Institutional Equities
India Research

Alembic Pharmaceuticals

RESULT REVIEW

Bloomberg: ALPM IN
Reuters: ALEM.BO

HOLD

Better Gross margins on account of Product Mix

In Q1FY15, total revenues of Alembic Pharmaceuticals increased by 15.7% YoY to Rs 4.94bn (our estimates Rs 5.18bn) compared to Rs 4.27bn in Q1FY14, due to higher domestic formulations sales. The Company's operating margins improved by 283bps YoY to 19.6% on back of higher gross margins. Its net profit has increased by 38.6% YoY to Rs 646.5mn in Q1FY15 vis-à-vis our estimates of Rs 685.6mn.

- **Revenue Details:** The Company's revenues from Domestic Formulations (DF) business grew 13.7% YoY to Rs 2.49 bn vis-à-vis our estimates Rs 2.43 bn for Q1FY15. This was solely due to de-growth in generics. Its revenue growth can be attributed to International Generics, which rose by 33% YoY to Rs. 1.14bn (lower than our estimates of Rs 1.71bn) compared to Rs. 855mn in Q1FY14. Its revenues from international branded business grew 51% YoY to Rs 226.8mn, while Company's API business de-grew marginally to Rs 1063mn in Q1FY15.
- **Margins Improved:** Its EBITDA margin stood at 19.6% (our estimate 19.3%) in Q1FY15 higher than 16.8% in Q1FY14. The higher EBDITAM compared to our estimates is on account higher gross margins as compared to our estimates, as raw material cost fell by 460 bps YoY to 35.8%. Its net profit rose 38.6% YoY to Rs 646.5mn in Q1FY15 as against our estimate of Rs 685.6mn. The tax rate stood at 23.9% during the quarter compared to 22.9% in the year-ago quarter.

Outlook & Valuation: We marginally downgrade FY15E revenues and maintain FY16E revenues. We upgrade EBDITAM by 70 bps for FY15E and by 43 bps for FY16E due to better gross margins. We upgrade our EPS by 3.8 % and 3.9% for FY15E and FY16E respectively due to better gross margins. On account of better margin traction and earnings upgrade we upgrade our price target by 5% to Rs 356 based on 16.1x FY16E. We maintain our HOLD rating on the stock.

Key Financials

Y/E Mar (Rs Mn)	FY'12	FY'13	FY'14	FY'15E	FY'16E
Net Revenues	14,624	15,203	18,632	22,736	28,270
EBITDA	2,164	2,520	3,577	4,742	6,041
Net Profit	1,125	1,476	2,178	3,153	4,160
EPS(Rs)	6.0	7.8	11.6	16.7	22.1
EPS growth (%)	66.1	31.2	47.6	44.7	32.0
EBITDA margin (%)	14.8	16.6	19.2	20.9	21.4
PER(x)	56.9	43.4	29.4	20.3	15.4
EV/EBITDA (x)	31.0	25.9	18.1	13.6	10.2
RoCE(x)	23.7	27.9	40.5	44.9	45.3
P/BV (x)	13.4	11.3	9.0	6.8	5.1

Source: Karvy Institutional Research, Company……..Indian GAAP Consolidated

Recommendation

CMP:	Rs340
Target Price:	Rs356
Previous Target Price	Rs336
Upside (%)	5%

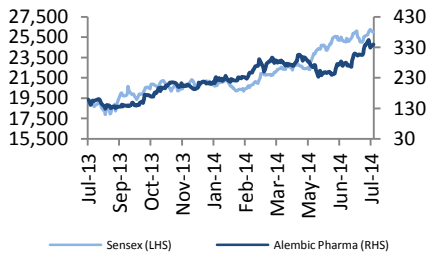
Stock Information

Market Cap. (Rs bn / US$ mn)	64/1,064
52-week High/Low (Rs)	371/120
3m ADV (Rs mn /US$ mn)	96/1.6
Beta	0.7
Sensex/ Nifty	25,991/7,749
Share outstanding (mn)	189

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	25.8	14.2	124.6	60.8
Rel. to Sensex	21.5	(0.5)	70.7	31.0

Performance



Source: Bloomberg

Earnings Revision

(%)	FY15E	FY16E
Revenue	↓0.7	↑0.4
EBITDA	↑2.6	↑2.4
PAT	↑3.8	↑3.9

Source: Company, Karvy Institutional Research

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Key Highlights

US Markets:

During the quarter 3 ANDA applications were filed taking cumulative ANDA filings of the Company to 64. During the quarter 3 ANDA approvals were received taking cumulative ANDA approvals to 35 (including 5 tentative approvals).

The international generics sales are lower QoQ due to discontinuing of low margin contract manufacturing in US and Europe and low ramp up in Telmisartan HCTZ. It will take another one quarter to ramp up as the existing players are holding onto their market share. Alembic is hopeful of filing 6-7 ANDAs during the year and has filed 3 ANDAs in the quarter.

Alembic has 23 products in the US market, 5 are tentative approvals, 4-5 have not been launched strategically. Of the 30 pending ANDAs, 10-15 are Para IV opportunities and are 2-2.5 years old.

The company's formulations plant was due for approval in the current year as the last inspection happened one and a half years back.

Alembic has started three new divisions which have resulted in scale up in employee nos by 300 people and increase in cost. The full impact is felt in the current quarter. The new sales force is for chronic segment. Alembic now has a total field force of 3400 MRs and a total marketing strength of 4200 people.

The new NLEM has impacted Rs 200 mn revenues, however the bottom-line impact is negligible at Rs 15 mn. Both the IPA and OPPI have appealed against the same.

On the Hedges front, 35 % of the receivables have been covered at an average rate of Rs 60.

Exhibit 1: Quarterly performance

Y/E Mar (Rs Mn)	Q1FY15E	Q4FY14	Q1FY14	QoQ%	YoY%
Net Sales	4,943	4,640	4,272	6.5	15.7
Cost	3,976	3,727	3,557	6.7	11.8
EBITDA	967	913	715	5.9	35.3
EBITDA Margin (%)	19.6	19.7	16.8		
Other Income	2	28	0.2	(93.5)	
Interest	12	23	15	(47.2)	(17.7)
Depreciation	107	110	95	(2.5)	12.4
Profit before Tax	849	808	605	5.1	40.4
Tax	203	195	139	4.1	46.3
Tax rate (%)	23.9	24.1	22.9		
Net Profit	647	613	466	5.5	38.6

Source: Karvy Institutional Research, Company

Exhibit 2: Change in Estimates

Y/E Mar (Rs.Mn)	FY15E			FY16E			Comments
	New	Old	% change	New	Old	%change	
Domestic Formulations	11,073	11,073	0.0	12,624	12,624	0.0	
Exports formulations	8,163	8,322	-1.9	11,978	11,869	0.9	Factoring of Telmisartan and Cymbalta for 9 mths, factor Abilify from April 15
Revenues	22,736	22,896	-0.7	28,270	28,160	0.4	
Expenses	17,995	18,276	-1.5	22,228	22,262	-0.2	
Raw Material	8,362	8,647	-3.3	10,446	10,686	-2.2	Factor in better gross margins in lieu of change in product mix
Staff	3,088	2,841	8.7	3,705	3,267	13.4	New divisions added will drive incremental staff cost
Others Exps	6,545	6,788	-3.6	8,077	8,309	-2.8	in lieu of FY14 nos
EBITDA	4,742	4,620	2.6	6,041	5,898	2.4	
EBITDA margin (%)	20.9	20.2	70bps	21.4	20.9	50bps	
Interest	88	80	10.5	85	72	18.5	
Depreciation	465	496	-6.2	572	610	-6.2	in lieu of FY14 nos and lower depreciation policy
PBT	4,214	4,066	3.6	5,489	5,294	3.7	
Tax	885	853	3.6	1,152	1,111	3.7	
Net Profit	3,153	3,036	3.8	4,160	4,006	3.9	
EPS (in Rs.)	16.7	16.1	3.8	22.1	21.2	3.9	

Source: Karvy Institutional Research, Company

Financials

Exhibit 3: Profit & Loss

Y/E Mar (Rs Mn)	FY'12	FY'13	FY'14	FY'15E	FY'16E
Net Revenue	14,624	15,203	18,632	22,736	28,270
Raw Material	7,079	6,807	7,133	8,362	10,446
Staff	1,685	1,938	2,470	3,088	3,705
Others Exps	3,696	3,939	5,451	6,545	8,077
Total Expenditure	12,460	12,684	15,055	17,995	22,228
EBITDA	2,164	2,520	3,577	4,742	6,041
EBITDA margin (%)	14.8	16.6	19.2	20.9	21.4
Other income	45	39	32	26	106
Interest	262	146	98	88	85
Gross Profit	1,946	2,413	3,511	4,679	6,061
Depreciation	336	350	405	465	572
Forex Loss	0	0	0	0	0
Profit Before Tax	1,610	2,064	3,106	4,214	5,489
Tax	308	411	751	885	1,152
Effective tax rate (%)	19	20	24.18	20.99	20.99
Net Profit	1,301	1,653	2,355	3,329	4,337
Amortization of Goodwill	177	177	177	177	177
Net profit after amortization	1,125	1,476	2,178	3,153	4,160

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Y/E Mar (Rs Mn)	FY'12	FY'13	FY'14	FY'15E	FY'16E
Equity	377	377	377	377	377
Reserves	4,402	5,292	6,769	9,039	12,207
Net Worth	4,779	5,669	7,146	9,416	12,584
Short-term Loans	1,395	701	254	456	567
Long-term Loans	1,071	833	649	649	500
Total Loans	3,500	1,534	903	1,105	1,067
Foreign currency translation	55	67	141	0	0
Deferred tax Liability	95	139	227	227	227
Total Liabilities	**8,429**	**7,410**	**8,417**	**10,749**	**13,878**
Gross Block	4,630	5,725	6,651	8,608	10,158
Depreciation	1,952	2,283	2,681	3,147	3,719
Net Block	2,678	3,442	3,970	5,461	6,439
Capital work-in-progress	582	323	207	750	200
Goodwill & Intangibles	1,768	1,768	1,768	1,768	1,768
less Amortisation	884	1,061	1,238	1,415	1,591
Goodwill (Net)	884	707	531	354	177
Inventories	2,587	2,668	3,108	3,697	4,537
Debtors	1,993	2,329	2,734	3,335	4,146
Cash	471	161	240	557	3,213
Investments	33	33	34	34	34
Other Current assets	2,174	1,522	1,887	1,787	1,687
Total Current assets	7,225	6,680	7,968	9,377	13,583
Creditors	2,091	2,400	2,884	3,322	4,150
Other current liabilities	882	1,376	1,407	1,904	2,405
Total current liabilities	2,974	3,776	4,292	5,226	6,555
Net current assets	4,252	2,905	3,676	4,151	7,029
Total Assets	**8,429**	**7,410**	**8,417**	**10,749**	**13,878**

Source: Company, Karvy Institutional Research

Exhibit 5: Cash Flow Statement

Y/E Mar (Rs Mn)	FY12	FY13	FY14	FY15E	FY16E
EBIT	1650	1993	2995	4100	5292
(Inc.)/Dec in working capital	-561	1037	-693	-156	-222
Cash flow from operations	**1089**	**3031**	**2302**	**3943**	**5070**
Other income	45	39	32	26	106
Depreciation & Amortization	513	526	582	642	749
Interest paid (-)	-262	-146	-98	-88	-85
Deferred Tax	42	44	88	0	0
Tax paid (-)	-308	-411	-751	-885	-1152
Dividends paid (-)	-307	-551	-662	-882	-993
Extra ordinaries	0	0	0	0	0
Net cash from operations	**811**	**2532**	**1493**	**2756**	**3695**
Capital Expenditure (-)	-612	-854	-816	-2500	-1000
Net Cash after Capex & intangibles	**199**	**1678**	**677**	**256**	**2695**
Inc./(Dec.) in short-term borrowing	-69	-693	-447	202	111
Inc./(dec.) in long-term borrowing	-744	-239	-184	0	-149
Inc./(dec.) in borrowings	221	-1966	-631	202	-38
(Inc.)/Dec. in Investments	0	0	-1	0	0
Equity issue/(Buyback)	119	-300	74	-141	0
Cash from Financial Activities	**340**	**-2266**	**-557**	**61**	**-38**
Others	-131	279	-40		
Opening cash	63	471	161	240	557
Closing cash	471	161	240	557	3213

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Y/E Mar	FY'12	FY'13E	FY'14	FY'15E	FY'16E
EV/EBITDA	31.0	25.9	18.1	13.6	10.2
ROCE (%)	23.7	27.9	40.5	44.9	45.3
ROE (%)	29.6	31.6	36.8	40.2	39.4
P/S (x)	4.4	4.2	3.4	2.8	2.3
P/ BV (x)	13.4	11.3	9.0	6.8	5.1

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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