

Alembic Pharma

Performance Highlights

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)
Net Sales	626	921	(32.1)	502	24.7
Other Income	4	4	3.4	3	21.3
Operating Profit	142	384	(62.9)	97	46.7
Interest	1	1	25.0	0	
Net Profit	91	269	(66.2)	70	29.6

Source: Company, Angel Research

Alembic Pharmaceuticals' 4QFY2016 results have come in below our expectations, on the sales front. The company posted sales of ₹626cr (V/s ₹763cr expected) for the quarter, registering a yoy growth of 24.7%. The growth in sales was driven by international formulations (₹190.2cr) which grew 20% yoy, while Indian formulations (₹259.6cr) grew 12% yoy. On the operating front, the EBIDTA margin stood at 22.7% V/s 20.0% expected. The net profit at ₹91.2cr (V/s ₹93.4cr expected), grew 29.7% yoy. **We maintain our Neutral rating on the stock.**

Results below expectations: The company posted sales of ₹626cr (V/s ₹763cr expected), registering a yoy growth of 24.7%. The growth in sales was driven by international formulations (₹190.2cr) which grew 20% yoy, while Indian formulations (₹259.6cr) grew 12% yoy. The API business (₹166.9cr) posted a 95% yoy growth. On the operating front, the EBIDTA margin stood at 22.8% V/s 20.0% expected. The gross margin expanded to 80.2% V/s 65.3% in the corresponding period of last year; however the expansion in the OPM was relatively lower as R&D expenditure during the quarter stood at 17.8% of sales V/s 6.1% of sales in 4QFY2015. The company posted a net profit of ₹91.2cr (V/s ₹93.4cr expected), up 29.7% 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 back of higher R&D spend, which is likely to reach 13-14% of sales in FY2017-FY2018E.

We recommend a Neutral rating on the stock.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	2,053	3,145	3,483	4,083
% chg	10.2	53.2	10.8	17.2
Net Profit	283	720	352	447
% chg	20.0	154.1	(51.1)	27.0
EPS (₹)	15.0	38.2	18.7	23.7
EBITDA Margin (%)	19.5	31.9	16.2	17.4
P/E (x)	39.9	15.7	32.2	25.3
RoE (%)	36.3	57.9	20.1	21.3
RoCE (%)	30.2	51.0	22.0	23.5
P/BV (x)	12.8	7.1	6.0	4.9
EV/Sales (x)	5.6	3.5	3.2	2.7
EV/EBITDA (x)	28.5	10.9	19.6	15.3

Source: Company, Angel Research; Note: CMP as of May 4, 2016

NEUTRAL

CMP	₹600
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	11,301
Net Debt (₹ cr)	814
Beta	0.7
52 Week High / Low	792/452
Avg. Daily Volume	28,108
Face Value (₹)	2
BSE Sensex	25,102
Nifty	7,707
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)	
Promoters	74.1
MF / Banks / Indian FIs	3.0
FII / NRIs / OCBs	11.1
Indian Public / Others	11.8

Abs. (%)	3m	1yr	3yr
Sensex	3.1	(8.7)	28.2
Alembic Pharma	(5.3)	27.2	391.4

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance (Consolidated)

Y/E March (₹ cr)	4QFY2016	3QFY2016	% chg (qoq)	4QFY2015	% chg (yoy)	FY2016	FY2015	% chg (yoy)
Net sales	626	921	(32.1)	502	24.7	3,145	2,053	53.2
Other income	4	4	3.4	3	21.3	9	6	51.7
Total income	629	925		505	24.6	3,154	2,059	
Gross profit	502	715	(29.8)	328	52.9	2376	1338	77.6
Gross margin	80.2	77.6		65.3		75.5	65.2	
Operating profit	142	384	(62.9)	97	46.7	1002	400	150.6
Operating margin (%)	22.7	41.7		19.3		31.9	19.5	
Interest	1	1	25.0	0		4	2	84.0
Depreciation	24	22	12.7	11	121.8	72	44	64.1
PBT	120	365	(67.0)	89	35.1	936	359	160.6
Provision for taxation	29	95	(69.9)	19	47.9	216	76	184.2
PAT before Extra-ordinary item	91	269	(66.2)	70	29.6	720	283	154.3
Extra-Ordinary Expenses	0	0		0		0	0	
PAT after Extra-ord. item & MI	91	269	(66.2)	70	29.6	720	283	154.3
EPS (₹)	4.8	14.3		3.7		38.2	15.0	

Source: Company, Angel Research

Exhibit 2: 4QFY2016 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	626	763	(18.0)
Other Income	4	4	4.0
Operating Profit	142	145	(1.9)
Interest	1	1	0.0
Tax	29	29	(0.0)
Net Profit	91	93	(2.4)

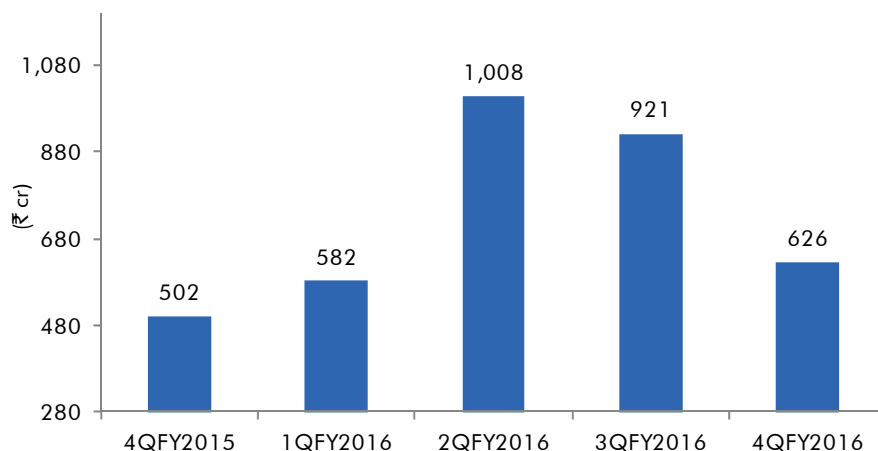
Source: Company, Angel Research

Sales below expectation: Alembic Pharma's 4QFY2016 results are below expectation on the sales front. The company posted sales of ₹626cr (V/s ₹763cr expected), up 24.7% yoy.

The growth in sales was driven by the international formulations business (₹190.2cr) which posted a yoy growth of 20%, while Indian formulations (₹259.6cr) posted a 12% yoy growth. The growth in the Indian formulations segment was driven by the specialty segment which grew by 13% yoy, while the acute segment grew by 7% yoy during the period. During FY2016, the specialty segment had a 60% share in domestic formulations while the rest was accounted by the acute segment (40%). The API business (₹166.9cr) posted a growth of 95% yoy. The Indian generic segment on the other hand posted a dip of 46% yoy.

Till date, the company has filed 76 products (2 in 4QFY2016), received 47 approvals (2 in 4QFY2016) and launched 29 products in the market. The remaining 27 ANDA filings are primarily para IVs and attractive opportunities for the company. The company has also launched 11 products through its own front end in the US.

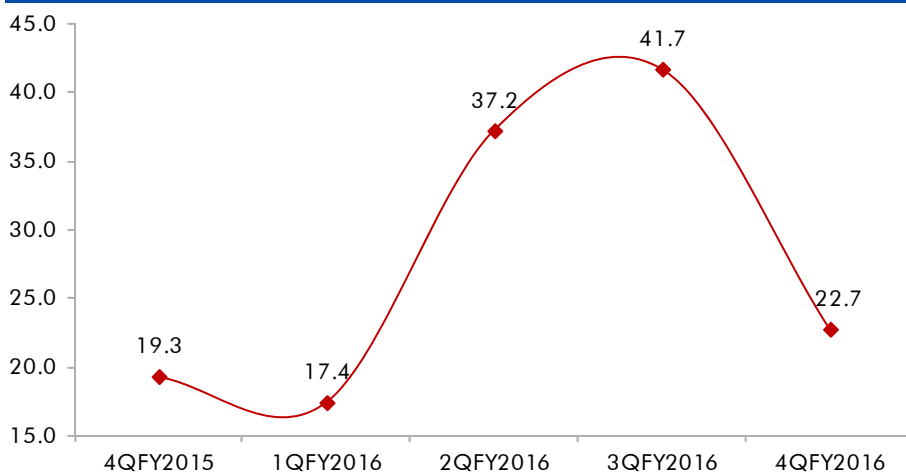
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM higher than expectation: On the operating front, the EBIDTA margin stood at 22.7% V/s 20.0% expected. The gross margin expanded to 80.2% V/s 65.3% in the corresponding period of last year; however the expansion in the OPM was relatively lower as R&D expenditure during the quarter stood at 17.8% of sales V/s 6.1% of sales in 4QFY2015. For FY2016, R&D expenditure was 9.7% of sales. The gross margins expanded on back of favorable product mix and booking of disproportionate profit share from Abilify sales.

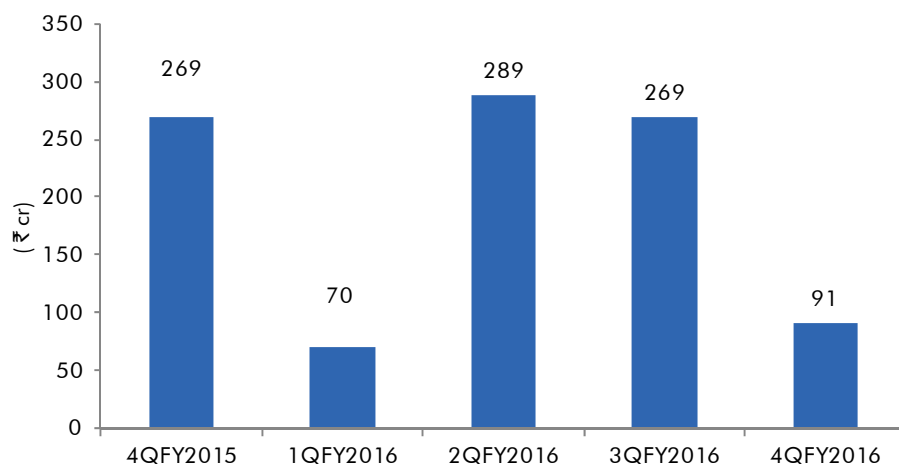
Exhibit 4: OPM Trend (%)



Source: Company, Angel Research

Net profit below expectation: The company posted a net profit of ₹91.2cr (V/s ₹93.4cr expected), ie a yoy growth of 29.7%.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall highlights

- The company has guided for ₹450cr spend for FY2017. Till now the company was focusing upon oral solids filings in the US. However, going forward it would be focusing upon niche filings in the area of oncology orals & injectables and derma products (through JV with Orbicular).
- The company has given ₹400cr of capex guidance for FY2017.
- 483 observations at Panelav facility although non-serious in nature; no data integrity issue found.

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 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 15.0%.

Exports- US the key growth driver: On the exports front, the formulation business contributed by 30% to the total turnover, with majority of the contribution coming from Europe and the US. In the US, the company has filed for ~76 ANDAs till date and received 47 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 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 recommend a 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 (%)	16.2	17.4
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)	FY2017E EV/Sales (x)	FY2017E EV/EBITDA (x)	FY15-17E CAGR in EPS (%)	FY2017E RoCE (%)	FY2017E RoE (%)
Alembic Pharma	Neutral	600	-	-	25.3	2.7	15.3	11.4	23.5	21.3
Aurobindo Pharma	Accumulate	812	856	5.4	19.0	3.0	13.2	15.6	23.5	30.2
Cadila Healthcare	Accumulate	322	352	9.2	18.3	3.6	16.5	24.6	25.2	29.0
Cipla	Accumulate	533	605	13.4	19.4	3.2	16.1	18.3	16.7	16.1
Dr Reddy's	Buy	2,933	3,933	34.1	16.4	2.4	10.6	17.2	19.1	20.4
Dishman Pharma	Neutral	165	-	-	16.5	1.8	8.2	15.9	9.4	11.0
GSK Pharma	Neutral	3,623	-	-	53.0	9.3	42.1	6.6	33.7	34.3
Indoco Remedies	Neutral	271	-	-	19.9	2.2	11.9	23.0	19.7	19.7
Ipca labs	Buy	487	750	54.2	17.4	1.8	9.7	17.9	11.8	14.9
Lupin	Neutral	1,578	-	-	23.1	3.9	14.6	13.1	29.6	24.7
Sanofi India*	Accumulate	4,410	4,738	7.4	28.7	4.7	22.9	34.2	21.0	25.6
Sun Pharma	Neutral	803	950	18.3	29.8	5.2	17.1	8.4	15.8	16.6

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
Gross sales	1,871	2,064	3,181	3,522	4,128
Less: Excise duty	8	11	36	39	45
Net sales	1,863	2,053	3,145	3,483	4,083
Other operating income	3.2	5.7	3.6	3.6	3.6
Total operating income	1,866	2,058	3,149	3,487	4,087
% chg	22.8	10.3	53.0	10.7	17.2
Total expenditure	1,506	1,653	2,143	2,918	3,373
Net raw materials	713	715	769	1,184	1,388
Other mfg costs	82	90	138	153	180
Personnel	247	307	421	506	607
Other	463	542	814	1,075	1,198
EBITDA	358	400	1,002	565	710
% chg	43.7	11.7	150.9	(43.6)	25.6
(% of Net Sales)	19.2	19.5	31.9	16.2	17.4
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	-	-	-	-	-
Recurring PBT	308	360	936	457	580
% chg	49.4	16.8	160.2	(51.2)	27.0
Extraordinary expense/(Inc.)	-	-	-	-	-
PBT (reported)	308	360	936	457	580
Tax	75	76	216	105	133
(% of PBT)	24.4	21.2	23.1	23.0	23.0
PAT (reported)	236	283	720	352	447
Add: Share of earnings of asso.	-	-	(0)	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	236	283	720	352	447
ADJ. PAT	236	283	720	352	447
% chg	43.0	20.0	154.1	(51.1)	27.0
(% of Net Sales)	12.7	13.8	22.9	10.1	10.9
Basic EPS (₹)	12.5	15.0	38.2	18.7	23.7
Fully Diluted EPS (₹)	12.5	15.0	38.2	18.7	23.7
% chg	43.0	20.0	154.1	(51.1)	27.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity share capital	37.7	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-	-
Reserves & surplus	638	847	1,563	1,860	2,252
Shareholders funds	676	885	1,601	1,898	2,290
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
Total liabilities	795	1,177	1,824	2,119	2,511
APPLICATION OF FUNDS					
Gross block	665	907	1,208	1,608	1,808
Less: acc. depreciation	268	313	385	483	603
Net block	397	595	824	1,125	1,206
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
Current assets	755	891	1,507	1,848	2,321
Cash	24	55	451	291	496
Loans & advances	147	120	409	453	531
Other	584	716	647	1,104	1,294
Current liabilities	422	464	635	940	1,102
Net current assets	333	426	872	908	1,219
Mis. Exp. not written off	-	-	-	-	-
Total assets	795	1,177	1,824	2,119	2,511

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	308	360	936	457	580
Depreciation	40	44	72	99	120
(Inc)/Dec in Working Capital	(84)	66	191	(465)	43
Less: Other income	-	-	-	-	-
Direct taxes paid	75	76	216	105	133
Cash Flow from Operations	190	393	982	(15)	609
(Inc.)/Dec.in Fixed Assets	(81)	(222)	(301)	(400)	(200)
(Inc.)/Dec. in Investments	-	-	-	-	-
Other income	-	-	-	-	-
Cash Flow from Investing	(81)	(222)	(301)	(400)	(200)
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
Cash Flow from Financing	(197)	293	19	(6)	(4)
Inc./Dec.) in Cash	8	31	396	(160)	205
Opening Cash balances	16	24	55	451	291
Closing Cash balances	24	55	451	291	496

Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	47.9	39.9	15.7	32.2	25.3
P/CEPS	40.9	34.5	14.3	25.1	20.0
P/BV	16.7	12.8	7.1	6.0	4.9
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
EV/Sales	6.1	5.6	3.5	3.2	2.7
EV/EBITDA	31.7	28.5	10.9	19.7	15.4
EV / Total Assets	14.3	9.7	6.0	5.2	4.3
Per Share Data (₹)					
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
Dupont Analysis					
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
Returns (%)					
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
Turnover ratios (x)					
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
Solvency ratios (x)					
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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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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