Alembic Pharma

Performance Highlights

Y/E March (₹ cr)	2QFY2015	1QFY2015	% chg (qoq)	2QFY2014	% chg (yoy)
Net Sales	**539**	**492**	**9.6**	**483**	**11.7**
Other Income	1	1	19.8	1	47.0
Operating Profit	114	96	18.8	94	20.8
Interest	2	1	44.6	3	(31.9)
Net Profit	**84**	**65**	**30.1**	**64**	**31.7**

Source: Company, Angel Research

For 2QFY2015, Alembic Pharmaceuticals (Alembic Pharma)' sales and profit came in below our expectations. The sales and net profit came in at ₹539cr (V/s an expected ₹568cr) and ₹84cr (V/s an expected ₹88cr), posting a yoy growth of 11.7% yoy and 31.7%, respectively. On the operating front, the gross margin came in at 64.8% V/s 60.7% in 2QFY2014; consequently taking the operating margin to 21.2% V/s 19.6% in 2QFY2014. This, along with lower interest expenditure, which dipped by 31.9% yoy, aided the PAT to come in at ₹84.1cr V/s ₹63.8cr in 2QFY2014, ie a growth of 31.7% yoy. **We maintain our Neutral rating on the stock.**

Results lower than expectations: Sales and net profit came in at ₹539cr (V/s an expected ₹568cr) and ₹84cr (V/s an expected ₹88cr), posting a yoy growth of 11.7% yoy and 31.7%, respectively. The growth in sales was led by the domestic formulation business, which posted a yoy growth of 18.0%. The other segment which did well was API, which posted a yoy growth of 20.0%. On the operating front, the GPM came in at 64.8% V/s 60.7% in 2QFY2014; consequently taking the OPM for the quarter to 21.2% V/s 19.6% in 2QFY2014. This along with lower interest expenditure, which dipped by 31.9% yoy, aided the PAT to come in at ₹84.1cr V/s ₹63.8cr in 2QFY2014, a growth of 31.7% yoy.

Outlook and valuation: Alembic Pharma's growth and profitability profile has improved post the restructuring carried out by the Management. Over FY2014-16, we expect the company to post a CAGR of 16.8% and 21.2% in sales and net profit, respectively. **We recommend a Neutral rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E
Net Sales	**1,516**	**1,863**	**2,188**	**2,542**
% chg	5.0	22.9	17.4	16.2
Net Profit	**165**	**236**	**296**	**347**
% chg	26.7	43.0	25.6	17.1
EPS (₹)	**8.8**	**12.5**	**15.7**	**18.4**
EBITDA Margin (%)	16.4	19.2	19.4	19.3
P/E (x)	45.6	31.9	25.4	21.7
RoE (%)	36.8	40.0	37.2	32.6
RoCE (%)	29.6	39.9	34.1	31.7
P/BV (x)	15.0	11.1	8.2	6.2
EV/Sales (x)	5.1	4.1	3.5	2.9
EV/EBITDA (x)	30.8	21.1	17.9	15.2

Source: Company, Angel Research; Note: CMP as of October 20, 2014

NEUTRAL

CMP	₹399
Target Price	-
Investment Period	-

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	7,519
Net Debt (₹ cr)	54
Beta	0.5
52 Week High / Low	450/168
Avg. Daily Volume	74,951
Face Value (₹)	2
BSE Sensex	26,430
Nifty	7,879
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	74.1
MF / Banks / Indian FIs	2.5
FII / NRIs / OCBs	9.7
Indian Public / Others	13.7

Abs. (%)	3m	1yr	3yr*
Sensex	3.1	26.6	56.0
Alembic Pharma	18.6	136.0	768.1

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Exhibit 1: 2QFY2015 performance (Consolidated)

Y/E March (₹ cr)	2QFY2015	1QFY2015	% chg(qoq)	2QFY2014	% chg (yoy)	1HFY2015	1HFY2014	% chg (yoy)
Net sales	**539**	**492**	***9.6***	**483**	***11.7***	**1,031**	**910**	***13.3***
Other income	1	1	*19.8*	1	*47.0*	2	1	*78.0*
Total income	**367**	**367**		**487**	***(24.6)***	**1,033**	**911**	
Gross profit	350	315	*10.9*	293	*19.2*	665	514	*29.3*
Gross margin	**64.8**	**64.0**		**60.7**		**64.5**	**56.5**	
Operating profit	114	96	*18.8*	94	*20.8*	210	166	*26.6*
Operating margin (%)	**21.2**	**19.5**		**19.6**		**20.4**	**18.2**	
Interest	2	1	*44.6*	3	*(31.9)*	3	4	*(26.0)*
Depreciation	11	11	*1.2*	10	*10.1*	22	19	*13.4*
PBT	102	85	*20.7*	83	*23.9*	187	144	*30.1*
Provision for taxation	18	20	*(9.3)*	19	*(2.3)*	39	33	*17.3*
PAT before Extra-ordinary item	**84**	**65**	***30.1***	**64**	***31.7***	**149**	**111**	***34.0***
Extra-Ordinary Expenses	0	0		0		0	0	
PAT after Extra-ordinary item & MI	**84**	**65**	***30.1***	**64**	***31.7***	**149**	**111**	***34.0***
EPS (₹)	**4.5**	**3.4**		**3.4**		**7.9**	**5.9**	

Source: Company, Angel Research

Exhibit 2: 2QFY2015 – Actual vs Angel estimates

₹ cr	Actual	Estimates	*Variation (%)*
Net Sales	**539**	**568**	***(5.0)***
Other Income	1	1	*47.0*
Operating Profit	114	120	*(4.8)*
Interest	2	1	*45.8*
Tax	18	20	*(9.3)*
Net Profit	**84**	**88**	***(4.9)***

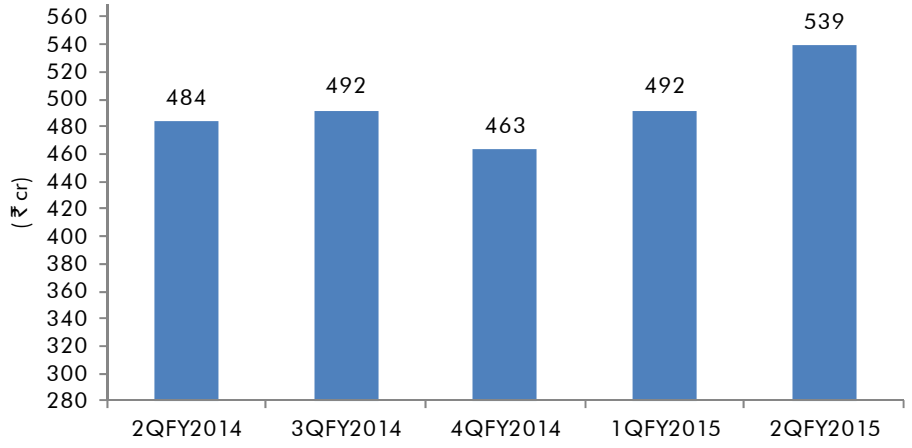
Source: Company, Angel Research

Sales below expectation: For the quarter, the company posted sales and profit below expectations. Sales came in at ₹539cr (V/s an expected ₹568cr), posting a yoy growth of 11.7%. The growth in sales was led by the domestic formulation business, which posted a yoy growth of ~18.0%. The other segment which did well was API, which posted a yoy growth of ~20.0%. The international generics segment posted a growth of ~9% yoy, while Indian generics de-grew by ~12% yoy. The international branded segment posted flat sales.

Domestic sales were driven by the formulation market, which posted sales of ₹275.5cr V/s ₹234.1cr in the corresponding quarter of last year, registering a yoy growth of 17.7%. The Indian generics segment de-grew by 12.5% yoy. Exports grew on back of branded formulations, which grew by 28.1% yoy to end the quarter at ₹22.7cr. International generics (₹123.5cr) grew by 8.6% yoy during the quarter. The API segment, which clocked sales of ₹93.6cr, grew by 19.7% yoy during the quarter.

The company has filed for 65 abbreviated new drug applications (ANDAs) in the US year till date. During the quarter, the company filed for 1 ANDA.

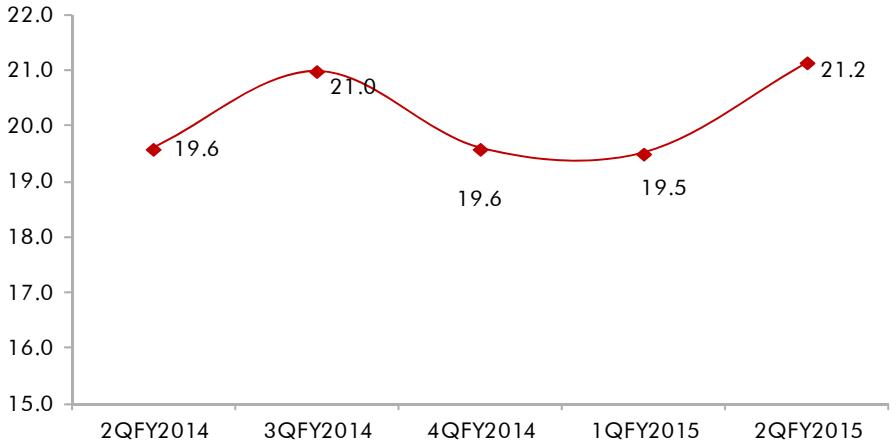
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM in line with expectation: On the operating front, the OPM came in at 21.2% (V/s an expected 21.1%) V/s 19.6% in 2QFY2014, an expansion of 159bp yoy, mainly on back of GPM expansion. The GPM for the quarter came in at 64.8% V/s 60.7% in 2QFY2014, an expansion of 409bp yoy. However, inspite of R&D expenditure declining by 11.2% yoy, the 25.3% yoy rise in the staff cost along with the 23.4% yoy rise in other expenditure, restricted the OPM expansion. The R&D expenditure for the quarter was at 5.1% of sales V/s 6.5% of sales in 2QFY2014.

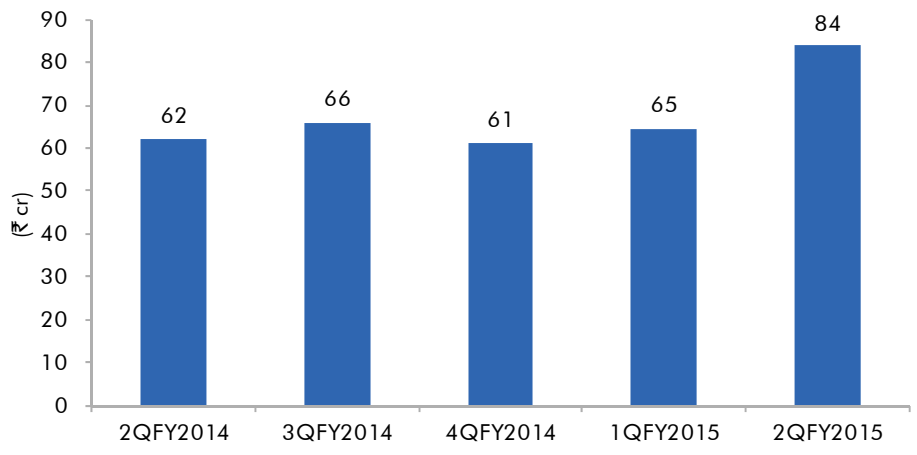
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit below expectation: The PAT for the quarter came in at ₹84.1cr (V/s an expected ₹88.4cr), registering a yoy growth of 31.7%. The net profit came in lower than expected on account of higher-than-expected interest expenditure (on a qoq basis) during the quarter.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- The company filed 1 ANDA in 2QFY2015.
- Warfarin 505b(2) filing expected by Feb-2015; expect approval in 16-18 months.
- Generic formulation exports were impacted by conscious cut down in certain CRAMS business, rationalization of own product line and weaker traction in recently launched products in the US. The Management has guided for 20% CAGR growth in International generics market for the next couple of years.
- The company expects USFDA inspection for the formulation plant in this fiscal.
- The share of the specialty segment declined from 57% in 2QFY2015 to 54% in 2QFY2014. The specialty segment posted a yoy growth of 17%, while the Acute segment posted an 18% yoy growth.
- R&D expenses are expected to be around 6-7% of sales in FY2015.
- Capex for FY2015 is expected to be to the tune of ₹250cr for API, international and domestic formulations. The reason cited for the high capex has been strong growth in exports formulations business.
- EBDITA growth of 20% p.a. estimated on a sustainable basis.

Investment arguments

Focus on chronic segment to drive domestic formulation growth: Alembic Pharma has been restructuring its business portfolio, which would aid in improving the company's growth and operating performance. The company's domestic formulation business contributed 46% to its total sales in FY2014.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 FY2014-16, 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 20% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for 61 ANDAs year till date and received 32 approvals. The company, going forward, expects to keep its momentum high in terms of number of filings, by filing around 12-18 ANDAs per annum. For FY2014-16, we expect exports to register a CAGR of 34.2%.

Outlook and valuation: Alembic Pharma's growth and profitability profile has improved post the restructuring carried out by the Management. Over FY2014-16, we expect the company to post a CAGR of 16.8% and 21.2% in sales and net profit respectively. **We recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	FY2015E	FY2016E
Domestic formulation sales growth (%)	15.0	15.0
Exports sales growth (%)	20.0	20.0
R&D as % of sales	6.0	6.0
Operating margins (%)	19.4	19.3
Capex (₹ cr)	250	150
Net Debt/Equity (x)	0.1	0.0

Source: Company, Angel Research

Exhibit 7: Recommendation summary

Company	Reco.	CMP	Tgt Price	*Upside*	FY2016E			FY14-16E	FY2016E	
		(₹)	(₹)	(%)	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	**Neutral**	**399**	**-**	**-**	**21.7**	**2.9**	**15.2**	**21.2**	**31.7**	**32.6**
Aurobindo Pharma	Neutral	934	-	-	21.7	2.4	14.5	(3.1)	15.5	23.8
Cadila Healthcare	Neutral	1360	-	-	22.0	2.8	16.5	24.3	19.9	26.5
Cipla	Neutral	602	-	-	23.9	3.5	17.7	20.6	15.8	16.3
Dr Reddy's	Buy	2,965	3,611	*21.8*	16.4	2.7	11.5	19.4	21.5	24.1
Dishman Pharma	Buy	153	221	*44.5*	6.9	0.9	4.0	27.7	12.9	12.7
GSK Pharma*	Neutral	2,697	-	-	45.4	7.4	35.9	0.4	25.9	25.7
Indoco Remedies	Neutral	287	-	-	20.2	2.7	13.7	50.0	19.8	21.8
Ipca labs	Buy	684	986	*44.2*	11.9	2.0	8.8	20.9	25.4	26.2
Lupin	Neutral	1385	-	-	22.9	4.0	14.2	21.6	33.9	26.0
Ranbaxy	Neutral	594	-	-	44.6	2.5	29.0	6.5	5.4	13.9
Sanofi India*	Neutral	3,328	-	-	27.2	3.1	18.2	6.6	19.0	20.6
Sun Pharma	Neutral	803	-	-	25.0	4.1	14.0	5.3	25.5	26.1

*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)	FY2012	FY2013	FY2014	FY2015E	FY2016E
Gross sales	1,455	1,526	1,871	2,201	2,558
Less: Excise duty	11	10	8	13	15
Net sales	1,444	1,516	1,863	2,188	2,542
Other operating income	17.4	3.1	3.2	22.6	2.0
Total operating income	**1,461**	**1,519**	**1,866**	**2,210**	**2,544**
% chg	*22.5*	*4.0*	*22.8*	*18.4*	*15.1*
Total expenditure	1,241	1,267	1,506	1,764	2,051
Net raw materials	708	681	713	984	1,131
Other mfg costs	63	67	82	96	112
Personnel	168	194	247	175	203
Other	301	326	463	509	604
EBITDA	**203**	**249**	**358**	**424**	**492**
% chg	*42.7*	*22.5*	*43.7*	*18.4*	*16.1*
(% of Net Sales)	*14.1*	*16.4*	*19.2*	*19.4*	*19.3*
Depreciation& amortisation	34	35	40	45	47
Interest & other charges	26	15	10	9	12
Other income	0	4	0	0	-
(% of PBT)	0	2	0	0	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	**161**	**206**	**308**	**370**	**433**
% chg					
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	**161**	**206**	**308**	**370**	**433**
Tax	31	41	75	74	86
(% of PBT)	*19.2*	*19.9*	*24.4*	*19.9*	*19.9*
PAT (reported)	**130**	**165**	**236**	**296**	**347**
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	**130**	**165**	**236**	**296**	**347**
ADJ. PAT	**130**	**165**	**236**	**296**	**347**
% chg	*52.3*	*26.7*	*43.0*	*25.6*	*17.1*
(% of Net Sales)	*9.0*	*10.9*	*12.7*	*13.5*	*13.6*
Basic EPS (₹)	**6.9**	**8.8**	**12.5**	**15.7**	**18.4**
Fully Diluted EPS (₹)	**6.9**	**8.8**	**12.5**	**15.7**	**18.4**
% chg	*52.3*	*26.7*	*43.0*	*25.6*	*17.1*

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015E	FY2016E
SOURCES OF FUNDS					
Equity share capital	37.7	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-	-
Reserves & surplus	357	465	638	880	1,172
Shareholders funds	**395**	**503**	**676**	**917**	**1,209**
Minority Interest	-	-	-	-	-
Other Long Term Liabilities	12.3	12.8	12.7	13.3	14.3
Long Term Provisions	5.4	6.1	6.7	6.4	7.4
Total loans	353	187	78	150	150
Deferred tax liability	10	14	23	23	23
Total liabilities	**775**	**722**	**795**	**1,110**	**1,404**
APPLICATION OF FUNDS					
Gross block	463	572	665	915	1,065
Less: acc. depreciation	195	228	268	313	360
Net block	**268**	**344**	**397**	**602**	**705**
Capital work-in-progress	58	32	21	21	21
Goodwill	-	-	-	-	-
Long Term Loans and Advances	35	36	42	42	42
Investments	3.3	3.3	3.4	3.3	3.3
Current assets	688	632	755	1,033	1,319
Cash	47	16	24	55	183
Loans & advances	182	116	147	284	330
Other	459	500	584	693	806
Current liabilities	277	325	422	591	686
Net current assets	**411**	**307**	**333**	**442**	**633**
Mis. Exp. not written off	-	-	-	-	-
Total assets	**775**	**722**	**795**	**1,110**	**1,404**

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015E	FY2016E
Profit before tax	161	206	308	370	433
Depreciation	34	35	40	45	47
(Inc)/Dec in Working Capital	(11)	(78)	(84)	(137)	32
Less: Other income	-	-	-	-	-
Direct taxes paid	31	41	75	74	86
Cash Flow from Operations	**152**	**121**	**190**	**204**	**426**
(Inc.)/Dec.in Fixed Assets	(76)	(84)	(81)	(250)	(150)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	**(76)**	**(84)**	**(81)**	**(250)**	**(150)**
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	26	(165)	(109)	73	2
Dividend Paid (Incl. Tax)	(22)	(55)	(55)	(55)	(55)
Others	91	(39)	(34)	(85)	(84)
Cash Flow from Financing	**95**	**(259)**	**(197)**	**(67)**	**(137)**
Inc./(Dec.) in Cash	41	(31)	8	31	128
Opening Cash balances	**6**	**47**	**16**	**24**	**55**
Closing Cash balances	**47**	**16**	**24**	**55**	**183**

Key Ratios

Y/E March	FY2012	FY2013	FY2014	FY2015E	FY2016E
Valuation Ratio (x)					
P/E (on FDEPS)	57.8	45.6	31.9	25.4	21.7
P/CEPS	45.9	37.6	27.2	22.0	19.1
P/BV	19.0	15.0	11.1	8.2	6.2
Dividend yield (%)	0.4	0.6	0.6	0.6	0.6
EV/Sales	5.4	5.1	4.1	3.5	2.9
EV/EBITDA	38.4	30.8	21.1	17.9	15.2
EV / Total Assets	10.1	10.6	9.5	6.8	5.3
Per Share Data (₹)					
EPS (Basic)	6.9	8.8	12.5	15.7	18.4
EPS (fully diluted)	6.9	8.8	12.5	15.7	18.4
Cash EPS	8.7	10.6	14.7	18.1	20.9
DPS	1.4	2.5	2.5	2.5	2.5
Book Value	21.0	26.7	35.8	48.7	64.2
Dupont Analysis					
EBIT margin	11.7	14.1	17.0	17.3	17.5
Tax retention ratio	80.8	80.1	75.6	80.1	80.1
Asset turnover (x)	2.1	2.1	2.5	2.4	2.2
ROIC (Post-tax)	20.3	23.9	32.5	33.5	31.3
Cost of Debt (Post Tax)	6.2	4.5	5.6	6.4	6.4
Leverage (x)	0.9	0.6	0.2	0.1	0.0
Operating ROE	33.3	34.8	38.2	36.0	32.3
Returns (%)					
ROCE (Pre-tax)	21.9	29.6	39.9	34.1	31.7
Angel ROIC (Pre-tax)	26.4	31.9	44.5	42.4	39.8
ROE	37.6	36.8	40.0	37.2	32.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.3	2.9	3.0	2.8	2.6
Inventory / Sales (days)	59.7	63.1	56.4	61.4	70.1
Receivables (days)	50.1	51.9	46.4	50.5	57.7
Payables (days)	60.4	72.6	70.3	81.2	88.1
WC cycle (ex-cash) (days)	86.9	78.6	58.6	57.5	60.1
Solvency ratios (x)					
Net debt to equity	0.8	0.3	0.1	0.1	(0.0)
Net debt to EBITDA	1.5	0.7	0.2	0.2	(0.1)
Interest Coverage (EBIT / Int.)	6.5	14.3	32.3	41.6	37.1

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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 (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	*Sell (< -15%)*	