

Alembic Pharma

Performance Highlights

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)
Net Sales	406	366	10.9	397	2.2
Other Income	1	0	477.3	1	12.4
Operating Profit	64	52	21.7	59	7.2
Interest	3	6	(45.6)	7	(55.9)
Net Profit	42	31	37.8	38	11.7

Source: Company, Angel Research

Alembic Pharmaceuticals (Alembic)'s 2QFY2013 results have come above our expectations on the operating front. On the sales front, the company grossed sales of ₹406cr, registering a revenue growth of 2.2% yoy, just in line with our expectations of ₹419cr. On the operating front, the company posted an OPM of 15.7% vs an expectation of 14.2%. This led the net profits to come above expectations at ₹42cr (expectation was of ₹35cr). At the current market price, the stock is trading at an attractive valuation. **Hence, we maintain our Buy view on the stock.**

Results above expectations on operating front: Alembic reported a revenue growth of 2.2% yoy to ₹406cr, mainly driven by the domestic formulation business which grew by 11.9% yoy. However, the exports segment de-grew by 18.5% yoy, impacted by de-growth of formulation exports (which de-grew by 28.4% yoy). The active pharmaceutical ingredient (API) exports on the other hand de-grew by 4.7%. On the operating front, the company posted an OPM of 15.7% vs expectations of 14.2%, which led to the net profits coming above our expectations at ₹42cr (vs our expectation of ₹35cr).

Outlook and valuation: Alembic's growth and profitability profile has improved post the restructuring carried out by the management. Over FY2012-14, we expect the company to post a CAGR of 13.3% and 14.6% in sales and net profit respectively. At the current market price, the stock is trading at attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹91.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	1,177	1,444	1,624	1,855
% chg	-	22.6	12.5	14.2
Net Profit	85	130	125	171
% chg	-	52.3	(4.2)	37.2
EPS (₹)	4.5	6.9	6.6	9.1
EBITDA Margin (%)	12.1	14.1	14.2	15.6
P/E (x)	15.4	10.1	10.5	7.7
RoE (%)	26.3	37.6	27.9	29.9
RoCE (%)	19.0	25.0	26.2	29.4
P/BV (x)	4.4	3.3	2.6	2.0
EV/Sales (x)	1.4	1.0	0.9	0.8
EV/EBITDA (x)	11.2	7.3	6.5	5.0

Source: Company, Angel Research

BUY

CMP	₹70
Target Price	₹91

Investment Period	12 Months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	1,314
Net Debt (₹ cr)	205
Beta	0.6
52 Week High / Low	79/34
Avg. Daily Volume	59,792
Face Value (₹)	2
BSE Sensex	18,682
Nifty	5,684
Reuters Code	ALEM.BO
Bloomberg Code	ALPM@IN

Shareholding Pattern (%)

Promoters	74.1
MF / Banks / Indian Fls	2.5
FII / NRIs / OCBs	7.4
Indian Public / Others	16.0

Abs. (%)	3m	1yr	3yr*
Sensex	8.1	9.3	7.8
Alembic Pharma	19.0	54.2	-

*Since listed on September 20, 2011

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Exhibit 1: 2QFY2013 performance (Consolidated)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg(qoq)	2QFY2012	% chg (yoy)	1HFY2013	1HFY2012	% chg (yoy)
Net sales	406	366	10.9	397	2.2	772	740	4.3
Other income	1	0	477.3	1	12.4	2	2	36.0
Total income	367	367		398	(7.8)	774	742	
Gross profit	19	191	-89.8	203	(90.4)	409	375	9.1
Gross margin	4.8	52.2		51.2		53.0	50.6	
Operating profit	64	52	21.7	59	7.2	115	109	5.3
Operating margin (%)	15.7	14.3		15.0		14.9	14.8	
Interest	3	6	(45.6)	7	(55.9)	9	14	(36.0)
Depreciation	9	9	1.8	8	4.4	17	17	5.0
PBT	53	38	38.9	45	17.8	91	81	13.1
Provision for taxation	10	7	43.5	7	49.9	18	15	19.0
PAT before Extra-ordinary item	42	31	37.8	38	11.7	73	66	11.8
Extra-Ordinary Expenses	-	-		-		-	-	
PAT after Extra-ordinary item & MI	42	31	37.8	38	11.7	73	66	11.8
EPS (₹)	2.3	1.6		2.0		3.9	3.5	

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – Actual vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net Sales	406	419	(3.3)
Other Income	262	262	0.0
Operating Profit	104	104	0.0
Interest	1	0	535.0
Tax	10	11	(0.4)
Net Profit	42	35	22.6

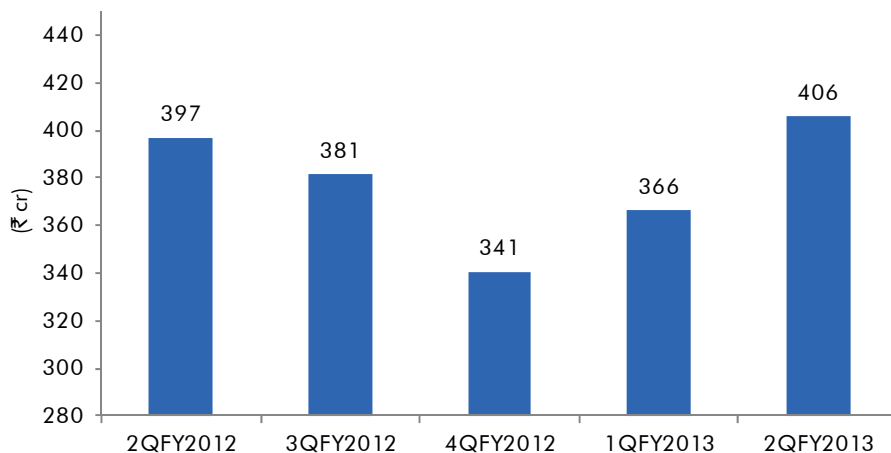
Source: Company, Angel Research

Sales just in line with expectations: Alembic reported revenue growth of 2.2% yoy to ₹406cr, mainly driven by the domestic formulation business which grew by 11.9% yoy. However, the exports segment de-grew by 18.5% yoy, impacted by de-growth of formulation exports (which de-grew by 28.4% yoy). API exports on the other hand de-grew by 4.7%.

The exports segments, namely the branded exports and international generics, de-grew by 27.9% yoy and 28.5% yoy respectively. The de-growth in the international generic formulations was mainly due to price erosion, product mix and capacity constraints.

The management expects FY2013 to be a strong year for the domestic formulation business, where the company expects to log in a 12-15% yoy growth, driven by the chronic segment. The company has filed for 50 abbreviated new drug applications (ANDAs) in the US year till date and received 21 approvals.

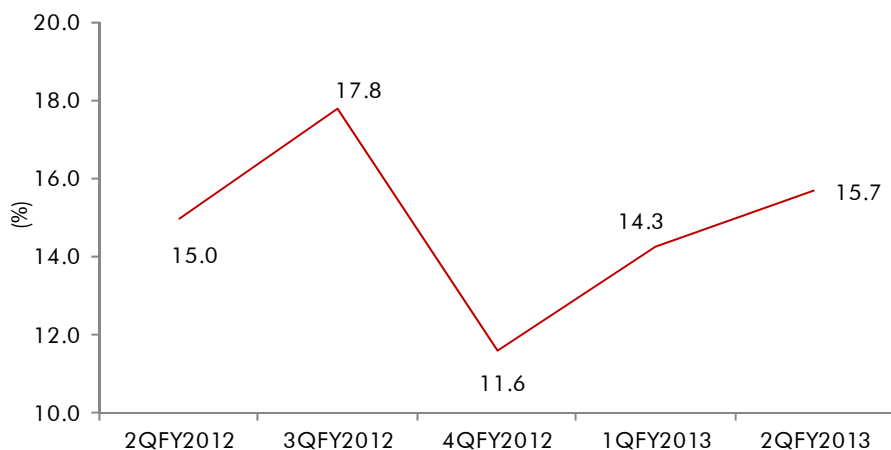
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM came higher than expected: The gross margins expanded by 235bps on the back of higher contribution from domestic formulations, which aided on the operating front. The margins came in at 15.7% vs 14.2% (our expectation). On a yoy basis, the company posted a 72bps expansion in OPM, lower than the expansion in the gross margins, on account of a higher-than-expected rise in the salary and selling, general and administrative (SG&A) expenses, which grew by 30.7%yoy and 22.5%yoy respectively. On the other hand the other expenditure de-grew by 4.8% yoy which aided the expansion in the OPM.

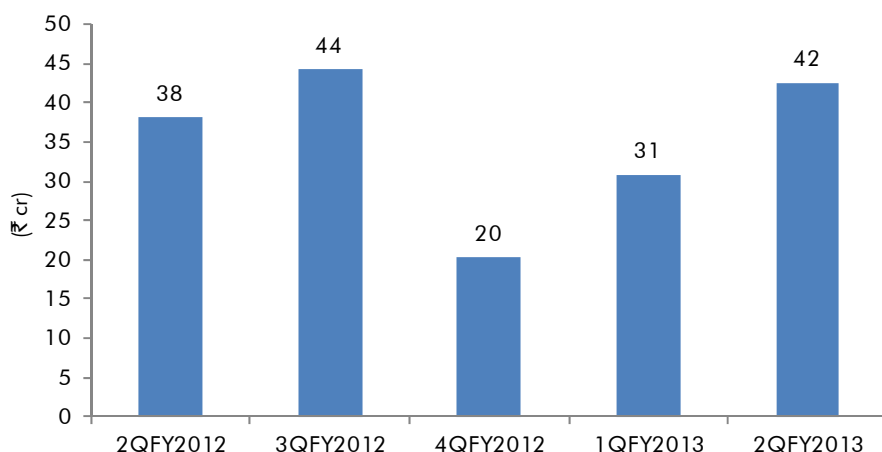
Exhibit 4: OPM Trend



Source: Company, Angel Research

Net profit above expectation: While the operating profit grew only by 7.2% yoy, the reduction in the interest expense during the period aided an 11.7% yoy net profit growth. The net profits came in above our expectations at ₹42cr vs expectations of ₹35cr.

Exhibit 5: Net profit trend



Source: Company, Angel Research

Concall Highlights

- For FY2013, the domestic formulation growth is expected to be at 12-14%. For API exports, growth would be 10-15% yoy in FY2013. International generics are expected to be muted over the next two to three quarters. Overall, the management expects the growth in export revenue to be around 15% in FY2013.
- The company launched the dermatology division during the quarter with a field force of 100 people to strengthen its position in the speciality business.
- The company filed 1 ANDA in 2QFY2013.
- R&D Expenses are expected to be around 4% of sales in FY2013.
- OPM is expected to be around 15% for the next two years.
- Tax rate for FY2013 would be around 20% of PBT.
- For FY2013, the management has guided for ₹100cr of capex, of which ₹70cr would be towards the exports formulation plant, which would come on stream in 4QFY2013.

Investment arguments

Focus on chronic segment to drive domestic formulation growth: Alembic 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 54% to its total sales in FY2012, with ~70% of its revenue coming from the anti-infective, respiratory, gynaecological and gastro therapeutic space. The company has a strong field force of ~3,300 medical representatives. Going forward, the company expects its domestic formulation business to at least grow in line with the industry growth rate, before the share of the high growth chronic segment improves from the current levels of ~30%. For FY2012-14, we expect the domestic formulation business to grow at 14.0% CAGR.

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 45 ANDAs year till date and received 20 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. FY2013 would see modest growth in exports as compared to its historical high growth rate on account of capacity constraints. However, FY2014 should witness the growth in exports to resume. For FY2012-14, we expect the exports to register a CAGR of 21.1%.

Outlook and valuation: Alembic's growth and profitability profile have improved post the restructuring carried out by the management. Over FY2012-14, we expect the company to post a CAGR of 13.3% and 14.6% in its sales and net profit respectively. At the current market price, the stock is trading at an attractive valuation. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹91.**

Exhibit 6: Key assumptions

	FY2013E	FY2014E
Sales growth (%)	12.5	14.2
R&D as % of sales	4.1	4.1
Operating margins (%)	14.2	15.6
Capex (₹ cr)	112	53
Net Debt/Equity (x)	0.7	0.4

Source: Company, Angel Research

Exhibit 7: Recommendation summary

Company	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	FY2014E			FY12-14E		FY2014E
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	70	91	30.6	7.7	0.8	5.0	14.8	29.4	29.9
Aurobindo Pharma	Neutral	157	-	-	12.4	1.2	8.0	61.1	10.4	16.4
Sanofi India*	Neutral	2,209	-	-	21.1	2.8	17.7	12.0	16.1	17.0
Cadila Healthcare	Accumulate	851	953	12.0	18.5	2.5	12.7	20.5	20.2	26.8
Cipla	Accumulate	359	399	11.1	18.0	3.0	13.5	18.4	16.8	16.6
Dr Reddy's	Accumulate	1,701	1,859	9.3	18.3	2.6	12.5	2.3	15.1	20.8
Dishman Pharma	Neutral	97	-	-	8.6	1.1	5.9	26.6	8.9	10.0
GSK Pharma*	Neutral	1,995	-	-	24.2	4.7	15.1	8.7	38.9	29.0
Indoco Remedies	Buy	65	92	42.3	7.3	0.9	5.9	32.8	15.5	17.0
Ipca labs	Neutral	458	-	-	12.5	1.8	8.7	29.5	26.1	26.0
Lupin	Accumulate	571	647	13.3	18.3	2.5	12.8	26.7	22.9	24.7
Orchid Chemicals	Neutral	109	-	-	4.9	0.8	5.7	27.8	11.5	7.9
Ranbaxy*	Neutral	540	-	-	18.1	1.9	11.8	44.8	15.8	28.9
Sun Pharma	Neutral	694	-	-	24.6	4.7	11.3	0.1	26.7	18.8

Source: Company, Angel Research; Note: *December year end

Background

Alembic Pharmaceuticals is a leading pharmaceutical company in India. The company is vertically integrated to develop pharmaceutical substances and intermediates. The company is the market leader in the Macrolides segment of anti-infective drugs in India. Its manufacturing facilities are located in Vadodara and Baddi in 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)	FY2011	FY2012	FY2013E	FY2014E
Gross sales	1,192	1,455	1,634	1,866
Less: Excise duty	14	11	10	11
Net sales	1,177	1,444	1,624	1,855
Other operating income	15.6	17.4	16.3	18.9
Total operating income	1,193	1,461	1,640	1,874
% chg	-	22.5	12.2	14.2
Total expenditure	1,035	1,241	1,394	1,565
Net raw materials	590	708	771	881
Other mfg costs	59	63	71	82
Personnel	141	168	189	216
Other	244	301	362	386
EBITDA	142	203	230	289
% chg	-	42.7	13.4	25.7
(% of Net Sales)	12.1	14.1	14.2	15.6
Depreciation & amortisation	30	34	37	39
Interest & other charges	24	26	31	35
Other income	3	0	0	0
(% of PBT)	2	0	0	0
Share in profit of Associates	-	-	-	-
Recurring PBT	107	161	163	216
% chg	-	50.5	1.2	31.3
Extraordinary expense/(Inc.)	0	-	-	-
PBT (reported)	107	161	163	216
Tax	21	31	38	45
(% of PBT)	20.1	19.2	23.3	20.8
PAT (reported)	85	130	125	171
Add: Share of earnings of associate	-	-	-	-
Less: Minority interest (MI)	-	-	-	-
Prior period items	-	-	-	-
PAT after MI (reported)	85	130	125	171
ADJ. PAT	85	130	125	171
% chg	-	52.3	(4.2)	37.2
(% of Net Sales)	7.2	9.0	7.7	9.2
Basic EPS (₹)	4.5	6.9	6.6	9.1
Fully Diluted EPS (₹)	4.5	6.9	6.6	9.1
% chg	-	52.3	(4.2)	37.2

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS				
Equity share capital	37.7	37.7	37.7	37.7
Preference Capital	-	-	-	-
Reserves & surplus	259	357	460	609
Shareholders funds	297	395	497	647
Minority Interest	-	-	-	-
Other Long Term Liabilities	11.8	12.3	12.3	12.3
Long Term Provisions	5.1	5.4	5.4	5.4
Total loans	275	234	234	234
Deferred tax liability	5	10	10	10
Total liabilities	594	657	759	909
APPLICATION OF FUNDS				
Gross block	434	463	573	673
Less: acc. depreciation	162	195	233	272
Net block	272	268	340	401
Capital work-in-progress	27	58	58	59
Goodwill	-	-	-	-
Long Term Loans and Advances	7	35	35	35
Investments	3.3	3.3	3.3	3.3
Current assets	535	688	761	911
Cash	6	47	35	82
Loans & advances	114	182	211	241
Other	415	459	515	588
Current liabilities	250	395	438	501
Net current assets	286	292	322	410
Mis. Exp. not written off	-	-	-	-
Total assets	594	657	759	909

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	107	161	162	216
Depreciation	30	34	37	39
(Inc)/Dec in Working Capital	(49)	(76)	(55)	(15)
Less: Other income	-	-	-	-
Direct taxes paid	19	31	38	45
Cash Flow from Operations	69	87	106	195
(Inc.)/Dec.in Fixed Assets	(61)	(76)	(110)	(101)
(Inc.)/Dec. in Investments	-	-	-	-
Other income	-	-	-	-
Cash Flow from Investing	(61)	(76)	(110)	(101)
Issue of Equity	11	-	-	-
Inc./(Dec.) in loans	(59)	(40)	-	-
Dividend Paid (Incl. Tax)	(22)	(22)	(22)	(22)
Others	53	91	13	(25)
Cash Flow from Financing	(17)	29	(9)	(47)
Inc./(Dec.) in Cash	(9)	41	(12)	47
Opening Cash balances	15	6	47	35
Closing Cash balances	6	47	35	82

Key Ratios

Y/E March	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)				
P/E (on FDEPS)	15.4	10.1	10.6	7.7
P/CEPS	11.4	8.0	8.1	6.2
P/BV	4.4	3.3	2.6	2.0
Dividend yield (%)	1.4	1.4	2.1	2.9
EV/Sales	1.4	1.0	0.9	0.8
EV/EBITDA	11.2	7.3	6.5	5.0
EV / Total Assets	2.7	2.3	2.0	1.6
Per Share Data (₹)				
EPS (Basic)	4.5	6.9	6.6	9.1
EPS (fully diluted)	4.5	6.9	6.6	9.1
Cash EPS	6.1	8.7	8.6	11.2
DPS	1.0	1.0	1.5	2.0
Book Value	15.7	21.0	26.4	34.3
Dupont Analysis				
EBIT margin	9.6	11.7	11.9	13.5
Tax retention ratio	79.9	80.8	76.6	79.2
Asset turnover (x)	2.0	2.4	2.5	2.4
ROIC (Post-tax)	15.5	23.2	22.3	25.9
Cost of Debt (Post Tax)	5.5	8.3	10.0	11.8
Leverage (x)	0.9	0.7	0.4	0.3
Operating ROE	24.6	33.4	27.7	30.4
Returns (%)				
ROCE (Pre-tax)	19.0	25.0	26.2	29.4
Angel ROIC (Pre-tax)	20.1	26.0	27.0	30.7
ROE	26.3	37.6	27.8	30.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.1	3.3	3.2	3.0
Inventory / Sales (days)	66.1	61.1	63.8	63.4
Receivables (days)	64.0	57.7	61.4	61.0
Payables (days)	60.1	53.2	54.2	53.9
WC cycle (ex-cash) (days)	85	65	59	60
Solvency ratios (x)				
Net debt to equity	0.9	0.5	0.4	0.2
Net debt to EBITDA	1.9	0.9	0.9	0.5
Interest Coverage (EBIT / Interest)	4.7	6.5	6.3	7.2

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