

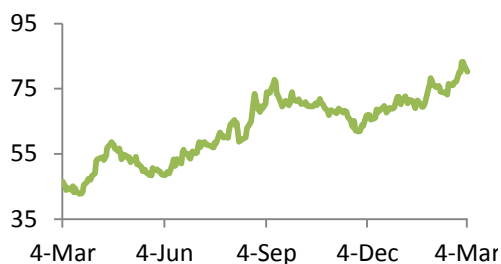
Alembic Pharma Ltd

Recommendation	BUY
CMP	Rs. 92
Target Price	Rs. 119
Sector	Pharmaceuticals

Stock Details

BSE Code	533573
NSE Code	APLLTD
Bloomberg Code	ALPM IN
Market Cap (Rs cr)	1,734
Free Float (%)	25.9
52- wk HI/Lo (Rs)	94/42
Avg. volume BSE (Quarterly)	63,699
Face Value (Rs)	2.0
Dividend (FY 12)	70%
Shares o/s (Cr)	18.9

Relative Performance	1Mth	3Mth	1Yr
Alembic	6.3%	19.7%	72.5%
Sensex	-4.4%	-2.4%	7.0%



Shareholding Pattern	31 st Dec 12
Promoters Holding	74.1%
Institutional (Incl. FII)	7.8%
Corporate Bodies	1.9%
Public & others	16.2%

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News: Alembic Pharma has received USFDA approval for its NDA, Desvenlafaxine Base, a bioequivalent version of innovator drug, Pristiq® by Pfizer. Alembic is the sponsor and manufacturer of the NDA however marketing would be done by Ranbaxy. Desvenlafaxine Base is Alembic's first 505 (b) (2) filing.

Our View: The IP of the product is on the name of Alembic showing the strong R&D capabilities of the company

Under the 505 (b) (2), Alembic along with its partner would try to convert prescriptions from succinate to base and expects to garner \$10 - 30 mn revenues out of which APL's share is 50%

Desvenlafaxine Succinate is a patented product with \$538mn sales. Almost 11 players including Alembic Pharma have filed for ANDA for the product.

We have incorporated \$5mn revenues from Desvenlafaxine Base in our FY14E projections.

APL has strong product pipeline of 55 ANDAs with 21 approvals and 15 launches including exclusive opportunities of five Para IV and one 505 B (2).

The company expects to file 10-12 more products every year including two 505 (b) (2) in FY14 with 7-8 approvals in FY14. It expects its international business to grow at CAGR of 30-35% over next 2-3 years

What is a 505 (b) (2)?

A 505(b) (2) application can be thought of as a hybrid that contains more data than an ANDA, but less data than an NDA. An NDA containing investigations of safety and effectiveness that are being relied upon for approval and were not conducted by or for the applicant, and for which the applicant has not obtained a right of reference.

Valuation & Recommendation

With domestic business growing at decent 12-14% CAGR and new businesses like US are growing at a much faster pace (~30-35%) with interesting opportunities like FTFs and 505 (b) (2), we remain positive on the future prospects of the company.

The stock has already re-rated since our initiation last year (22nd March 2012 at price of Rs 43), however we believe that there is still some room left for upside.

We recommend investors to BUY the stock on declines with price target of Rs 119 (12x of FY14E EPS), an upside of 29% from current levels

Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	Adj EPS (Rs)	P/E (x)	RoE (%)
FY11A	1164.9	2.9%	155.7	13.4%	81.5	7.0%	4.3	19.9	29.5%
FY12A	1375.3	18.1%	209.6	15.2%	120.5	8.8%	6.4	13.5	33.4%
FY13E	1513.7	10.1%	242.2	16.0%	149.8	9.9%	7.9	10.8	31.7%
FY14E	1740.6	15.0%	296.7	17.0%	186.3	10.7%	9.9	8.7	30.5%

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Other key developments in the company

- **Plant expansion to meet the growing demand:** The Company is amid of expanding its capacities to meet the growing demand with capex of around Rs 145 cr. First phase has been started from Feb'13 and second phase is expected to be operational from June'13.
- **Steady domestic business:** The Company has recently launched Dermatology portfolio and expects to launch 25-30 products every year in the domestic segment. Management expects 12-14% of (post NPPP impact) growth in domestic formulations with margin expansion on back of MR productivity
- **NPPP impact:** Company expects Rs 20-25 cr of impact both on top-line and bottom-line on account of new pricing policy the impact which would be offset by desvenlafaxine sales
- **Margin Expansion:** Management expects 100-150 bps improvement every year in EBITDA margins for next 2-3 years on back of improvement in MR productivity, higher contribution from International business, additional contribution from domestic market.

Revenue Breakup

Particulars (Rs cr)	9MFY13	9MFY12	yoy	FY12	FY11	yoy
Formulations	868.1	828.1	4.8%	1081.1	917.4	17.9%
Domestic	678.8	598.1	13.5%	782.6	693.4	12.9%
Export - ROW - Branded	31.3	39.0	-19.8%	56.7	50.2	13.1%
Regulatory - Generics	158.1	191.0	-17.2%	241.8	173.8	39.1%
API	271.9	286.6	-5.1%	373.4	274.4	36.1%
Domestic	88.8	75.5	17.6%	94.2	94.5	-0.3%
Export	183.1	211.1	-13.3%	279.2	179.9	55.2%
Export Incentive & Others	7.6	11.0	-30.3%	13.3	14.9	-10.4%
Gross Sales	1147.6	1125.6	2.0%	1467.9	1206.6	21.6%

Regulatory generics business declined in 1HFY13 due to price erosion change in product mix and mainly on account of capacity constraints. This is anticipated by management beforehand. However, the segment is expected to grow by 30-35% in future and the improvement has started visible from Q3FY13 itself.

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Financials

P&L (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
Net Sales	1164.9	1375.3	1513.7	1740.6
% change	2.9%	18.1%	10.1%	15.0%
EBITDA	155.7	209.6	242.2	296.7
EBITDA margin (%)	13.4%	15.2%	16.0%	17.0%
Depn & Amort	29.6	33.6	37.0	47.8
Operating income	126.1	175.9	205.2	248.9
Interest	23.9	26.2	23.4	17.8
Other Income	0.1	0.4	4.5	3.5
PBT	102.3	150.2	186.4	234.6
Tax	20.8	29.6	36.5	48.3
EO	0.0	0.0	0.0	0.0
Reported PAT	81.5	120.5	149.8	186.3
Adj PAT	81.5	120.5	149.8	186.3
Sh o/s - Diluted	18.9	18.9	18.9	18.9
Adj EPS	4.3	6.4	7.9	9.9
EPS growth (%)	120.8%	47.9%	24.3%	24.4%
Cash EPS	5.9	8.2	9.9	12.4
Quarterly (Rs Cr)	Mar.12	Jun.12	Sept.12	Dec.12
Net Sales	337.7	364.9	404.6	371.8
EBITDA	41.1	52.3	64.7	69.4
Dep & Amorz	8.9	8.7	8.8	8.9
Operating Income	32.2	43.6	55.9	60.6
Interest	5.4	5.7	3.1	3.9
Other Inc.	2.0	0.9	1.3	3.9
PBT	26.9	38.1	53.0	60.1
Tax	6.6	7.3	10.5	11.8
EO	0.0	0.0	0.0	0.0
Adjusted PAT	20.3	30.8	42.5	48.3
EPS (Rs.)	1.1	1.6	2.3	2.6
Ratios	FY11A	FY12A	FY13E	FY14E
EBITDA margin (%)	13.4%	15.2%	16.0%	17.0%
Adj PAT margin (%)	7.0%	8.8%	9.9%	10.7%
PAT Growth (%)	120.8%	47.9%	24.3%	24.4%
Price Earnings (x)	21.3	14.4	11.6	9.3
ROE (%)	29.5%	33.4%	31.7%	30.5%
ROCE (%)	20.1%	24.0%	25.4%	28.8%
Debt/Equity Ratio (x)	1.2	1.0	0.8	0.5
Price/BV (x)	6.3	4.8	3.7	2.8
EV / Sales	1.8	1.5	1.4	1.1
EV / EBITDA	13.3	9.9	8.5	6.5

Balance Sheet (Rs Cr)	FY11A	FY12A	FY13E	FY14E
Share Capital	37.7	37.7	37.7	37.7
Reserves & Surplus	238.5	323.2	434.7	573.1
Net Worth	276.2	360.9	472.4	610.8
Deferred Tax Liab.	5.4	9.5	9.5	9.5
Other Non-Current Liab.	5.1	5.4	5.4	5.4
Total Borrowings	339.7	366.0	336.6	246.6
Trade Payables	131.8	181.9	174.9	199.9
Prov. & Other CL	110.8	186.2	176.2	166.2
Total Liabilities	815.9	990.5	1075.1	1158.4
NFA + CWIP	298.5	326.1	429.1	421.2
Total Investments	3.4	3.4	3.4	3.4
Total Loans & Advances	91.5	189.8	174.1	165.4
Inventories	219.2	258.7	252.8	281.1
Debtors	202.0	186.8	197.6	217.6
Cash & Bank	1.3	25.7	18.1	69.8
Total Assets	815.9	990.6	1075.1	1158.4
Cash Flow (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
Operating Cash Flow				
Op CF bef tax & WC	158.3	209.6	242.2	296.7
Change in WC	178.4	2.9	3.9	-14.5
Tax	-17.8	-30.0	-36.5	-48.3
CF from Operation	318.9	182.5	209.6	233.9
Investing Activities				
Capex	-62.4	-61.1	-140.0	-40.0
Inv & Oth Income	5.5	0.4	4.5	3.5
CF from Investing	-56.8	-60.7	-135.5	-36.5
Financing				
Dividend Paid	-18.9	-30.7	-38.3	-48.0
Sh Cap & Premium	11.0	0.0	0.0	0.0
Interest Paid	-27.6	-26.2	-23.4	-17.8
Loans & Others	-240.4	-40.5	-20.0	-80.0
CF from Financing	-275.9	-97.4	-81.7	-145.7
Net Chg. in Cash	-13.8	24.4	-7.6	51.6
Cash at beginning	15.1	1.3	25.7	18.1
Cash at end	1.3	25.7	18.1	69.8
Per Share Data	FY11A	FY12A	FY13E	FY14E
Adj EPS	4.3	6.4	7.9	9.9
BV per share	14.7	19.1	25.1	32.4
Cash per share	0.2	1.5	1.1	3.9
Dividend per share	1.0	1.4	1.7	2.2

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