermatology).
- The company has given a capex guidance of ₹280-300cr for FY2016, of which ₹200cr of capex has already been expended till 3QFY2016.
- The company has maintained its guidance of 30-35% base business growth in international sales.

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 52% to its total sales in FY2015. 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 FY2015-17E, we expect the domestic formulation business to grow at a CAGR of 13.0%.

Exports- US the key growth driver: On the exports front, the formulation business contributed 31% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for ~70 ANDAs till date

and received 44 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 FY2015-17E, we expect exports to register a CAGR of 95.5%.

Outlook and valuation: Alembic Pharma's growth and profitability profile has improved post the restructuring carried out by the Management. Over FY2015-17, we expect the company to post a CAGR of 36.1% and 38.2% in sales and net profit, respectively. **We recommend a Neutral on the stock, owing to fuller valuations.**

Exhibit 6: Key assumptions

	FY2016E	FY2017E
Domestic formulation sales growth (%)	10.0	16.0
Exports sales growth (%)	227.0	17.0
R&D as % of sales	8.0	8.0
Operating margins (%)	26.9	19.4
Capex (₹ cr)	200	200
Net Debt/Equity (x)	(0.0)	(0.2)

Source: Company, Angel Research

Exhibit 7: Recommendation summary

	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2017E EV/Sales (x)	FY2017E EV/EBITDA (x)	FY15-17E CAGR in EPS (%)	FY2017E RoCE (%)	FY2017E RoE (%)
Alembic Pharma	Neutral	618	-	-	21.5	3.0	15.3	38.2	31.3	31.2
Aurobindo Pharma	Neutral	833	-	-	19.5	3.1	13.5	15.6	23.5	30.2
Cadila Healthcare	Buy	305	352	15.5	17.3	2.6	11.8	24.6	25.2	29.0
Cipla	Accumulate	586	636	8.6	20.3	2.8	14.5	21.4	17.1	16.8
Dr Reddy's	Buy	3,104	3,933	26.7	17.4	2.6	11.2	17.2	19.1	20.4
Dishman Pharma	Neutral	331	-	-	16.6	1.8	8.2	15.9	9.5	11.2
GSK Pharma*	Neutral	3,224	-	-	47.2	8.2	37.3	6.6	33.7	34.3
Indoco Remedies	Neutral	323	-	-	23.8	2.6	14.1	23.0	19.7	19.7
Ipca labs	Buy	669	900	34.6	23.9	2.4	12.9	17.9	11.8	14.0
Lupin	Neutral	1,710	-	-	25.0	4.3	15.9	13.1	29.6	24.7
Sanofi India*	Neutral	4,242	-	-	28.0	3.6	17.4	33.1	27.9	25.5
Sun Pharma	Accumulate	873	950	8.8	32.5	5.8	18.8	8.4	15.8	16.6

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

Company Background

Alembic Pharma 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 API and formulation manufacturing plants (both USFDA approved).

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014E	FY2015E	FY2016E	FY2017E
Gross sales	1,526	1,871	2,064	3,294	3,825
Less: Excise duty	10	8	11	20	23
Net sales	1,516	1,863	2,053	3,274	3,802
Other operating income	3.1	3.2	5.7	2.0	2.0
Total operating income	1,519	1,866	2,058	3,276	3,804
% chg	4.0	22.8	10.3	59.2	16.1
Total expenditure	1,267	1,506	1,653	2,393	3,066
Net raw materials	681	713	715	1,149	1,483
Other mfg costs	67	82	90	144	167
Personnel	194	247	307	380	472
Other	326	463	542	720	945
EBITDA	249	358	400	881	736
% chg	22.5	43.7	11.7	120.5	(16.5)
(% of Net Sales)	16.4	19.2	19.5	26.9	19.4
Depreciation & amortisation	35	40	44	47	53
Interest & other charges	15	10	2	16	12
Other income	4	0	0	-	-
(% of PBT)	2	0	0	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	206	308	360	819	671
% chg	28.0	49.4	16.8	127.7	(18.0)
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	206	308	360	819	671
Tax	41	75	76	159	130
(% of PBT)	19.9	24.4	21.2	19.4	19.4
PAT (reported)	165	236	283	660	541
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	165	236	283	660	541
ADJ. PAT	165	236	283	660	541
% chg	26.7	43.0	20.0	133.0	(18.0)
(% of Net Sales)	10.9	12.7	13.8	20.2	14.2
Basic EPS (₹)	8.8	12.5	15.0	35.0	28.7
Fully Diluted EPS (₹)	8.8	12.5	15.0	35.0	28.7
% chg	26.7	43.0	20.0	133.0	(18.0)

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity share capital	37.7	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-	-
Reserves & surplus	465	638	847	1,452	1,939
Shareholders funds	503	676	885	1,490	1,976
Minority Interest					
Other Long Term Liabilities	12.8	12.7	15.8	14.3	14.3
Long Term Provisions	6.1	6.7	6.4	7.4	7.4
Total loans	187	78	239	150	150
Deferred tax liability	14	23	31	31	31
Total liabilities	722	795	1,177	1,693	2,179
APPLICATION OF FUNDS					
Gross block	572	665	907	1,107	1,307
Less: acc. depreciation	228	268	313	359	412
Net block	344	397	595	748	895
Capital work-in-progress	32	21	35	35	35
Goodwill					
Long Term Loans and Adv.	36	42	118	118	118
Investments	3.3	3.4	2.3	3.3	3.3
Current assets	632	755	891	1,673	2,153
Cash	16	24	55	209	454
Loans & advances	116	147	120	426	494
Other	500	584	716	1,038	1,205
Current liabilities	325	422	464	884	1,027
Net current assets	307	333	426	789	1,127
Mis. Exp. not written off	-	-	-	-	-
Total assets	722	795	1,177	1,693	2,179

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	206	308	360	819	671
Depreciation	35	40	44	47	53
(Inc)/Dec in Working Capital	(78)	(84)	66	(266)	103
Less: Other income	-	-	-	-	-
Direct taxes paid	41	75	76	159	130
Cash Flow from Operations	121	190	393	441	696
(Inc.)/Dec.in Fixed Assets	(84)	(81)	(257)	(200)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(84)	(81)	(257)	(200)	(200)
Issue of Equity	-	-	-	-	-
Inc./Dec.) in loans	(165)	(109)	164	(89)	0
Dividend Paid (Incl. Tax)	(55)	(55)	(55)	(55)	(55)
Others	(39)	(34)	184	160	51
Cash Flow from Financing	(259)	(197)	293	16	(4)
Inc./Dec.) in Cash	(31)	8	31	154	245
Opening Cash balances	47	16	24	55	209
Closing Cash balances	16	24	55	209	454

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	70.6	49.4	41.1	17.7	21.5
P/CEPS	58.3	42.1	35.6	16.5	19.6
P/BV	23.2	17.2	13.2	7.8	5.9
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	7.8	6.3	5.7	3.5	3.0
EV/EBITDA	47.4	32.7	29.4	13.0	15.3
EV / Total Assets	16.3	14.7	10.0	6.8	5.2
Per Share Data (₹)					
EPS (Basic)	8.8	12.5	15.0	35.0	28.7
EPS (fully diluted)	8.8	12.5	15.0	35.0	28.7
Cash EPS	10.6	14.7	17.4	37.5	31.5
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	26.7	35.8	46.9	79.0	104.8
Dupont Analysis					
EBIT margin	14.1	17.0	17.3	25.5	18.0
Tax retention ratio	80.1	75.6	78.8	80.6	80.6
Asset turnover (x)	2.1	2.5	2.2	2.5	2.4
ROIC (Post-tax)	23.9	32.5	29.6	51.6	34.3
Cost of Debt (Post Tax)	4.5	5.6	0.9	6.4	6.4
Leverage (x)	0.6	0.2	0.1	0.1	0.0
Operating ROE	34.8	38.2	33.8	55.4	34.3
Returns (%)					
ROCE (Pre-tax)	29.6	39.9	30.2	49.3	31.3
Angel ROIC (Pre-tax)	31.9	44.5	38.7	65.8	43.5
ROE	36.8	40.0	36.3	55.6	31.2
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.9	3.0	2.6	3.3	3.2
Inventory / Sales (days)	63.1	56.5	61.5	55.6	71.5
Receivables (days)	51.9	49.5	56.3	51.3	62.6
Payables (days)	72.6	79.8	79.3	41.5	45.9
WC cycle (ex-cash) (days)	78.6	58.6	60.3	53.0	60.1
Solvency ratios (x)					
Net debt to equity	0.3	0.1	0.2	(0.0)	(0.2)
Net debt to EBITDA	0.7	0.2	0.5	(0.1)	(0.4)
Interest Coverage (EBIT / Int.)	14.3	32.3	199.5	53.7	56.9

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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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