Alembic Pharma (ALEPHA)

₹ 483

US drives sales but future path challenging…

- Revenues grew 15% YoY to ₹ 853 crore (I-direct estimate: ₹ 830 crore) mainly on account of 45% YoY growth in the US to ₹ 290 crore (I-direct estimate: ~₹ 233 crore) led by one-off and volume driven growth. Excluding one-off, US sales grew 30% YoY
- EBITDA margins improved 215 bps YoY to 20.3% (I-direct estimate: 22.5%) mainly due to lower other expenditure. EBITDA increased 29% YoY to ₹ 173 crore vis-à-vis I-direct estimate of ₹ 187 crore
- Net profit increased a mere 1% YoY to ₹ 94 crore (I-direct estimate of ₹ 130 crore). Growth in the operational performance was largely offset by higher depreciation & tax rate (27.3% vs. 14.7% in Q4FY17)

US key growth driver for generic exports

APL's exports generic business (38% of FY18 revenues) grew at ~45% CAGR in FY13-18 to ₹ 1207 crore driven by strong traction in the US (77% of export sales). The US traction was on the back of consistent product launches including limited competition products. Despite being a late entrant, the company has done reasonably well with a product basket of 132 ANDA filings with 71 pending final approvals. APL has already demonstrated required capabilities by securing approvals for limited competition products like gAbilify (CNS), gExforge (CVS), gCelebrex (Pain) and gMicardis (CVS). The company now has its own front-end team, which gives better control on its product launches. We expect US sales to register 17% CAGR in FY18-20E to ₹ 1269 due to its front-end initiatives, 10-12 expected launches every year in the US.

Domestic sales growth riding on speciality segment growth

APL's domestic formulation sales (41% of total revenues) grew at ~9% CAGR in FY13-18 mainly due to ~19% growth in the speciality segment. Specialty contribution in the domestic branded space increased to 65% in FY17 from 49% in FY13. With +5000 marketing team at its disposal, the company enjoys a wide reach among doctors. We expect the speciality segment to grow at 15-20% CAGR in FY18-20E on the back of aggressive product launches and constant addition of new speciality segments & sub-segments. Overall, we expect domestic branded formulations to grow at 14% CAGR in FY18-20E to ₹ 1653 crore.

High capex, R&D to drive long term growth plans

Alembic has spent ₹ 1000-1500 crore in FY16-18 and also guided an additional ~₹ 600 crore capex for FY19 to set up injectable, oral solid oncology facilities, API capacity ramp-up and to set up a plant under the Derma JV (orbicular). Guidance ₹ 450-500 crore (i.e. ~14% of sales) of R&D for FY19 was one of the highest in the industry in percentage term. Both heads are likely to witness above normal outflows.

R&D, capex benefits back-loaded; maintain HOLD

Q4 witnessed strong growth in the US. However, growth has come at the cost of gross margins. Although the company has guided for good traction in the US, it is likely to put pressure on the gross margins due to acute pricing pressure in the US. With the announcement of aggressive R&D and capex plans, the management has signalled its long term strategy for the next five to six years, especially on the US front. This includes a foray into niche areas like oncology, injectables, derma, etc. We believe this is fraught with a new set of challenges. The benefits are most likely to be back-loaded. Immediate cash burn is likely to weigh on sentiments in the near term. Accordingly, we arrive at our new target price of ₹ 460 based on 18x FY20E EPS of ₹ 25.5.

Rating matrix

Rating	:	Hold
Target	:	₹ 460
Target Period	:	12-15 months
Potential Upside	:	-5%

What's Changed?

Target	Changed from ₹ 570 to ₹ 460
EPS FY18E	Changed from ₹ 23.7 to ₹ 21.9
EPS FY19E	Changed from ₹ 23 to ₹ 22.6
EPS FY20E	Changed from ₹ 28.6 to ₹ 25.5
Rating	Unchanged

Quarterly Performance

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	853.3	741.4	15.1	840.0	1.6
EBITDA	173.2	134.6	28.7	187.5	-7.6
EBITDA (%)	20.3	18.2	214.6	22.3	-202.2
Net Profit	93.8	93.0	0.9	130.6	-28.2

Key Financials

(₹crore)	FY17	FY18E	FY19E	FY20E
Revenues	3134.6	3130.8	3537.4	3993.1
EBITDA	614.7	641.3	638.9	777.4
Net Profit	399.3	412.7	426.0	480.1
EPS (₹)	21.2	21.9	22.6	25.5

Valuation summary

	FY17	FY18E	FY19E	FY20E
PE (x)	22.8	22.0	21.4	18.9
Target PE (x)	21.7	21.0	20.4	18.1
EV to EBITDA (x)	14.7	15.1	15.7	12.5
ROIC (%)	34.5	27.6	26.7	19.9
RoNW (%)	21.0	18.5	16.6	16.3
RoCE (%)	25.3	17.9	14.6	16.5

Stock data

Particular	Amount
Market Capitalisation	₹ 9096 crore
Debt (FY18)	₹ 708 crore
Cash & cash equivalents (FY18)	₹ 90 crore
EV	₹ 9714 crore
52 week H/L	615/468
Equity capital	₹ 38 crore
Face value	₹ 2

Price performance (%)

	1M	3M	6M	1Y
Alembic Pharma	-5.0	-16.3	-6.5	-20.2
Ajanta Pharma	-23.2	-24.1	-17.1	-36.2
Torrent Pharma	1.4	-4.6	8.2	2.7

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Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	Q3FY18	YoY (%)	QoQ (%)	Comments
Revenue	853.3	831.1	741.4	840.0	15.1	1.6	YoY growth mainly due to 45% growth in the US business led by one-off sales and uptake in volumes
Raw Material Expenses	263.8	228.5	204.0	226.4	29.3	16.5	
Employee Expenses	157.3	149.6	137.9	147.4	14.1	6.7	
R&D Expenditure	121.1	99.7	109.0	98.1	11.1	23.4	
Other Expenditure	137.9	166.2	155.9	180.5	-11.5	-23.6	
EBITDA	173.2	187.0	134.6	187.5	28.7	-7.6	
EBITDA (%)	20.3	22.5	18.2	22.3	215 bps	-202 bps	YoY improved mainly due to lower R&D expenditure during the quarter
Interest	1.3	0.8	1.8	0.8	-26.0	63.4	
Depreciation	31.6	26.4	21.8	26.4	44.6	19.6	
Other Income	0.6	0.3	0.9	0.3	-28.1	93.9	
PBT before EO & Forex	141.0	160.1	111.8	160.6	26.0	-12.2	
Forex & EO	0.0	0.0	0.0	0.0	NA	NA	
PBT	141.0	160.1	111.8	160.6	26.0	-12.2	
Tax	38.5	29.7	16.5	29.8	133.6	29.3	
PAT before MI	102.4	130.4	95.3	130.9	7.4	-21.7	
Net Profit	93.8	130.4	93.0	130.6	0.9	-28.2	YoY higher net profit growth mainly due to a better operational performance and lower tax rate. Beat vis-à-vis estimates mainly in sync with EBITDA besides lower interest and depreciation
Key Metrics							
Domestic Formulation	304.0	329.6	286.0	314.1	6.3	-3.2	Adjusting for GST, like-to-like YoY growth was 18-19%
Total Exports	352.0	309.5	273.0	311.0	28.9	13.2	YoY growth and beat vis-à-vis estimates mainly on account of higher-than-expected volume led growth in the US
APIs	198.0	190.1	181.0	180.0	9.4	10.0	
Common size (%)							

Source: Company, ICICI Direct Research

Change in estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	3,476.7	3,537.4	1.7	3,919.5	3,993.1	1.9	
EBITDA	678.0	638.9	-5.8	823.1	777.4	-5.6	
EBITDA Margin (%)	19.5	18.1	-144 bps	21.0	19.5	-153 bps	Downward revision mainly due to higher R&D and other expenses
PAT	434.4	426.0	-1.9	538.4	480.1	-10.8	Downward revision in line with EBITDA downgrading
EPS (₹)	23.0	22.6	-1.7	28.6	25.5	-10.9	

Source: Company, ICICI Direct Research

Assumptions

			Current		Earlier	
(₹ crore)	FY17	FY18E	FY19E	FY20E	FY19E	FY20E
Domestic Formulation	1,255.1	1,274.0	1,475.3	1,652.6	1,500.0	1,683.8
Export sales	1,236.5	1,207.0	1,363.4	1,605.5	1,296.6	1,510.8
APIs	640.2	650.0	682.5	716.6	674.2	707.9

Source: Company, ICICI Direct Research

Company Analysis

Tracing its roots way back to 1907, the company has remained an active player in the domestic formulations space with a few legacy brands like Azithral, Althrocin and Wikoryl in the anti-infective and cough & cold segments. In 2011, APL was de-merged from Alembic Ltd to provide more thrust to formulations and insulate this business from the vagaries of commoditised APIs. Formulations account for 79% of the business while the rest comes from APIs. As of FY18, the domestic: exports formulation ratio was at 51:49. Consolidated revenues, EBITDA and PAT have grown at a CAGR of 16%, 21% and 20%, respectively, in FY13-18.

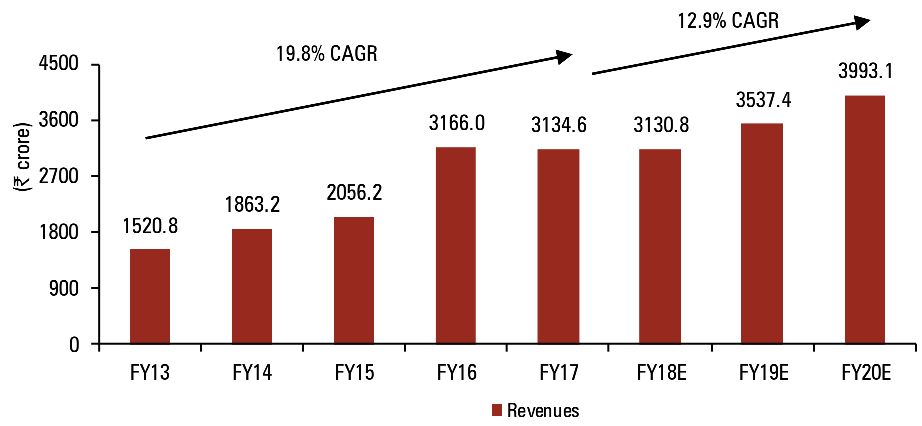
The company's domestic branded portfolio is gradually shifting to the speciality business segment, which now accounts for ~65% of domestic branded formulations in FY18 from 49% in FY13.

Export formulations constitute 38% of revenues (FY18). Of this, ~77% of export formulations are generics catering to the regulated market of the US. APL owns ~61 approved ANDA across US markets, and 71 pending ANDA.

The company has acquired US based Orit Laboratories LLC along with real estate. Orit is focused on developing and filing oral solid and liquid products. With 8,600 square feet R&D and pilot manufacturing facility, it has seven approved ANDAs and four ANDAs pending approval. Orit adds complementary skill sets in soft gelatin based oral solids and oral liquids to Alembic with a team of eight highly experienced scientists.

Total revenues grew at 16% CAGR in FY13-18 mainly due to strong growth in the domestic specialty segment and increased export generic contributions. We expect domestic growth to be driven by the specialty segment on the back of new product launches and addition of new specialty segments/sub-segments. On the export front, the US remains a key growth driver backed by a healthy product pipeline to support base business growth. We expect total revenues to grow at 13% CAGR in FY18-20E to ₹ 3993 crore to be driven by domestic branded formulations and US.

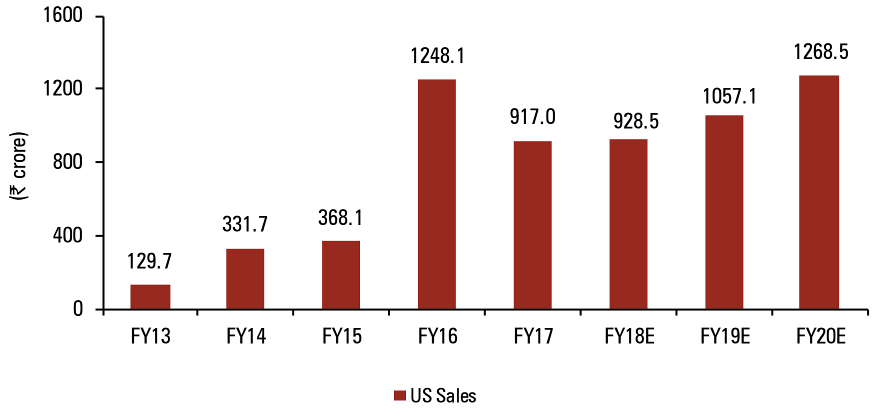
Exhibit 1: Revenues to grow at 13% CAGR in FY17-20E



Source: Company, ICICI Direct Research

APL's FY15 growth in the US was just 11% YoY due to high base, price erosion in some products and lack of new product approvals. However, the company started FY16 on a strong footing with approved products such as gAbilify (~US$5 billion annual sales; ~10% market share), gExforge (~US$400 million) and gCelebrex (~US$2.4 billion). APL has launched gAbilify under shared exclusivity. The company has guided at launching eight to 10 products annually. We expect US revenues to grow at just 16% CAGR in FY18-20E mainly due to increase market share gain in existing products and new product launches.

Exhibit 2: US sales trend (US growth to be 17% in FY17-20E)

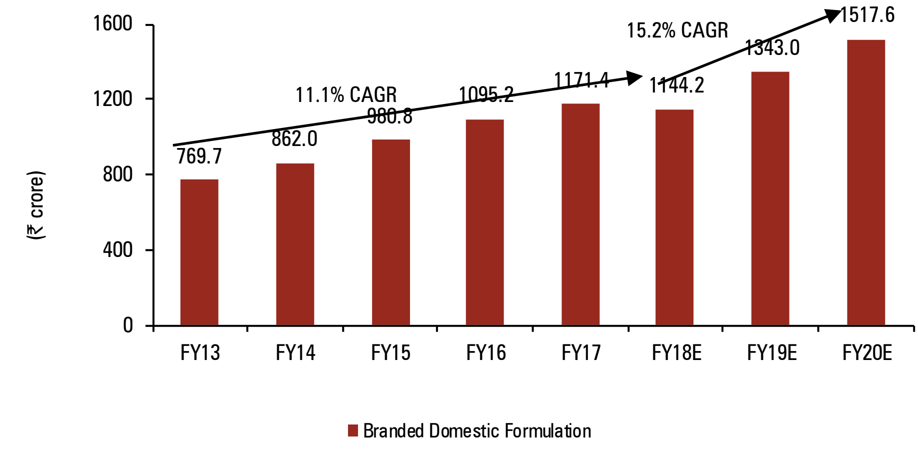


Source: Company, ICICI Direct Research

Over the years, APL has developed power brands like Azithral and Althrocin in the anti-infective segment. Historically, the company's domestic portfolio was tilted more towards acute therapies, especially the anti-infective segment. Anti-infective was in fact the identity for APL. However, most of these products came under price control - some under DPCO 1990 and more under NLEM 2011 later. Hence, to mitigate the price control impact, the erstwhile Alembic Ltd acquired the non-oncology portfolio of Dabur Pharma in 2007. Gradually, the company restricted its anti-infective focus to key legacy brands and diverted the resources towards speciality segments. Domestic formulation sales (40% of revenues in FY18) grew at 9% CAGR in FY12-18 to ₹ 1653 crore mainly due to strong growth in the specialty segment. The specialty portfolio grew at 19% CAGR in FY12-18. At the same time, the anti-infective segment contribution reduced ~1297 bps, resulting in an improvement in the acute: speciality ratio to 35:65 in FY18 from 51:49 in FY12.

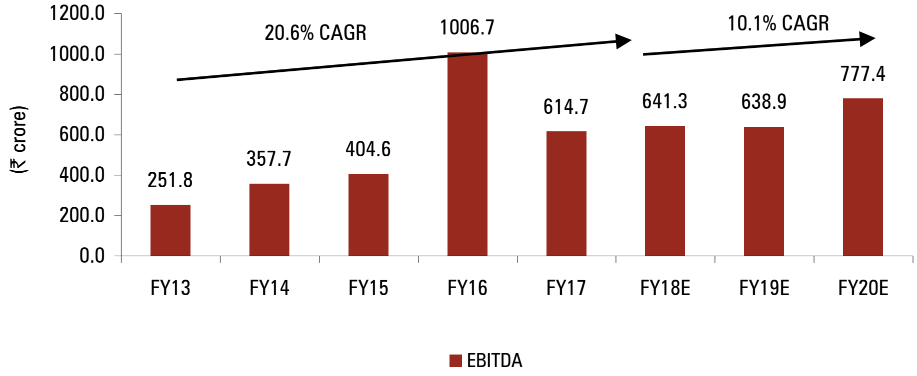
With 5000+ MRs at its disposal, the company enjoys a wide reach among doctors. APL has added ~1000 MRs in the past four years to widen its focus on the specialty segment by introducing more divisions within segments. We expect the domestic speciality segment to maintain its strong growth trajectory backed by its aggressive approach of introducing new divisions and launching products in existing & new therapeutic areas. While the acute segment growth is likely to recover, it would remain in single digits in the near future. We expect domestic branded formulations to grow at a CAGR of 15% to ₹ 1518 crore in FY18-20E.

Exhibit 3: Domestic sales trend



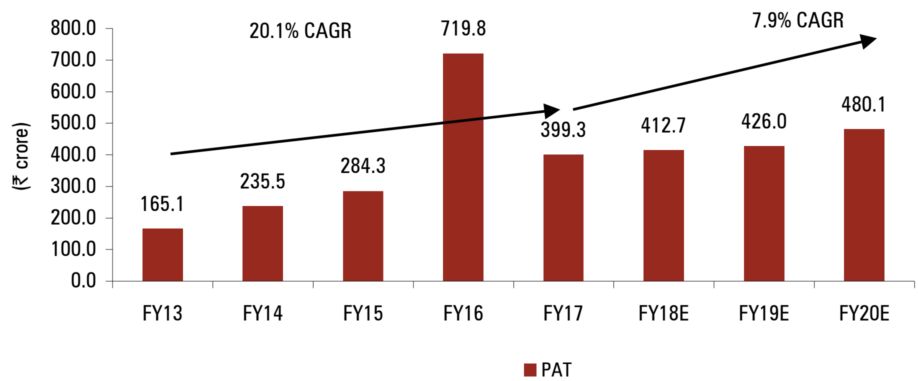
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend reflecting augmented R&D and capex impact in FY18-20E



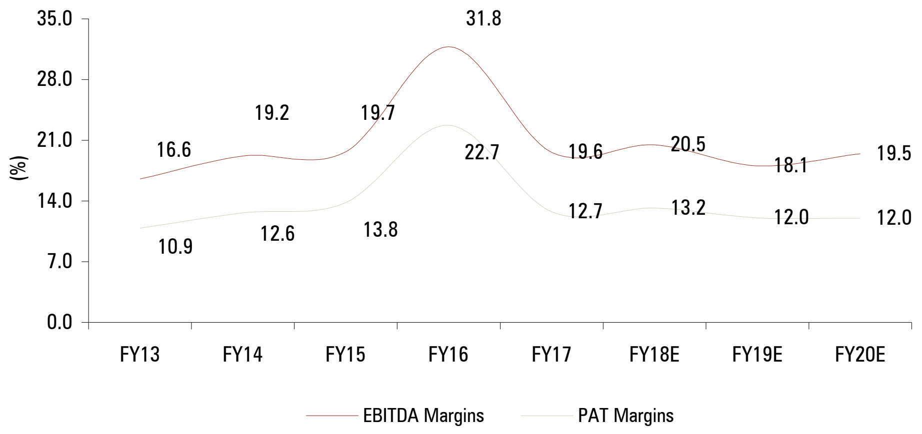
Source: Company, ICICI Direct Research

Exhibit 5: Net profit to grow at CAGR of 7.9% in FY18-20E



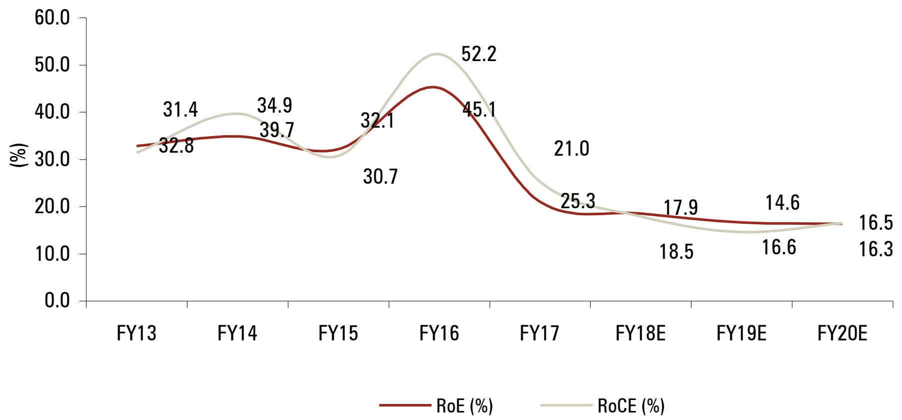
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA & PAT margins



Source: Company, ICICI Direct Research

Exhibit 7: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 8: Trends in quarterly financials

(₹ Crore)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (%)	QoQ(%)
Revenues	503.0	583.3	1008.8	921.7	626.6	736.8	879.4	777.0	741.4	648.2	789.3	840.0	853.3	15.1	1.6
Raw Material Cost	173.6	213.2	226.3	206.0	123.9	193.7	247.0	211.6	204.0	182.0	213.3	226.4	263.8	29.3	16.5
% to revenues	34.5	36.6	22.4	22.4	19.8	26.3	28.1	27.2	27.5	28.1	27.0	27.0	30.9		
Gross Profit	329.5	370.1	782.5	715.7	502.7	543.1	632.4	565.4	537.3	466.2	576.0	613.6	589.5	9.7	-3.9
Gross Profit Margin (%)	65.5	63.4	77.6	77.6	80.2	73.7	71.9	72.8	72.5	71.9	73.0	73.0	69.1	-339 bps	-396 bps
Employee cost	75.2	87.8	119.6	117.0	96.9	134.1	118.7	130.5	137.9	158.5	159.5	147.4	157.3	14.1	6.7
% to revenues	15.0	15.1	11.9	12.7	15.5	18.2	13.5	16.8	18.6	24.5	20.2	17.6	18.4	-16 bps	88 bps
R & D	30.5	48.0	78.0	70.1	111.0	82.3	108.7	116.7	109.0	94.0	98.1	98.1	121.1		
% to revenues	6.1	8.2	7.7	7.6	17.7	11.2	12.4	15.0	14.7	14.5	12.4	11.7	14.2	-51 bps	251 bps
Other Expenditure	125.1	132.3	208.9	144.0	151.4	169.7	227.3	172.8	155.9	112.2	139.2	180.5	137.9	-11.5	-23.6
% to revenues	24.9	22.7	20.7	15.6	24.2	23.0	25.8	22.2	21.0	17.3	17.6	21.5	16.2	-487 bps	-533 bps
Total Expenditure	404.3	481.3	632.7	537.1	483.3	579.8	701.6	631.6	606.8	546.8	610.1	652.5	680.1	12.1	4.2
% to revenues	80.4	82.5	62.7	58.3	77.1	78.7	79.8	81.3	81.8	84.4	77.3	77.7	79.7		
EBIDTA	98.7	102.0	376.0	384.6	143.3	157.0	177.8	145.4	134.6	101.4	179.2	187.5	173.2	28.7	-7.6
EBITDA Margin (%)	19.6	17.5	37.3	41.7	22.9	21.3	20.2	18.7	18.2	15.6	22.7	22.3	20.3	215 bps	-202 bps
Depreciation	11.0	12.9	13.3	21.7	24.4	19.4	20.6	21.1	21.8	21.8	25.7	26.4	31.6	44.6	19.6
Interest	0.4	0.6	0.7	1.0	1.3	1.3	1.0	0.8	1.8	0.9	0.4	0.8	1.3	-26.0	63.4
OI	1.9	0.0	0.1	2.8	2.6	0.6	0.5	0.2	0.9	0.2	7.7	0.3	0.6		
PBT	89.2	88.6	362.1	364.7	120.2	136.9	156.7	123.7	111.8	78.9	160.8	160.6	141.0	26.0	-12.2
Tax	18.3	18.8	73.5	95.1	28.6	33.3	33.2	39.3	16.5	15.5	36.6	29.8	38.5	133.6	29.3
Tax Rate (%)	20.5	21.2	20.3	26.1	23.8	24.3	21.2	31.8	14.7	19.6	22.7	18.5	27.3		
PAT	70.9	69.8	288.5	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.4	7.4	-21.7
PAT Margin (%)	14.1	12.0	28.6	29.2	14.6	14.1	14.0	10.9	12.9	9.8	15.7	15.6	12.0		
Exceptional Items (EI)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Profit before MI	70.9	69.8	288.5	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.4	7.4	-21.7
Add/(less) MI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2		
Net Profit	70.9	69.8	288.5	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.2	7.2	-21.9
Net Profit (excl.EI)	70.9	69.8	288.5	269.6	91.6	103.6	123.6	84.4	95.3	63.4	124.3	130.9	102.2	7.2	-21.9

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths- Speciality focus on domestic market, high operating margins, high return ratios and US pipeline

Weakness- Relatively late US entrant, still higher presence of acute therapies in the domestic branded formulations

Opportunities- The US generics space

Threats - Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US. Also, extension of NLEM product list may impact domestic branded formulations.

Conference call Highlights

- The company is likely to commission oncology and general injectable facilities in H1FY19, oral solid in Jarod in H2FY19 and derma facility in H2FY18
- The company has guided for ~₹ 600 crore of capex (excluding maintenance capex) for FY19
- For the domestic market, the company has guided for higher than industry growth in FY19. MR productivity was ₹ 2.75 lakh in FY18
- Gross margins are expected to come down to ~69% from 72-73% mainly due to pricing pressure in the US
- The company has launched eight ANDAs in FY18. Cumulatively, it has launched 38 products in the US (including relaunch) and filed 132 products till end of FY18 of which 71 ANDAs are pending for final approvals
- Guided for ₹ 450-500 crore of R&D in FY19
- The company has received Form 483 from USFDA with three observations at the Panelav formulation facility. The company expects 10-15 approvals in the US in FY19 only if it receives EIR for this facility
- The cost of debt for domestic loan is in the range of 6.5% to 7.35%. the company has ~US$20 million of foreign loan

Exhibit 9: Facilities

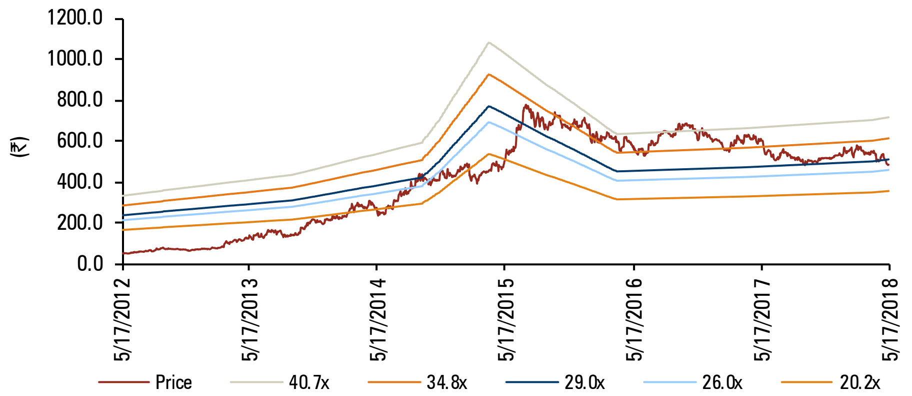
Location	Segment	Regulatory Approvals
Sikkim	Formulations	
Panelav, Gujarat	API	USFDA, EDQM
Panelav, Gujarat	Formulations	USFDA, MCC, MHRA, ANVISA & TPD
Baddi, Himachal Pradesh	Formulations	WHO GMP
Karkhadi, Gujarat	API	USFDA, EDQM, TGA, WHO

Source: Company, ICICI Direct Research

Valuation

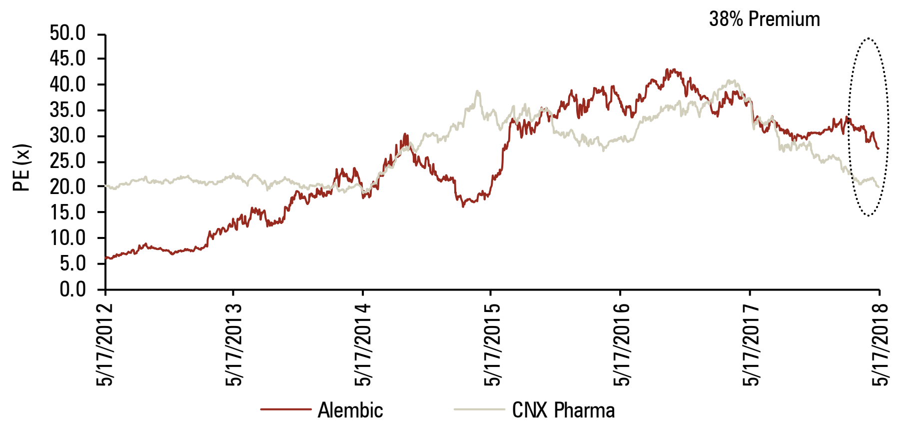
Q4 witnessed strong growth in the US. However, the growth has come at the cost of gross margins. Although the company has guided for good traction in the US, it is likely to put pressure on the company's gross margins due to acute pricing pressure in the US. With the announcement of aggressive R&D and capex plans, the management has signalled the long term strategy for the next five to six years, especially on the US front. This includes a foray into niche areas like oncology, injectables, derma, etc. We believe this is fraught with a new set of challenges. The benefits are most likely to be back-loaded. Immediate cash burn is likely to weigh on sentiments in the near term. Accordingly, we arrive at our new target price of ₹ 460 based on 18x FY20E EPS of ₹ 25.5.

Exhibit 10: One year forward PE



Source: Company, ICICI Direct Research

Exhibit 11: One year forward PE of company vs. BSE Healthcare Index



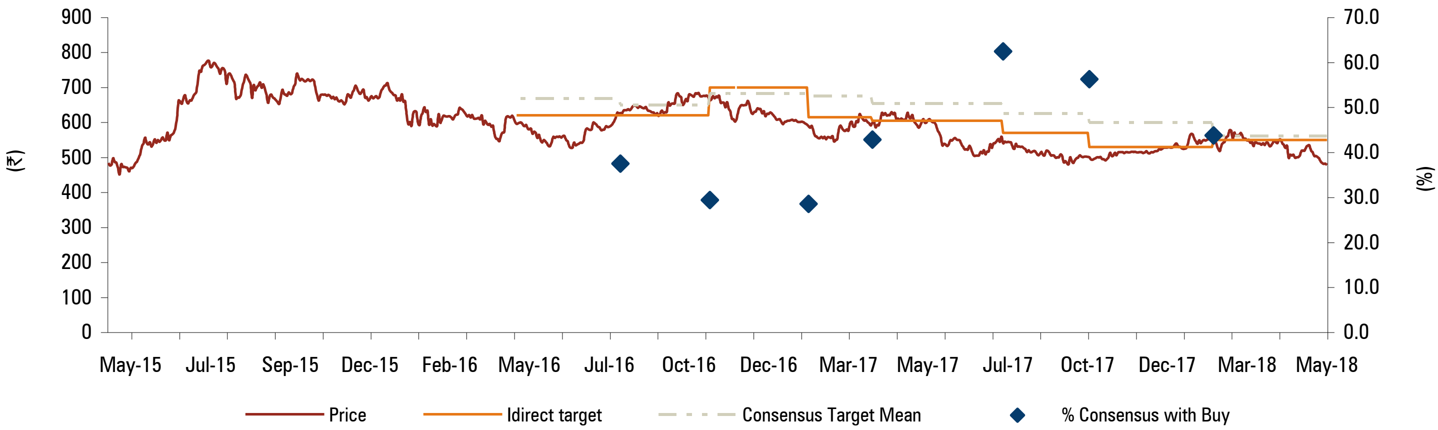
Source: Company, ICICI Direct Research

Exhibit 12: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY17	3135	-1.0	21.2	-44.5	22.8	14.7	21.0	25.3
FY18E	3131	-0.1	21.9	3.3	22.0	15.1	18.5	17.9
FY19E	3537	13.0	22.6	3.2	21.4	15.7	16.6	14.6
FY20E	3993	12.9	25.5	12.7	18.9	12.5	16.3	16.5

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research. Initiated on September 28, 2015

Key events

Year	Event
1907	Alembic Ltd starts manufacturing tinctures and alcohol in Vadodara
1940	Starts manufacturing cough syrups, vitamins and sculpture drugs
1961	Inaugurates penicillin plant
1971	Becomes first Indian company to manufacture Erythromycin
1972	Launches Erythromycin under brand 'Althrocin'
2001	Starts manufacturing Cephalosporin C
2003	Formulation facility set up for regulate markets
2004	R&D facility set up at Vadodara
2006	Receives USFDA approval for API and formulation facilities
2007	Acquires non-oncology division of Dabur Pharma; enters high margin segments such as CVS, diabetes, GI and gynaecology
2010	Azithral sales cross ₹ 100 crore; demerger of pharma business from Alembic Ltd; Alembic Pharmaceuticals formed
2011	Receives Anvisa approval
2015	USFDA successfully inspects formulation and API plants
Oct-16	Panelav facility receives EIR from USFDA
Mar-17	USFDA inspects bioequivalence facility (Vadodara) during the quarter without any observations
Nov-17	Acquires US based generic drug developer, Orit Laboratories LLC
Mar-18	Receives Form 483 with three observations from USFDA for its Panelav formulation facility

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Alembic Ltd	Mar-18	29.4	55.5m	0.3
2	Nirayu Pvt. Ltd.	Mar-18	26.2	49.3m	0.0
3	Shreno, Ltd.	Mar-18	11.0	20.7m	0.0
4	ICICI Prudential Asset Management Co. Ltd.	Mar-18	3.1	5.8m	0.3
5	Amin (Chirayu Ramanbhai)	Mar-18	2.4	4.5m	0.0
6	Matthews International Capital Management, L.L.C.	Mar-18	2.1	3.9m	0.4
7	Amin (Malika C)	Mar-18	1.6	3.0m	0.0
8	HSZ (Hong Kong) Limited	Mar-18	1.4	2.5m	0.0
9	Elara Capital Plc	Mar-18	1.3	2.4m	-0.2
10	Schroder Investment Management (Singapore) Ltd.	Jan-18	0.8	1.4m	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	74.4	72.7	72.7	72.7	72.9
Others	25.7	27.3	27.3	27.3	27.1

Recent Activity

Buys			Sells		
Investor Name	Value ($ mn)	Shares	Investor Name	Value ($ mn)	Shares
Matthews International Capital Management, L.L.C.	3.2	0.4	Elara Capital Plc	-1.7	-0.2
DSP BlackRock Investment Managers Pvt. Ltd.	2.7	0.3	J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.3	0.0
Alembic Ltd	2.3	0.3	Jyske Invest Fund Management A/S	-0.2	0.0
ICICI Prudential Asset Management Co. Ltd.	2.2	0.3	The Vanguard Group, Inc.	-0.1	0.0
Pictet Asset Management Ltd.	1.6	0.2	Dimensional Fund Advisors, L.P.	-0.1	0.0

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March) ₹ crore	FY17	FY18E	FY19E	FY20E
Revenues	3,134.6	3,130.8	3,537.4	3,993.1
Growth (%)	-1.0	-0.1	13.0	12.9
Raw Material Expenses	858.1	885.6	1,076.7	1,215.5
Employee Expenses	558.8	622.8	707.5	778.7
R&D Expenditure	416.7	411.3	477.5	519.1
Other Manufacturing Expenses	686.3	569.8	636.7	702.5
Total Operating Expenditure	2,519.9	2,489.5	2,898.5	3,215.7
EBITDA	614.7	641.3	638.9	777.4
Growth (%)	-38.9	4.3	-0.4	21.7
Interest	5.1	3.4	4.8	21.2
Depreciation	83.0	105.5	112.3	168.0
Other Income	-1.3	8.8	10.7	12.1
PBT	525.4	541.3	532.5	600.2
Total Tax	122.2	120.4	106.5	120.0
Tax Rate (%)	23.3	22.2	20.0	20.0
Adjusted PAT	399.3	412.7	426.0	480.1
Growth (%)	-44.5	3.3	3.2	12.7
EPS (Adjusted)	21.2	21.9	22.6	25.5

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March) ₹ crore	FY17	FY18E	FY19E	FY20E
Profit/(Loss) after taxation	399.3	412.7	426.0	480.1
Depreciation	83.0	105.5	112.3	168.0
Net Increase in Current Assets	-158.1	-586.8	-170.6	-233.0
Net Increase in Current Liabilities	-35.5	327.0	122.6	128.6
CF from operating activities	288.8	258.4	490.3	543.8
(Inc)/dec in Investments	-13.5	58.6	0.0	0.0
(Inc)/dec in Fixed Assets	-465.0	-909.5	-700.0	-150.0
Other investing activities	2.1	7.3	2.5	-17.7
CF from investing activities	-476.0	-868.6	-690.3	-145.7
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-33.5	627.5	300.0	-300.0
Dividend & Dividend Tax	-90.8	-86.9	-89.7	-101.1
Other financing activities	20.2	0.0	0.0	0.0
CF from financing activities	-104.0	540.6	210.3	-401.1
Net Cash flow	-291.2	-69.7	10.3	-3.1
Opening Cash	450.8	159.6	89.9	100.2
Closing Cash	159.6	89.9	100.2	97.1
Free Cash flow	-176.2	-651.2	-209.7	393.8

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March) ₹ crore	FY17	FY18E	FY19E	FY20E
Equity Capital	37.7	37.7	37.7	37.7
Reserve and Surplus	1,863.4	2,189.1	2,525.4	2,904.4
Total Shareholders funds	1,901.1	2,226.8	2,563.1	2,942.1
Minority Interest	0.1	0.3	0.3	0.4
Total Debt	80.2	707.8	1,007.8	707.8
Deferred Tax Liability	46.7	35.4	39.0	42.9
Other Non Current Liabilities	12.6	6.7	7.4	8.1
Long Term Provisions	57.2	61.7	67.8	74.6
Source of Funds	2,098.0	3,038.7	3,685.4	3,775.9
Gross Block - Fixed Assets	1,254.8	1,550.5	1,650.5	2,800.5
Accumulated Depreciation	455.4	560.9	673.2	841.2
Net Block	799.4	989.6	977.3	1,959.3
Capital WIP	396.3	1,010.1	1,610.1	610.1
Total Fixed Assets	1,195.7	1,999.8	2,587.5	2,569.5
Goodwill on Consolidation	0.0	3.8	3.8	3.8
Investments	100.2	41.6	41.6	41.6
Inventory	632.8	733.9	830.4	937.4
Cash	159.6	90.0	100.2	97.1
Debtors	337.5	526.3	595.5	672.3
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	1,321.1	1,838.2	2,019.0	2,248.9
Creditors	523.2	759.3	859.2	969.9
Provisions & Other CL	65.5	156.4	179.2	197.1
Total Current Liabilities	588.7	915.7	1,038.3	1,166.9
Net Current Assets	732.3	922.4	980.7	1,082.0
LT L& A, Other Assets	69.7	71.1	71.9	79.0
Deferred Tax Assets	0.0	0.0	0.0	0.0
Application of Funds	2,098.0	3,038.7	3,685.4	3,775.9

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
Adjusted EPS	21.2	21.9	22.6	25.5
BV per share	100.9	118.1	136.0	156.1
Dividend per share	4.8	4.6	4.8	5.4
Operating Ratios (%)				
Gross margins	72.6	71.7	69.6	69.6
EBITDA Margins	19.6	20.5	18.1	19.5
PAT Margins	12.7	13.2	12.0	12.0
Inventory days	73.7	85.6	85.7	85.7
Debtor days	39.3	61.4	61.5	61.5
Creditor days	60.9	88.5	88.7	88.7
Asset Turnover	2.5	2.0	2.1	1.4
EBITDA conversion Rate	47.0	40.3	76.7	70.0
Return Ratios (%)				
RoE	21.0	18.5	16.6	16.3
RoCE	25.3	17.9	14.6	16.5
RoIC	34.5	27.6	26.7	19.9
Valuation Ratios (x)				
P/E	22.8	22.0	21.4	18.9
EV / EBITDA	14.7	15.1	15.7	12.5
EV / Net Sales	2.9	3.1	2.8	2.4
Market Cap / Sales	2.9	2.9	2.6	2.3
Price to Book Value	4.8	4.1	3.5	3.1
Solvency Ratios				
Debt / Equity	0.0	0.3	0.4	0.2
Debt / EBITDA	0.1	1.1	1.6	0.9
Current Ratio	1.6	1.4	1.4	1.4

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct	CMP	TP	Rating	M Cap	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
	Code	(₹)	(₹)		(₹ Cr)	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Ajanta Pharma	AJAPHA	1056	1,190	Hold	9292.6	57.4	53.0	46.4	59.6	18.4	19.9	22.7	17.7	42.3	31.0	23.3	24.8	33.7	23.8	18.0	19.7
Alembic Pharma	ALEMPHA	483	460	Hold	9095.9	21.2	21.9	22.6	25.5	22.8	22.0	21.4	18.9	25.3	17.9	14.6	16.5	21.0	18.5	16.6	16.3
Apollo Hospitals	APOHOS	1024	1,230	Hold	14242.9	15.9	10.3	23.8	31.6	64.5	99.5	43.0	32.4	6.1	6.8	9.3	10.8	6.0	3.8	8.2	10.0
Aurobindo Pharma	AURPHA	599	665	Hold	35072.4	38.8	42.6	38.0	41.5	15.4	14.0	15.8	14.4	24.4	23.5	18.4	17.9	24.2	21.3	16.1	15.2
Biocon	BIOCON	643	740	Buy	38574.0	8.5	6.2	9.3	14.0	75.8	103.6	69.1	46.0	9.6	8.4	11.3	14.7	10.5	7.2	9.8	13.0
Cadila Healthcare	CADHEA	385	405	Hold	39373.1	14.5	16.6	18.1	20.3	26.5	23.1	21.3	18.9	13.1	17.6	16.7	17.3	21.4	20.7	19.2	18.6
Cipla	CIPLA	544	640	Hold	43794.5	12.5	19.6	26.8	32.1	43.4	27.8	20.3	16.9	7.7	9.7	14.5	16.0	8.0	11.4	13.9	14.7
Divi's Lab	DIVLAB	1185	1,070	Hold	31458.0	39.9	32.7	40.7	48.7	29.7	36.2	29.1	24.3	25.3	19.3	21.2	22.2	19.8	14.7	16.2	16.9
Dr Reddy's Labs	DRREDD	1977	2,520	Hold	32795.0	78.0	59.4	93.4	140.2	25.4	33.3	21.2	14.1	7.3	6.8	9.5	12.1	10.5	7.5	10.8	14.2
Glenmark Pharma	GLEPHA	525	535	Hold	14811.0	42.2	33.4	31.5	38.2	12.4	15.7	16.7	13.7	19.5	16.2	14.3	15.5	26.5	17.5	14.3	14.9
Indoco Remedies	INDREM	185	280	Hold	1701.1	8.4	4.8	12.2	15.4	22.1	38.2	15.1	12.0	8.7	5.4	11.2	13.8	11.8	6.5	14.5	16.0
Ipca Laboratories	IPCLAB	626	715	Buy	8864.9	15.4	21.4	37.6	44.7	40.6	29.2	16.7	14.0	8.7	9.6	15.5	16.7	7.9	10.1	15.4	15.9
Jubilant Life	JUBLIF	823	1,090	Buy	13103.3	36.9	41.3	61.2	77.0	22.3	19.9	13.4	10.7	13.8	14.9	18.9	21.1	16.8	16.0	19.4	19.8
Lupin	LUPIN	762	760	Hold	34443.5	56.7	13.3	34.0	40.4	13.4	57.5	22.4	18.9	16.6	10.6	11.0	12.6	19.0	4.4	10.4	11.2
Narayana Hrudalaya	NARHRU	257	360	Buy	5241.9	4.1	3.8	6.4	9.7	62.1	67.8	39.8	26.4	12.5	10.5	14.1	18.4	8.8	7.4	11.2	14.5
Natco Pharma	NATPHA	793	910	Hold	14636.8	26.3	34.8	41.5	26.7	30.1	22.8	19.1	29.7	33.6	26.7	28.1	16.7	29.5	21.4	21.9	12.9
Sun Pharma	SUNPHA	474	530	Hold	113617.1	29.0	12.2	18.6	22.4	16.3	38.8	25.4	21.1	20.3	10.5	12.4	13.7	19.0	7.6	10.7	11.6
Syngene Int.	SYNINT	610	715	Buy	12196.0	14.4	15.3	18.6	20.4	43.2	43.2	33.4	30.4	16.8	16.6	18.5	18.7	20.3	18.0	18.1	16.7
Torrent Pharma	TORPHA	1358	1,390	Hold	22982.0	55.2	38.8	51.1	69.6	24.6	35.0	26.6	19.5	18.9	12.6	14.2	17.4	21.5	13.6	15.7	18.5

Source: Company, ICICI Direct Research

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