

Alembic Pharma

BUY

INDUSTRY	PHARMA		
CMP (as on 03 May 17)	Rs 605		
Target Price	Rs 675		
Nifty	9,312		
Sensex	29,895		
KEY STOCK DATA			
Bloomberg	ALPM IN		
No. of Shares (mn)	189		
MCap (Rs bn) / (\$ mn)	114/1,780		
6m avg traded value (Rs mn)	57		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 709/515		
	3M	6M	12M
Absolute (%)	8.4	(10.4)	1.3
Relative (%)	2.5	(19.3)	(17.2)
SHAREHOLDING PATTERN (%)			
Promoters	72.68		
FIs & Local MFs	2.94		
FPIs	10.68		
Public & Others	13.70		
<i>Source : BSE</i>			

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Moving up the value chain

Alembic Pharma's (ALPM) top line grew ~18% YoY in 4QFY17, albeit on a low base. The EBITDA margin at 18.2% was down 450bps YoY (75bps miss). PAT stood at Rs 930mn, up ~2.2%YoY. In our view, 4QFY17 was a weak quarter for ALPM. Profitability reduced largely on account of higher R&D spend, US front end costs and staffing for the new facilities. We believe ALPM's investment cycle is in its final year, with the four new facilities coming on-stream in FY18.

However, the derma and oncology filings will only start in FY19E. In the meanwhile, we expect 10 to 12 product launches in the US market every year, which should maintain the US sales growth over FY17-19E. With this, and a recovery in the India business, ALPM should see ~16% revenue CAGR over FY17-19E.

Continuous investments and erosion in gAbilify sales have led to a correction in the stock price. We believe that the business remains attractive at these valuations. Maintain a BUY rating with a revised TP of Rs 675 (20x FY19E).

Financial Summary

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	7,378	6,256	17.9	7,707	(4.3)	31,453	31,015	34,962	41,674
EBIDTA	1,346	1,423	(5.4)	1,454	(7.4)	10,025	6,110	7,412	9,585
APAT	930	911	2.2	865	7.5	3,133	4,032	4,847	6,375
Diluted adj. EPS (Rs)	4.9	4.8	2.2	4.6	7.5	16.6	21.4	25.7	33.8
P/E (x)						36.4	28.3	23.5	17.9
RoE (%)						25.2	23.0	23.2	25.1

Source: Company, HDFC sec Inst Research # Consolidated

- US generics:** The outlook for the US business remains positive, with 49 ANDAs pending (40% para IVs), and an increased pace of ANDA filings over the next two years (40-50), especially in therapies like derma and oncology. The 20 ANDAs filed in FY17 are the highest ever filed by the company in a year. We believe that ALPM is well poised to grow its US business (ex-Abilify) at ~22-25% CAGR over FY17-19E.
- India branded:** The India sales grew 6.3% YoY in 4QFY17. The impact of demonetisation and the Azithral price cut still lingers, and ALPM views GST as a significant potential disruption in the coming quarters. However, a return to at least mid-teen growth is likely.
- EBITDA margin to improve steadily:** Sizeable investments in the derma and oncology pipelines will call for a spend of Rs 5bn on R&D in FY18. This will restrict improvement in the EBITDA margin, despite the improving product mix and operating leverage in the US. Significant progress will only be visible in FY19. Despite heavy capex and R&D spend, we expect ALPM to register ~25% core earnings CAGR over FY17-19E.
- Near-term outlook:** Unexpected approvals for the US market would be a positive trigger for the stock.

R&D expenses moved up to ~17% of sales in 4QFY17, highlighting ALPM's commitment to its research programme

Employee expenses increased significantly on account of staffing in the upcoming facilities

EBITDA margins are likely to remain under pressure for the coming few quarters with continuing heavy investment in R&D and recruitment at the new facilities

Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	7,378	6,256	17.9	7,707	(4.3)
Material Expenses	2,005	1,239	61.8	2,054	(2.4)
Employee Expenses	1,379	969	42.2	1,305	5.6
R&D Expenses	1,222	1,110	10.1	1,167	4.7
Other Expenses	1,427	1,514	(5.8)	1,728	(17.4)
EBITDA	1,346	1,423	(5.4)	1,454	(7.4)
Depreciation	218	244		211	
EBIT	1,128	1,179	(4.3)	1,243	(9.3)
Other Income	9	26		2	
Interest Cost	18	13		8	
PBT	1,118	1,192	(6.2)	1,237	(9.6)
Tax	165	286		393	
RPAT	953	906	5.2	844	13.0
Minority Interest	23	(5)		(21)	
APAT	930	911	2.2	865	7.5

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses % Net Sales	27.2	19.8	736	26.6	53
Employee Expenses % Net Sales	18.7	15.5	319	16.9	175
R&D Expenses % Net Sales	16.6	17.8	(119)	15.1	142
Other Expenses % Net Sales	19.3	24.2	(486)	22.4	(308)
EBITDA Margin (%)	18.2	22.7	(450)	18.9	(62)
Tax Rate (%)	14.7	24.0	(924)	31.8	(1,701)
APAT Margin (%)	12.6	14.6	(194)	11.2	138

Source: Company, HDFC sec Inst Research

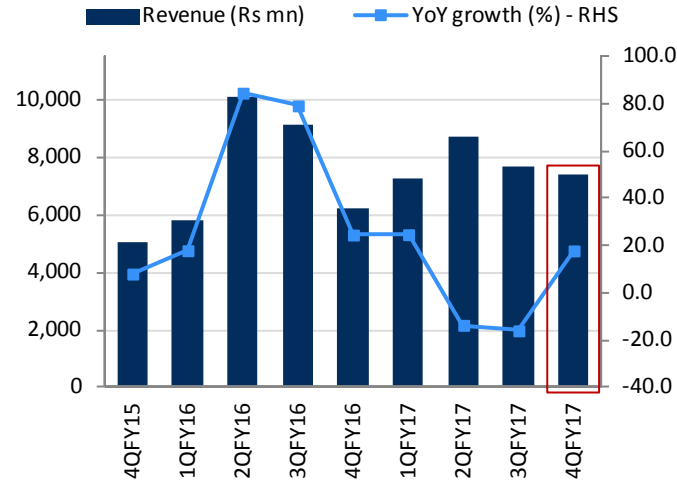
Overall, revenues for the quarter were disappointing. Erosion in gAbilify continues to impact significantly

India business growth was good YoY, but flat sequentially. This was largely on account of trade pressures and the lingering impact of demonetisation

International generics business grew significantly, on a low base. However, there was a sequential decline of ~9%, largely on account of price erosion and the absence of new product launches

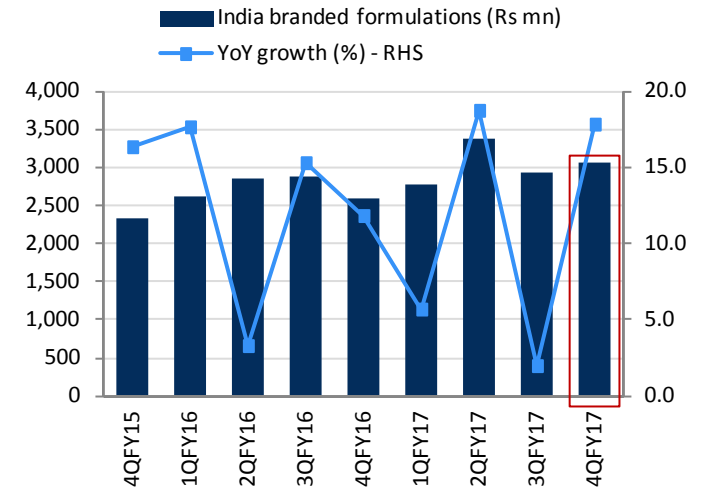
EBITDA margins were under pressure on account of increased R&D and employee costs

Revenue Growth Trajectory



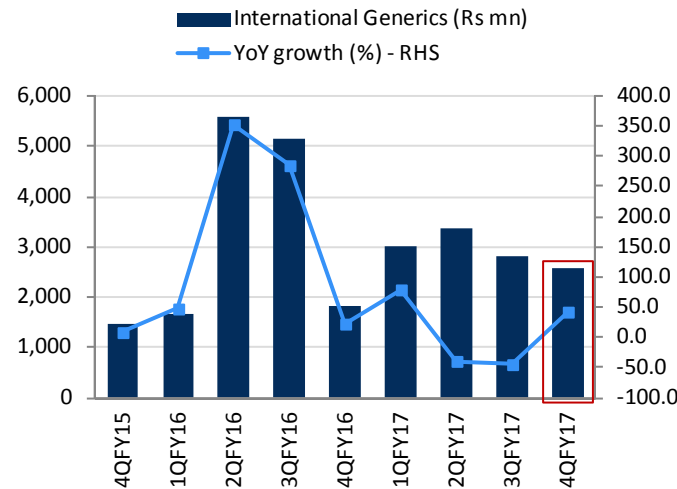
Source: Company, HDFC sec Inst Research

India-branded Formulation Growth Trajectory



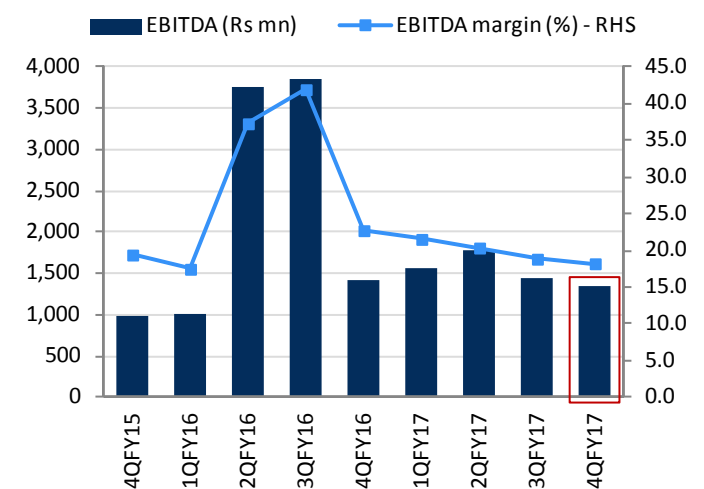
Source: Company, HDFC sec Inst Research

International Generics Trajectory



Source: Company, HDFC sec Inst Research

EBITDA Margin Trajectory



Source: Company, HDFC sec Inst Research

Growth in the international generics business was on a favourable base

The company expects to file 20+ ANDAs in FY18, and launch 8 to 10 products

Segmental Quarterly Performance

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Domestic Formulations	2,860	2,690	6.3	3,070	(6.8)
International Business	2,730	1,902	43.5	3,030	(9.9)
API and others	1,810	1,669	8.4	1,660	9.0
Total	7,400	6,261	18.2	7,760	(4.6)

Source: HDFC sec Inst Research

Assumptions

	FY16	FY17	FY18E	FY19E
Domestic formulations	11,873	12,550	14,321	16,556
<i>Growth (%)</i>	7.6	5.7	14.1	15.6
International Business	14,647	12,360	14,323	18,233
<i>Growth (%)</i>	151.7	(15.6)	15.9	27.3
API Business	5,283	6,400	6,720	7,364
<i>Growth (%)</i>	53.8	(1.5)	12.9	19.2
Total	31,803	31,310	35,363	42,153
<i>Growth (%)</i>	53.8	(1.5)	12.9	19.2

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	20,527	31,453	31,015	34,962	41,674
Growth (%)	10.2	53.2	(1.4)	12.7	19.2
Material Expenses	7,145	7,694	8,581	9,440	11,252
Employee Expenses	3,068	4,214	5,588	5,943	6,668
SG&A Expenses	5,072	6,449	6,465	7,167	8,752
Other Expenses	1,216	3,071	4,270	4,999	5,418
EBITDA	4,026	10,025	6,110	7,412	9,585
EBITDA Margin (%)	19.6	31.9	19.7	21.2	23.0
EBITDA Growth (%)	12.6	149.0	(39.1)	21.3	29.3
Depreciation	444	722	830	1,128	1,443
EBIT	3,582	9,303	5,281	6,284	8,142
Other Income (Incl EO Items)	26	91	62	50	80
Interest	18	37	51	45	55
PBT	3,591	9,357	5,291	6,289	8,167
Tax (Incl Deferred)	764	2,160	1,222	1,446	1,797
RPAT	2,827	7,197	4,069	4,842	6,370
Minority Interest	(2)	6	37	(5)	(5)
EO (Loss) / Profit (Net Of Tax)	-	4,059	-	-	-
APAT	2,829	3,133	4,032	4,847	6,375
APAT Growth (%)	20.1	10.7	28.7	20.2	31.5
Adjusted EPS (Rs)	15.0	16.6	21.4	25.7	33.8

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	377	377	377	377	377
Reserves	8,469	15,628	18,635	22,380	27,653
Total Shareholders' Funds	8,846	16,005	19,012	22,757	28,030
Long-term Debt	188	-	-	-	-
Short-term Debt	2,197	1,325	928	2,250	1,650
Total Debt	2,385	1,325	928	2,250	1,650
Net Deferred Taxes	314	501	369	369	369
Long-term Provisions & Others	94	350	375	405	406
TOTAL SOURCES OF FUNDS	11,639	18,182	20,685	25,781	30,455
APPLICATION OF FUNDS					
Net Block	5,469	7,748	11,026	16,898	18,955
CWIP	1,046	1,225	1,280	1,499	1,700
Investments	23	21	642	642	642
LT Loans & Advances	967	534	450	350	350
Total Non-current Assets	7,504	9,528	13,398	19,389	21,647
Inventories	3,828	5,776	6,328	4,784	5,703
Debtors	3,612	3,505	3,375	4,789	5,709
Other Current Assets	1,200	1,277	2,169	1,997	2,534
Cash & Equivalents	268	4,508	1,596	551	1,558
Total Current Assets	8,907	15,066	13,467	12,122	15,504
Creditors	3,109	5,664	5,232	4,138	4,932
Other Current Liabilities & Provisions	1,663	748	949	1,592	1,764
Total Current Liabilities	4,772	6,412	6,181	5,730	6,697
Net Current Assets	4,135	8,654	7,286	6,392	8,807
TOTAL APPLICATION OF FUNDS	11,639	18,182	20,684	25,781	30,455

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending Marh (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	3,591	9,357	5,291	6,289	8,167
Non-operating & EO items	(308)	-	-	-	-
Interest expenses	(9)	(54)	(10)	(5)	(25)
Depreciation	444	722	830	1,128	1,443
Working Capital Change	(1,184)	326	(1,486)	(121)	(1,407)
Tax Paid	(676)	(1,973)	(1,222)	(1,446)	(1,797)
OPERATING CASH FLOW (a)	1,858	8,378	3,403	5,844	6,381
Capex	(2,225)	(3,026)	(4,113)	(7,118)	(3,701)
Free Cash Flow (FCF)	(368)	5,351	(710)	(1,274)	2,680
Non-operating Income	37	93	(559)	50	80
INVESTING CASH FLOW (b)	(2,188)	(2,934)	(4,672)	(7,068)	(3,621)
Debt Issuance/(Repaid)	1,149	(1,059)	(434)	1,327	(595)
Interest Expenses	(18)	(37)	(51)	(45)	(55)
FCFE	801	4,349	(1,755)	58	2,110
Share Capital Issuance	-	-	-	-	-
Dividend	(772)	(882)	(882)	(1,103)	(1,103)
Others	-	(774)	275	-	-
FINANCING CASH FLOW (c)	360	(1,203)	(1,643)	179	(1,753)
NET CASH FLOW (a+b+c)	29	4,240	(2,912)	(1,045)	1,007
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	269	4,509	1,596	551	1,558

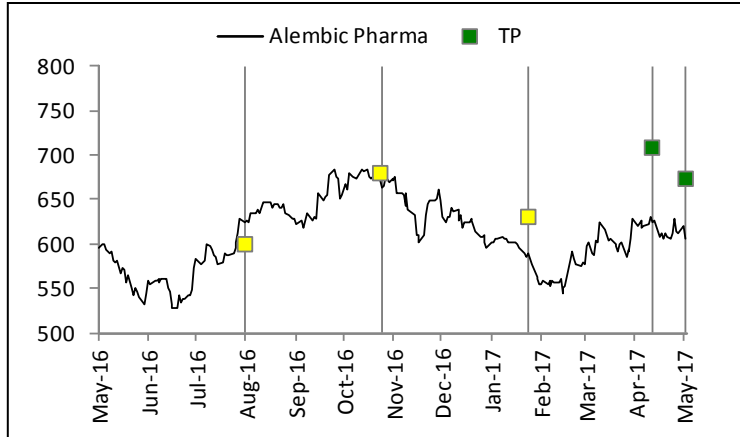
Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY (%)					
GPM	65.2	75.5	72.3	73.0	73.0
EBITDA Margin	19.6	31.9	19.7	21.2	23.0
APAT Margin	13.8	10.0	13.0	13.9	15.3
RoE	36.3	25.2	23.0	23.2	25.1
RoIC (or Core RoCE)	32.2	60.9	26.1	22.9	24.4
RoCE	29.3	25.2	24.9	22.0	23.7
EFFICIENCY					
Tax Rate (%)	21.3	23.1	23.1	23.0	22.0
Fixed Asset Turnover (x)	2.5	2.8	2.0	1.6	1.6
Inventory (days)	68.1	67.0	74.5	50.0	50.0
Debtors (days)	64.2	40.7	39.7	50.0	50.0
Other Current Assets (days)	21.3	14.8	25.5	20.8	22.2
Payables (days)	55.3	65.7	61.6	43.2	43.2
Other Current Liab & Provns (days)	29.6	8.7	11.2	16.6	15.5
Cash Conversion Cycle (days)	68.8	48.1	67.0	61.0	63.5
Debt/EBITDA (x)	0.6	0.1	0.2	0.2	0.1
Net D/E (x)	0.2	(0.2)	(0.0)	0.1	0.0
Interest Coverage (x)	201.2	252.8	103.1	139.6	148.0
PER SHARE DATA (Rs)					
EPS	15.0	16.6	21.4	25.7	33.8
Dividend	3.5	4.0	4.0	5.0	5.0
Book Value	46.9	84.9	100.9	120.7	148.7
VALUATION					
P/E (x)	38.8	35.1	28.3	23.5	17.9
P/BV (x)	12.4	6.9	6.0	5.0	4.1
EV/EBITDA (x)	27.8	10.6	18.6	15.6	11.9
EV/Revenues (x)	5.5	3.4	3.7	3.3	2.7
OCF/EV (%)	1.7	7.9	3.0	5.0	5.6
FCF/EV (%)	(0.3)	5.0	(0.6)	(1.1)	2.3
FCFE/Mkt Cap (%)	0.7	4.0	(1.5)	(0.8)	2.3
Dividend Yield (%)	0.6	0.7	0.7	0.8	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
1-Aug-16	624	NEU	600
26-Oct-16	672	NEU	680
25-Jan-17	590	NEU	630
12-Apr-17	624	BUY	710
3-May-17	605	BUY	675

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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