

## Alembic Pharmaceuticals

### Performance Highlights

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg (qoq)	3QFY2016	% chg (yoy)
<b>Net Sales</b>	<b>770</b>	<b>872</b>	<b>(11.7)</b>	<b>921</b>	<b>(16.4)</b>
Other Income	1	0	0.0	4	(75.3)
Operating Profit	145	177	(18.4)	384	(62.4)
Interest	1	1	(21.9)	1	2.7
<b>Adj. Net Profit</b>	<b>87</b>	<b>119</b>	<b>(27.1)</b>	<b>269</b>	<b>(67.8)</b>

Source: Company, Angel Research

Alembic Pharma posted lower than expected numbers for 3QFY2017. In sales, the company posted revenues of ₹770cr (₹872cr expected) v/s ₹921cr in 3QFY2016, dip of 16.4% yoy. The dip in sales was mainly on the back of the International sales, which came in at ₹303cr v/s ₹521cr in 3QFY2016, a dip of 41.8%. The Indian branded sales came in at ₹294cr v/s ₹288cr, a yoy growth of 2.1%. On EBITDA front, the company posted an EBITDA of 18.8% (20.6% expected) v/s 41.7% in 3QFY2016. Consequently, PAT came in at ₹87cr (lower than expectations) v/s ₹270cr in 3QFY2016, de-growth of 67.8% yoy. **We maintain our Neutral rating.**

**Results below expectations:** In sales, the company posted revenues of ₹770cr (₹872cr expected) v/s ₹921cr in 3QFY2016, dip of 16.4% yoy. The dip in sales was mainly on back of the International sales, which came in at ₹303cr v/s ₹521cr in 3QFY2016, a dip of 41.8%. The Indian branded sales came in at ₹294cr v/s ₹288cr in 3QFY2016, a yoy growth of 2.1%. On EBITDA front, the company posted an EBITDA of 18.8% (20.6% expected) v/s 41.7% in 3QFY2016. The dip came in on the back of high R&D expenses, which came in at 15.2% of sales v/s 7.6% of sales in 3QFY2016. Consequently, PAT, came in at ₹87cr (lower than expectations) v/s ₹270cr in 3QFY2016, de-growth of 67.8% yoy.

**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 the back of higher R&D spend, which is likely to reach 13-14% of sales in FY2017-FY2018E.

**We maintain our Neutral rating on the stock.**

### Key Financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>Net Sales</b>	<b>2,053</b>	<b>3,145</b>	<b>3,483</b>	<b>4,083</b>
% chg	10.2	53.2	10.8	17.2
<b>Net Profit</b>	<b>283</b>	<b>720</b>	<b>459</b>	<b>572</b>
% chg	20.0	154.1	(36.2)	24.7
<b>EPS (₹)</b>	<b>15.0</b>	<b>38.2</b>	<b>24.3</b>	<b>30.4</b>
EBITDA Margin (%)	19.5	31.9	20.2	21.4
P/E (x)	38.3	15.1	23.6	18.9
RoE (%)	36.3	57.9	25.5	25.3
RoCE (%)	30.2	51.0	27.2	27.5
P/BV (x)	12.3	6.8	5.4	4.3
EV/Sales (x)	5.3	3.3	3.0	2.5
EV/EBITDA (x)	27.3	10.5	14.9	11.7

Source: Company, Angel Research; Note: CMP as of January 27, 2017

## NEUTRAL

CMP	₹575
Target Price	-

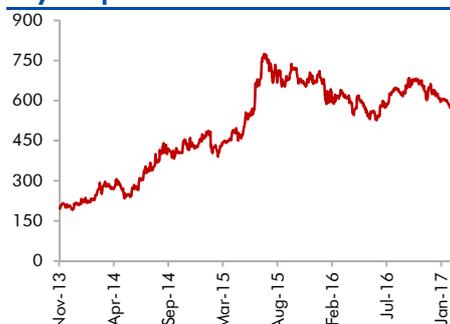
Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	10,837
Net Debt (₹ cr)	814
Beta	0.4
52 Week High / Low	700/514
Avg. Daily Volume	16,761
Face Value (₹)	2
BSE Sensex	27,882
Nifty	8,641
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	72.7
MF / Banks / Indian Fls	4.0
FII / NRIs / OCBs	11.0
Indian Public / Others	12.3

Abs. (%)	3m	1yr	3yr
Sensex	(0.1)	13.8	34.6
Alembic Pharma	(13.6)	(4.5)	164.5

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2017 performance (Consolidated)**

Y/E March (₹ cr)	3QFY2017	2QFY2017	% chg (qoq)	3QFY2016	% chg (yoy)	9MFY2017	9MFY2016	% chg (yoy)
<b>Net sales</b>	<b>770</b>	<b>872</b>	<b>(11.7)</b>	<b>921</b>	<b>(16.4)</b>	<b>2,365</b>	<b>2,511</b>	<b>(5.8)</b>
Other income	1	0		4	(75.3)	4	5	(27.2)
<b>Total income</b>	<b>771</b>	<b>872</b>	<b>(11.6)</b>	<b>925</b>	<b>(16.7)</b>	<b>2,368</b>	<b>2,516</b>	
Gross profit	565	632	(10.7)	715	(21.0)	1729	1866	(7.4)
<b>Gross margin</b>	<b>73.3</b>	<b>72.5</b>		<b>77.6</b>		<b>73.1</b>	<b>74.3</b>	
Operating profit	145	177	(18.4)	384	(62.4)	478	860	(44.5)
<b>Operating margin (%)</b>	<b>18.8</b>	<b>20.3</b>		<b>41.7</b>		<b>20.2</b>	<b>34.2</b>	
Interest	1	1	(21.9)	1		3	2	39.0
Depreciation	21	21	2.5	22	(4.0)	61	48	27.4
PBT	124	156	(20.5)	365	(66.2)	417	815	(48.8)
Provision for taxation	39	33	18.5	95	(58.7)	106	187	(43.5)
<b>PAT before Extra-ordinary item</b>	<b>87</b>	<b>122</b>	<b>(29.3)</b>	<b>269</b>	<b>(67.8)</b>	<b>312</b>	<b>629</b>	<b>(50.5)</b>
(Profit)/Loss of Associate Company	0	4		(0)		(1)	0	
<b>PAT after Extra-ordinary item &amp; MI</b>	<b>87</b>	<b>119</b>	<b>(27.1)</b>	<b>269</b>	<b>(67.8)</b>	<b>310</b>	<b>630</b>	<b>(50.7)</b>
<b>EPS (₹)</b>	<b>4.6</b>	<b>6.3</b>		<b>14.3</b>		<b>16.5</b>	<b>33.3</b>	

Source: Company, Angel Research

**Exhibit 2: 3QFY2017 – Actual vs Angel estimates**

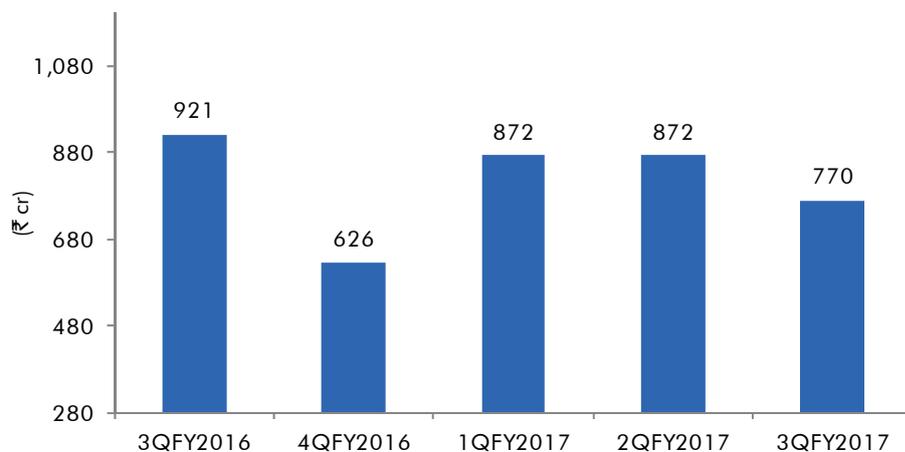
(₹ cr)	Actual	Estimates	Variation (%)
<b>Net Sales</b>	<b>770</b>	<b>872</b>	<b>(11.7)</b>
Other Income	1	4	(71.9)
Operating Profit	145	180	(19.6)
Interest	1	1	(27.9)
Tax	39	27	45.6
<b>Net Profit</b>	<b>87</b>	<b>134</b>	<b>(35.2)</b>

Source: Company, Angel Research

**Sales below expectation:** In sales, the company posted revenues of ₹770cr (₹872cr expected) v/s ₹921cr in 3QFY2016, dip of 16.4% yoy. The dip in sales was mainly on the back of the International sales, which came in at ₹303cr v/s ₹521cr in 3QFY2016, a dip of 41.8%. The Indian branded sales came in at ₹294cr v/s ₹288cr, a yoy growth of 2.1%. API sales, on the other hand, came in at ₹166cr v/s ₹101cr in 3QFY2016, a yoy growth of 66.0%.

International sales, during the quarter contributed around 39% of sales in 3QFY2017, while Indian branded formulation sales contributed around 37.9% of sales in 3QFY2017. US markets sales were around ₹226cr in 3QFY2017. In terms, of filling, the company has filed 4 products in US, while 3 products received approval during the quarter.

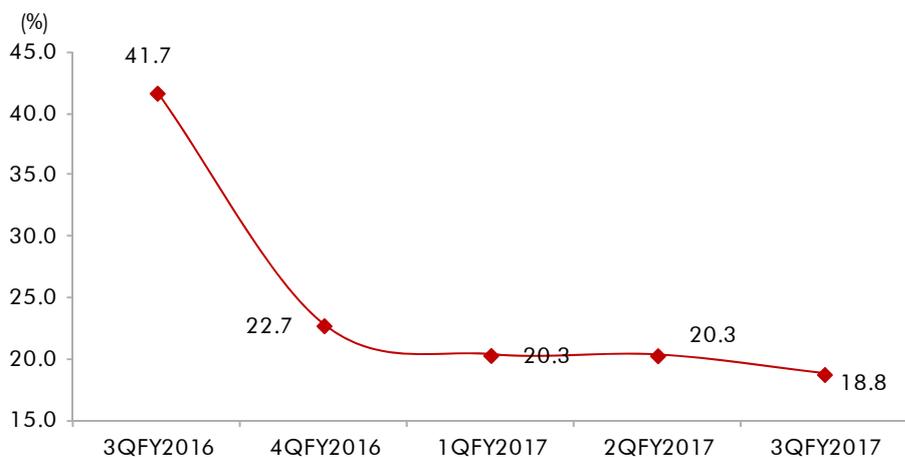
**Exhibit 3: Sales trend**



Source: Company, Angel Research

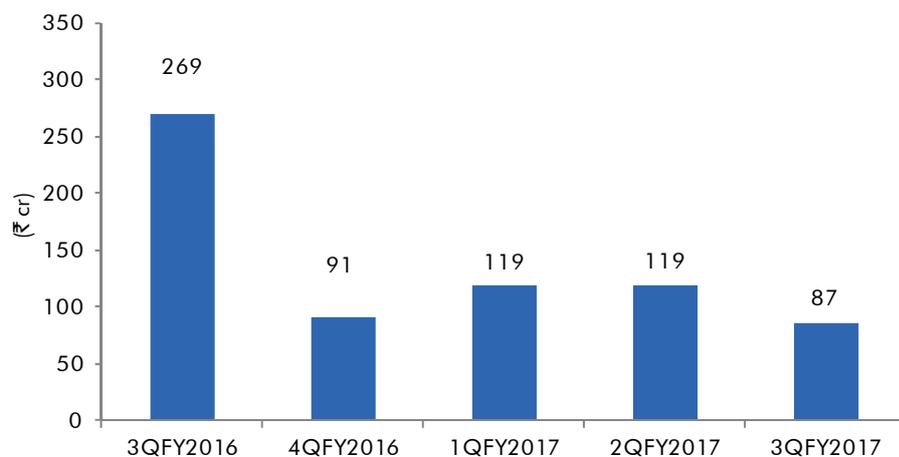
**OPM lower than expectation:** On EBITDA front, the company posted an EBITDA of 18.8% (20.6% expected) v/s 41.7% in 3QFY2016. The dip came in on the back of the high R&D expenses, which came in at 15.2% of sales v/s 7.6% of sales in 3QFY2016. Also, other expenses came in higher – the employee expenses and other expenses rose by 33.5% and 43.6% respectively.

**Exhibit 4: OPM Trend (%)**



Source: Company, Angel Research

**Net profit above expectation:** Consequently, PAT came in at ₹87cr (lower than expectations) v/s ₹270cr in 3QFY2016, de-growth of 67.8% yoy.

**Exhibit 5: Net profit trend**


Source: Company, Angel Research

**Concall highlights**

- Oncology oral solids and injectable facilities to be operational by FY2017 end
- ~39 pending ANDAs, of which ~40% are Para IV/FTFs
- R&D expenses to be ₹400-450cr in FY2017
- General injectable and derma filings in the US will start from FY2019
- 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%.

**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 ~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 the 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 maintain 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 (%)
<b>Alembic Pharma</b>	<b>Neutral</b>	<b>575</b>	-	-	<b>18.9</b>	<b>2.5</b>	<b>11.8</b>	<b>(10.8)</b>	<b>27.5</b>	<b>25.3</b>
Aurobindo Pharma	Accumulate	713	877	22.9	15.1	2.5	10.5	18.1	22.5	26.1
Cadila Healthcare	Accumulate	363	400	10.3	18.9	2.9	13.2	13.4	22.7	25.7
Cipla	Sell	580	490	(15.6)	21.3	2.7	14.7	20.4	13.5	15.2
Dr Reddy's	Neutral	2,999	-	-	21.0	2.7	10.2	1.7	16.2	15.9
Dishman Pharma	Neutral	234	-	-	20.7	2.3	10.2	13.3	10.3	10.9
GSK Pharma	Neutral	2,732	-	-	44.9	6.8	33.0	17.3	35.3	32.1
Indoco Remedies	Reduce	275	240	(12.7)	17.2	2.0	11.0	33.2	19.1	20.1
Ipca labs	Accumulate	537	613	14.2	27.3	1.9	12.4	36.5	8.8	9.4
Lupin	Buy	1,492	1,809	21.3	21.5	3.5	13.3	17.2	24.4	20.9
Sanofi India*	Neutral	4,181	-	-	24.3	3.2	17.3	22.2	25.6	28.8
Sun Pharma	Buy	640	847	32.4	18.1	3.5	11.5	26.5	18.9	20.1

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
<b>Gross sales</b>	<b>1,871</b>	<b>2,064</b>	<b>3,181</b>	<b>3,522</b>	<b>4,128</b>
Less: Excise duty	8	11	36	39	45
<b>Net sales</b>	<b>1,863</b>	<b>2,053</b>	<b>3,145</b>	<b>3,483</b>	<b>4,083</b>
Other operating income	3.2	5.7	3.6	3.6	3.6
<b>Total operating income</b>	<b>1,866</b>	<b>2,058</b>	<b>3,149</b>	<b>3,487</b>	<b>4,087</b>
% 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
<b>EBITDA</b>	<b>358</b>	<b>400</b>	<b>1,002</b>	<b>704</b>	<b>873</b>
% 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	-	-	-	-	-
<b>Recurring PBT</b>	<b>308</b>	<b>360</b>	<b>936</b>	<b>596</b>	<b>743</b>
% chg	49.4	16.8	160.2	(36.3)	24.7
Extraordinary expense/(Inc.)	-	-	-	-	-
<b>PBT (reported)</b>	<b>308</b>	<b>360</b>	<b>936</b>	<b>596</b>	<b>743</b>
Tax	75	76	216	137	171
(% of PBT)	24.4	21.2	23.1	23.0	23.0
<b>PAT (reported)</b>	<b>236</b>	<b>283</b>	<b>720</b>	<b>459</b>	<b>572</b>
Add: Share of earnings of asso.	-	-	(0)	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>236</b>	<b>283</b>	<b>720</b>	<b>459</b>	<b>572</b>
<b>ADJ. PAT</b>	<b>236</b>	<b>283</b>	<b>720</b>	<b>459</b>	<b>572</b>
% chg	43.0	20.0	154.1	(36.2)	24.7
(% of Net Sales)	12.7	13.8	22.9	13.2	14.0
<b>Basic EPS (₹)</b>	<b>12.5</b>	<b>15.0</b>	<b>38.2</b>	<b>24.3</b>	<b>30.4</b>
<b>Fully Diluted EPS (₹)</b>	<b>12.5</b>	<b>15.0</b>	<b>38.2</b>	<b>24.3</b>	<b>30.4</b>
% chg	43.0	20.0	154.1	(36.2)	24.7

**Balance Sheet (Consolidated)**

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>SOURCES OF FUNDS</b>					
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
<b>Shareholders funds</b>	<b>676</b>	<b>885</b>	<b>1,601</b>	<b>2,005</b>	<b>2,523</b>
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
<b>Total liabilities</b>	<b>795</b>	<b>1,177</b>	<b>1,824</b>	<b>2,227</b>	<b>2,744</b>
<b>APPLICATION OF FUNDS</b>					
Gross block	665	907	1,208	1,608	1,808
Less: acc. depreciation	268	313	385	483	603
<b>Net block</b>	<b>397</b>	<b>595</b>	<b>824</b>	<b>1,125</b>	<b>1,206</b>
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
<b>Current assets</b>	<b>755</b>	<b>891</b>	<b>1,507</b>	<b>1,955</b>	<b>2,554</b>
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
<b>Net current assets</b>	<b>333</b>	<b>426</b>	<b>872</b>	<b>1,015</b>	<b>1,452</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total assets</b>	<b>795</b>	<b>1,177</b>	<b>1,824</b>	<b>2,227</b>	<b>2,744</b>

**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
<b>Cash Flow from Operations</b>	<b>190</b>	<b>393</b>	<b>982</b>	<b>199</b>	<b>861</b>
(Inc.)/Dec.in Fixed Assets	(81)	(222)	(301)	(400)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
<b>Cash Flow from Investing</b>	<b>(81)</b>	<b>(222)</b>	<b>(301)</b>	<b>(400)</b>	<b>(200)</b>
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
<b>Cash Flow from Financing</b>	<b>(197)</b>	<b>293</b>	<b>19</b>	<b>(6)</b>	<b>(4)</b>
Inc./Dec.) in Cash	8	31	396	(53)	331
<b>Opening Cash balances</b>	<b>16</b>	<b>24</b>	<b>55</b>	<b>451</b>	<b>398</b>
<b>Closing Cash balances</b>	<b>24</b>	<b>55</b>	<b>451</b>	<b>398</b>	<b>729</b>

**Key Ratios**

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	45.9	38.3	15.1	23.6	18.9
P/CEPS	39.2	33.1	13.7	19.4	15.7
P/BV	16.0	12.3	6.8	5.4	4.3
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	5.8	5.3	3.3	3.0	2.5
EV/EBITDA	30.4	27.3	10.5	14.9	11.7
EV / Total Assets	13.7	9.3	5.7	4.7	3.7
<b>Per Share Data (₹)</b>					
EPS (Basic)	12.5	15.0	38.2	18.7	23.7
EPS (fully diluted)	12.5	15.0	38.2	18.7	23.7
Cash EPS	14.7	17.4	42.0	23.9	30.0
DPS	2.5	2.5	2.5	2.5	2.5
Book Value	35.8	46.9	84.9	100.7	121.5
<b>Dupont Analysis</b>					
EBIT margin	17.0	17.3	29.6	13.4	14.5
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	22.5	23.7
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	22.5	23.7
<b>Returns (%)</b>					
ROCE (Pre-tax)	39.9	30.2	51.0	22.0	23.5
Angel ROIC (Pre-tax)	44.5	38.7	77.0	29.5	30.7
ROE	40.0	36.3	57.9	20.1	21.3
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.0	2.6	3.0	2.5	2.4
Inventory / Sales (days)	56.5	61.5	54.1	68.4	72.5
Receivables (days)	49.5	56.3	43.5	56.3	62.3
Payables (days)	79.8	79.3	37.8	39.7	44.6
WC cycle (ex-cash) (days)	58.6	60.3	45.9	54.3	59.8
<b>Solvency ratios (x)</b>					
Net debt to equity	0.1	0.2	(0.2)	(0.1)	(0.2)
Net debt to EBITDA	0.2	0.5	(0.3)	(0.2)	(0.5)
Interest Coverage (EBIT / Int.)	32.3	199.5	252.8	47.2	56.2

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### 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)