

Institutional Equities  
 India Research

# Alembic Pharmaceuticals

**QUARTERLY REVIEW**

 Bloomberg: ALPM IN  
 Reuters: ALEM.BO

**BUY**

## Outlook for domestic business intact; BUY

Alembic's performance in Q2FY13 was impacted due to lower revenues from its Export API segment. Revenues from the domestic business were in-line with our estimates. With increasing pace of approvals and additional capacities coming in Q4FY13 we remain positive about the export formulations business going ahead. Revenues were lower than our estimates while EBITDA and net profit was ahead of expectations. We remain positive on the stock.

- Quarter Details:** Alembic net revenues for Q2FY13 were at Rs.4,058 mn (our estimates Rs.4,245 mn). Growth in domestic formulations at 11.9% y-o-y to Rs.2,539 mn (our estimates Rs.2,542 mn). The company's EBITDA was reported at 15.8% higher than our estimates of 14.3% during Q2FY13. Lower other expenses was on account of forex gain of Rs 30 mn. Margins (ex-forex gain was 14.9%). The company's net profit for the quarter was at Rs.425 mn, higher than our estimates of Rs.383 mn.
- Positive Outlook:** Management expects the domestic formulations business will continue to witness 13-15% y-o-y growth in 2H FY13E. Growth in export formulations business will be impacted due to capacity constraints which will ease by Q4FY13. Improvement in margins will come in from FY14 as the company intends to make further investments on the marketing front.
- Valuation:** We downgrade our FY13 export formulations by 5.5% and for FY14 by 5.0% on back of downgrade in the export formulations semi-regulated markets. We broadly maintain our EBITDA estimates for FY13 and FY14. We continue to amortize Rs.177 mn in lieu of Dabur acquisition. We take the impact of the amortization below the tax vis-à-vis above PBT previously. We downgrade our EPS estimates for FY13 by 4.8% to Rs.6.6 and for FY14 by 3.6% to Rs.7.9. We continue to maintain our BUY rating and target price on the stock based on 10.3X FY14E.
- Risks:** Growth in export formulations business for FY14 is contingent upon additional capacities coming online during Q4FY13. Delay in commissioning the facility may lead to deferment of our export formulation numbers.

**Key Financials**

Rs Mn	FY'10	FY'11	FY'12	FY'13E	FY'14E
Net Revenues	11,381	11,990	14,624	15,896	18,008
EBITDA	1,125	1,572	2,164	2,329	2,685
Net Profit	219	677	1,125	1,238	1,483
EPS (Rs)	1.6	3.6	6.0	6.6	7.9
EBITDA margin (%)	9.9	13.1	14.8	14.7	14.9
PER (x)	42.6	19.5	11.7	10.7	8.9

Source: Company, Karvy Institutional Research

**Recommendation**

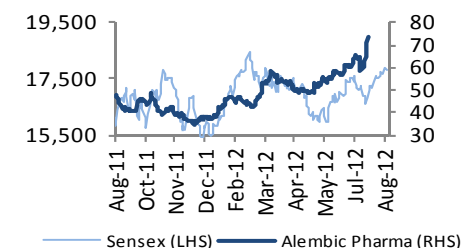
CMP:	Rs71
Target Price:	Rs81
Upside (%)	15%

**Stock Information**

Market Cap. (Rs bn / US\$ mn)	13/247
52-week High/Low (Rs)	79/31
3m ADV (Rs mn /US\$ mn)	20/0.4
Beta	0.0
Sensex/ Nifty	18,649/5,669
Share outstanding (mn)	189

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	(1.1)	21.2	54.3	98.9
Rel. to Sensex	(0.5)	11.5	38.9	64.8

**Performance**


Source: Bloomberg, Karvy Institutional Research

**Earnings Revision**

(%)	FY13E	FY14E
Revenue	↓ 1.0	↓ 1.0
EBITDA	↓ 1.8	-
PAT	↓ 4.8	↓ 3.6

Source: Company, Karvy Institutional Research

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## Result Review

**Alembic displayed a flat revenue performance while EBITDA and net profit surpassed our expectation. Forex gain of Rs.30 mn in other expenses was for the primary reason for the outperformance in EBITDA and Profits.**

### Revenue Analysis

Alembic Q2FY13 revenues reported 2.2% y-o-y improvement in revenues to Rs.4,058 mn lower than our estimates of Rs.4,244 mn. The company's domestic business revenues reported a 11.9% y-o-y improvement to Rs.2,539 mn broadly in line with our estimates of Rs.2,542 mn. Export API revenues reported a q-o-q decline and y-o-y decline to Rs.576 mn owing to higher capacities being utilized for Domestic API business. Export formulations business reported revenues of Rs.510 mn higher than our estimates. Alembic has cumulative 21 approvals out of which 14 have been commercialized. The company has received 3 approvals during the last fortnight. Capacity constraints in the export formulations business will ease from Q4FY13 onwards.

### EBIDTA Margin

The company's EBITDA was reported at 15.7% higher than our estimates of 14.3% during the quarter. Component of forex gain to the tune of Rs.30 mn has been included in the operational EBITDA. Excluding forex gain EBITDA was at 14.9% higher than our estimates. Company is confident of maintaining the EBITDA to 15% for FY13.

### Non-operating items

- **Other income** was reported at Rs12.7mn lower than our estimates of Rs15mn for the quarter.
- **Interest expense** was reported at Rs31.2mn lower than our estimates of Rs60mn during the quarter. The company has repaid debt to the tune of Rs500mn during H1 FY13.
- **Effective tax rate** was 19.8%, in-line with our expectation of 19.6% for the quarter.

### Net Profit Growth

The company's net profit was reported at Rs425mn higher than our estimates of Rs.383 mn during the quarter.

**Alembic Pharmaceuticals**
**Exhibit 1: Quarterly table**

Y/E Mar (Rs Mn)	Q2FY12	Q1FY13	Q2FY13	QoQ%	YoY%
Net Sales	3,970	3,661	4,058	10.9	2.2
Cost	3,375	3,145	3,422	8.8	1.4
EBITDA	594	516	637	23.4	7.1
EBITDA Margin (%)	15.0	14.2	15.8		
Other Income	11	9	13	38.0	12.4
Interest	71	57	31	(45.6)	(55.9)
Depreciation	85	87	88	1.8	4.4
Profit before Tax	450	381	530	39.1	17.6
Tax	70	73	105	44.5	49.9
Tax rate (%)	15.5	19.1	19.8		
Net Profit	380	308	425	37.8	11.7

Source: Company, Karvy Institutional Research

**Exhibit 2: Changes in estimates**

Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Export Formulations	2,842	3,009	(5.5)	3,351	3,526	(5.0)	Lower sales expected in the semi-regulated markets owing to restructuring.
Revenues	15,896	16,063	(1.0)	18,008	18,184	(1.0)	
EBITDA	2,329	2,372	(1.8)	2,685	2,699	(0.5)	
EBITDA margin (%)	14.7	14.8	(0.8)	14.9	14.8	0.4	
Net Profit	1,238	1,301	(4.8)	1,483	1,539	(3.6)	Amortisation of Dabur acquisition being included post tax.
EPS (Rs.)	6.6	6.9	(4.8)	7.9	8.2	(3.6)	

Source: Company, Karvy Institutional Research

**Alembic Pharmaceuticals**
**Exhibit 3: Profit and Loss Account**

Y/E Mar (Rsmn)	FY'10	FY'11	FY'12	FY'13E	FY'14E
<b>Net Revenue</b>	<b>11,381</b>	<b>11,990</b>	<b>14,624</b>	<b>15,896</b>	<b>18,008</b>
Raw Material	5,710	5,970	7,079	7,567	8,572
Staff	1,455	1,415	1,685	1,937	2,208
Others Exps	3,091	3,033	3,696	4,063	4,543
Total Expenditure	10,256	10,418	12,460	13,567	15,324
<b>EBITDA</b>	<b>1,125</b>	<b>1,572</b>	<b>2,164</b>	<b>2,329</b>	<b>2,685</b>
<b>EBITDA margin (%)</b>	<b>9.9</b>	<b>13.1</b>	<b>14.8</b>	<b>14.7</b>	<b>14.9</b>
Other income	43	31	45	51	92
Interest	301	239	262	225	225
Depreciation	430	296	336	390	477
<b>Profit Before Tax</b>	<b>438</b>	<b>1,068</b>	<b>1,610</b>	<b>1,765</b>	<b>2,074</b>
Tax	42	215	308	349	415
Effective tax rate (%)	9	20	19	20	20
<b>Net Profit</b>	<b>396</b>	<b>854</b>	<b>1,301</b>	<b>1,415</b>	<b>1,660</b>
Ammortization on Goodwill	177	177	177	177	177
<b>Net profit after amortization</b>	<b>219</b>	<b>677</b>	<b>1,125</b>	<b>1,238</b>	<b>1,483</b>
Extraordinaries	0	-37	0	0	0
<b>Reported Net Profit</b>	<b>219</b>	<b>640</b>	<b>1,125</b>	<b>1,238</b>	<b>1,483</b>

Source: Company, Karvy Institutional Research

**Exhibit 4: Balance Sheet Statement**

Y/E Mar (Rsmn)	FY'10	FY'11	FY'12	FY'13E	FY'14E
Equity	267	377	377	377	377
Reserves	4,352	3,637	4,402	5,231	6,223
Networth	4,619	4,014	4,779	5,608	6,600
Short-term Loans	1,897	1,464	1,395	1,929	1,929
Long-term Loans	2,187	1,815	1,071	1,071	1,071
Total Loans	4,084	3,279	3,500	3,000	3,000
Foregin currency translation	-8	15	55	0	0
Deferred tax Liability	138	54	95	111	111
<b>Total Liabilities</b>	<b>8,833</b>	<b>7,361</b>	<b>8,429</b>	<b>8,720</b>	<b>9,711</b>
Gross Block	7,124	4,335	4,630	6,113	7,013
Depreciation	3,192	1,615	1,952	2,342	2,819
Net Block	3,932	2,720	2,678	3,770	4,193
Capital work-in-progress	39	265	582	500	100
Goodwill & Intangibles	1,768	1,768	1,768	1,768	1,768
less Amortisation	530	707	884	1,061	1,238
Goodwill (Net)	1,238	1,061	884	707	531
Inventories	2,449	2,192	2,587	2,504	2,832
Debtors	1,929	2,020	1,993	2,374	2,691
Cash	239	63	471	452	1,521
Investments	84	33	33	34	34
Other Current assets	1,296	1,144	2,174	2,066	2,016
Total Current assets	5,912	5,419	7,225	7,396	9,059
Creditors	1,978	1,637	2,091	2,573	2,915
Other current liabilities	394	500	882	1,114	1,290
Total current liabilities	2,372	2,136	2,974	3,687	4,205
Net current assets	3,540	3,283	4,252	3,708	4,853
<b>Total Assets</b>	<b>8,833</b>	<b>7,361</b>	<b>8,429</b>	<b>8,720</b>	<b>9,711</b>

Source: Company, Karvy Institutional Research

**Alembic Pharmaceuticals**
**Exhibit 5: Cash Flow Statement**

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	518	1,099	1,650	1,762	2,031
(Inc.)/Dec in working capital	460	82	-561	525	-77
<b>Cash flow from operations</b>	<b>978</b>	<b>1,181</b>	<b>1,089</b>	<b>2,287</b>	<b>1,954</b>
Other income	43	31	45	51	92
Depreciation & Amortization	607	473	513	567	654
Interest paid (-)	-301	-239	-262	-225	-225
Deferred Payment credit	0	0	0	0	0
Forex loss	0	0	0	0	0
Deferred Tax	74	-85	42	16	0
Tax paid (-)	-42	-215	-308	-349	-415
Dividends paid (-)	-78	-221	-309	-410	-491
Extraordinaries	0	-37	0	0	0
<b>Net cash from operations</b>	<b>1,282</b>	<b>890</b>	<b>809</b>	<b>1,937</b>	<b>1,568</b>
Capital Expenditure (-)	-282	-500	-612	-1400	-500
<b>Net Cash after Capex &amp; intangibles</b>	<b>1,001</b>	<b>390</b>	<b>197</b>	<b>537</b>	<b>1,068</b>
Inc./(Dec.) in short-term borrowing	-1,057	-433	-69	534	0
Inc./(dec.) in long-term borrowing	393	-372	-744	0	0
Inc./(dec.) in borrowings	-664	-805	221	-500	0
(Inc.)/Dec. in Investments	0	51	0	-1	0
Equity issue/(Buyback)	66	-207	119	-55	0
<b>Cash from Financial Activities</b>	<b>-598</b>	<b>-961</b>	<b>340</b>	<b>-555</b>	<b>0</b>
Others	-321	395	-129		
Opening cash	158	239	63	471	452
Closing cash	239	63	471	452	1,521
Change in Cash	81	-176	408	-18	1,068

Source: Company, Karvy Institutional Research

**Exhibit 6: Key ratios**

	FY'10	FY'11	FY'12	FY'13E	FY'14E
EV/EBITDA (x)	11.8	10.5	7.6	6.8	5.5
ROCE (%)	6.1	14.0	21.5	21.5	23.1
ROE (%)	4.7	15.7	25.6	24.9	24.8
P/S (x)	0.8	1.1	0.9	0.8	0.7
P/ BV (x)	2.1	3.3	2.8	2.4	2.0

Source: Company, Karvy Institutional Research

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

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