

Alembic Limited (ALECHE)

Rs 49

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 49 to Rs 46
EPS (FY10E)	Changed from Rs 4.0 to Rs 2.9
EPS (FY11E)	Changed from Rs 5.4 to Rs 4.6
RATING.....	Changed from Add to Reduce

Poor performance...

Alembic's Q4FY10 results were disappointing. Sales grew at a subdued rate of 3% YoY to Rs 267 crore on account of a drastic 49% YoY decline in regulated market exports to Rs 45 crore. Domestic sales grew ~20%, driven by a strong 39% rise in domestic API and 15% growth in formulations. Though the EBITDA margin expanded by over 100 bps to 7%, the company managed to just break even on the net profit level and reported a net profit of Rs 43 lakh. On an annual basis, the company reported sales of Rs 1149 crore in FY10 as against Rs 1134 crore in FY09. On the bottomline front, the net profit was at Rs 39.5 crore in FY10 as against Rs 10.8 crore in FY09. The company faced headwinds in terms of Pen G prices in the domestic market and some large APIs in the regulated market in Q4FY10 as well as in FY10. We believe Peg G price will continue to remain an overhang on the stock. We recommend **REDUCE on the stock with revised target price of Rs 46, 10x FY11E EPS.**

■ Highlights for the quarter

The Q4FY10 performance was significantly impacted by the lower Pen-G prices and a drastic fall in the realisation on few regulated market products. However, the domestic formulation business performed better. The Penicillin prices continue to be a drag on the company's profits. Q4FY10 has been adversely affected by the low prices of Penicillin originating from China.

Valuation

At current levels, Alembic is trading at 10.6x FY11E EPS and 5.9x FY11E EV/EBITDA. We believe although valuations appear cheaper, a re-rating of the stock upwards will happen only when business revenues show signs of stability. Until then we refrain from revising upwards our growth outlook on Alembic. We expect Alembic's revenues to grow at a CAGR of ~8% through FY10-11E largely due to ~11% YoY growth in the domestic market. We recommend **REDUCE** on the stock with a downward revision of target price to Rs 46, 10x FY11E EPS of Rs 4.6.

Exhibit 1: Performance highlights

	(Rs Cr)					
	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
Net Sales	263.4	294.2	255.9	300.4	2.9	-12.3
EBITDA	17.6	33.8	14.1	31.1	24.8	-43.4
EBITDA Margin (%)	6.7	11.5	5.5	10.4	117 bps	(367) bps
Depreciation	11.0	10.9	9.8	10.9	12.0	1.3
Interest	6.2	6.8	7.1	6.8	-13.3	-8.6
Reported PAT	0.4	16.4	-2.2	13.6	-118.2	-97.1
EPS (Rs)	0.0	1.2	-0.2	1.0		

Source: Company, ICICIdirect.com Research

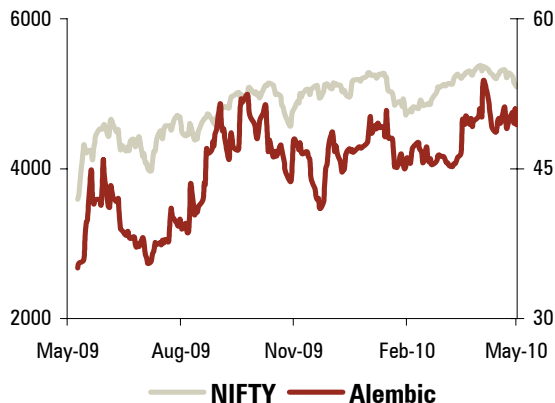
Rating matrix	
Rating	: Reduce
Target	: Rs 46
Target Period	: 12 months
Potential Upside	: -6%

Key financials	(Rs Cr)			
	FY08	FY09	FY10E	FY11E
Net Sales	1003.2	1116.1	1138.2	1223.9
EBITDA	145.1	125.2	112.6	140.1
Net Profit	111.4	10.9	39.5	64.3

Valuation summary	FY08	FY09	FY10E	FY11E
EPS (Rs)	8.0	3.4	2.9	4.6
PE (x)	6.1	14.6	17.2	10.6
Target PE (x)	5.8	13.8	16.3	10.0
EV to EBITDA (x)	7.4	9.0	7.9	5.9
Price to book (x)	2.0	2.0	1.4	1.3
RoNW (%)	32.6	14.0	8.1	12.2
RoCE (%)	19.1	11.3	8.8	11.4

Stock data	
Market Capitalisation	Rs 672 crore
Debt (FY09)	Rs 475 crore
Cash (FY09)	Rs 18 crore
EV	Rs 1129 crore
52 week H/L	56/ 34
Equity capital	Rs 28 crore
Face value	Rs 2
MF Holding (%)	1.1
RI Holding (%)	7.9

Price movement (Stock vs. Nifty)



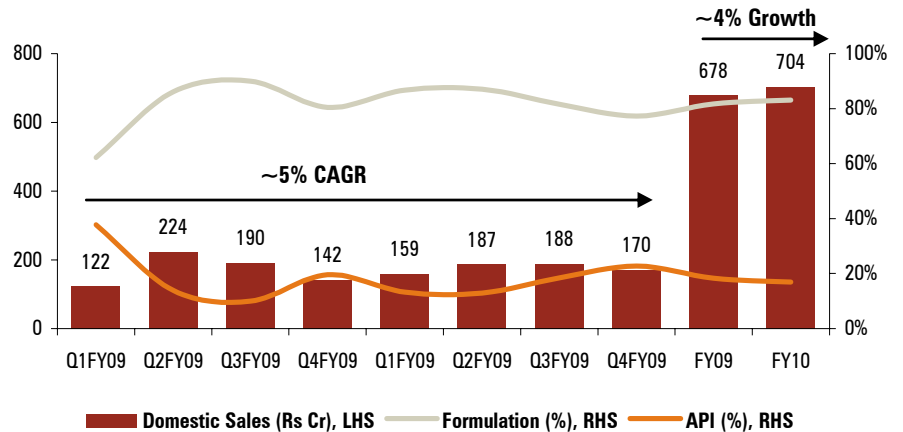
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Sales register subdued growth of ~3% YoY

Alembic’s Q4FY10 results were disappointing but the domestic business grew smartly. The largest component of Alembic’s overall revenue, domestic revenue (64% of Q4FY10 revenue) grew by 20% YoY to Rs 170 crore, fuelled by 39% growth in domestic API and 15% domestic formulation sales. In the domestic market, the company’s restructuring is bearing fruit as the flagship brands have grown robustly and Azithral crossed Rs 100 crore in annual sales in Q4FY10. In most therapy areas of presence the company has grown better than industry growth rates. Although formulation exports to regulated markets de-grew by ~16% YoY, exports to semi-regulated markets (SRM) grew by ~109% YoY. De-growth in regulated market exports was mainly due to lower sales from one of the major client. Overall, exports de-grew by 19% YoY to Rs 92.6 crore on de-growth in regulated market exports by ~49%. The regulated market accounted for ~48% of overall exports in Q4FY09.

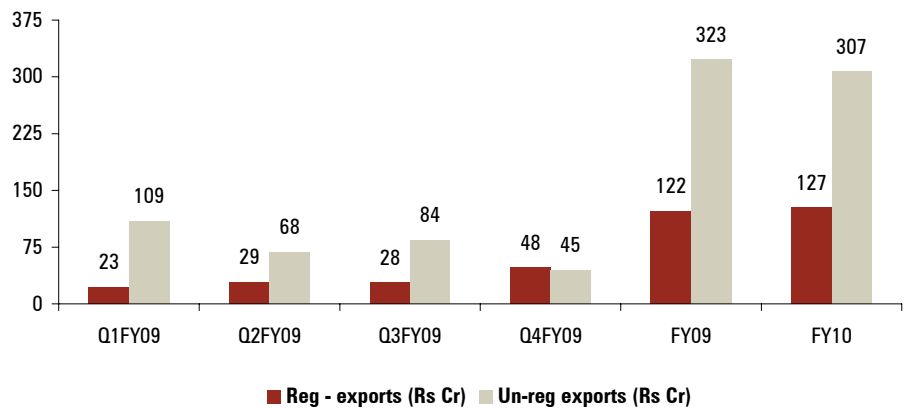
During FY10, domestic formulation sales grew 6% YoY to Rs 585 crore showing gradual signs of recovery in the business. Going ahead, we expect the domestic formulation business sales to grow at 9% during FY10-11E. Exports declined ~2.5% YoY to Rs 434 crore in FY10 contributing 39% to the overall sales.

Exhibit 2: Domestic sales trend



Source: Company, ICICIdirect.com Research

Exhibit 3: Exports revenue trend (regulated and unregulated markets)

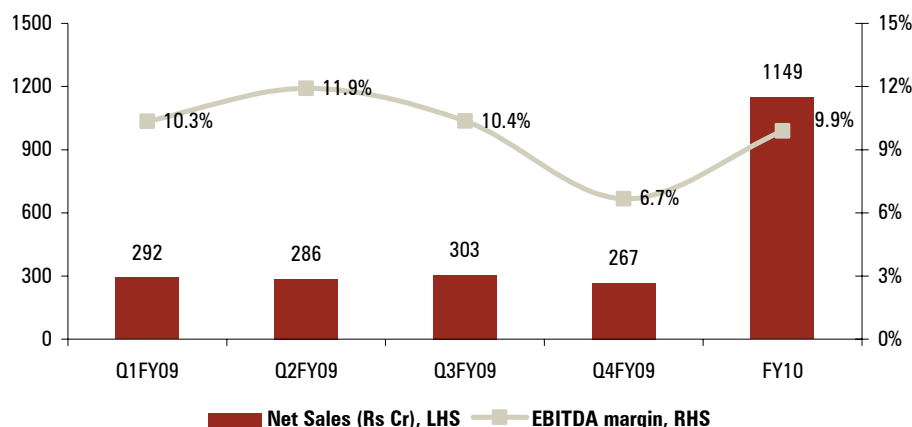


Source: Company, ICICIdirect.com Research

EBITDA margin improves by ~116 bps YoY in Q4FY10

Alembic's Q4FY10 EBITDA margin expanded by over 100 bps to 7% (despite a drastic fall in Pen G prices) due to a smart run up in domestic sales and decline in R&D expenditure by 28% YoY. Alembic reported an EBITDA improvement of 25% YoY (excluding other operating income) to Rs 18 crore in Q4FY10. Going ahead, we expect the EBITDA margin to improve by 153 bps, on account of ~8% CAGR in sales over FY10-11E.

Exhibit 4: EBITDA margin trend



Source: Company, ICICIdirect.com Research

Savings on interest cost add to bottomline

Alembic reported a net profit of Rs 43 lakh in Q4FY10 as against a net loss of Rs 1.42 crore in Q4FY09. There was a forex loss of Rs 71 lakh in Q4FY09, which impacted the bottomline. In Q4FY10, depreciation charges increased by ~12% YoY to Rs 11 crore but the interest cost declined ~13% YoY. Absence of a forex loss in Q4FY10 also boosted the bottomline.

Valuation

At current levels, Alembic is trading at 10.6x FY11E EPS and 5.9x FY11E EV/EBITDA. We believe although valuations appear cheaper, a re-rating of the stock upwards will happen only when business revenues show signs of stability. Until then we are refraining from revising upwards our growth outlook on Alembic. We expect Alembic's revenues to grow at a CAGR of ~8% through FY10-11E largely on account of ~11% YoY growth in the domestic market. We recommend **REDUCE** on the stock with a downward revision of target price to Rs 46, 10x FY11E EPS of Rs 4.6.

Exhibit 5: Valuation table

	Sales (Rs Cr)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY08	1003.2	46.2	8.0	57.6	6.1	7.4	32.6	19.1
FY09	1116.1	11.2	3.4*	-57.7	14.6	9.0	14.0*	11.3
FY10E	1138.2	2.0	2.9	-16.0	17.2	7.9	8.1	8.8
FY11E	1223.9	7.5	4.6	62.6	10.6	5.9	12.2	11.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Alembic					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	ALECHE	CMP	49	FY08	1003.2	8.0	6.1	7.4	32.6	19.1
		Target	46	FY09	1116.1	3.4*	14.6	9.0	14.0*	11.3
MCap	678.4	Upside (%)	-5	FY10E	1138.2	2.9	17.2	7.9	8.1	8.8
				FY11E	1223.9	4.6	10.6	5.9	12.2	11.4
Biocon					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BIOCON	CMP	291	FY08	1108.2	23.2	12.5	9.8	14.8	13.8
		Target	335	FY09	1608.7	12.0	18.2*	19.6	11.4	13.2
MCap	5818.0	Upside (%)	15	FY10E	2367.8	14.7	19.8	13.2	12.4	15.6
				FY11E	2819.3	20.0	14.5	11.1	18.8	22.8
Dishman					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DISHPHA	CMP	223	FY08	803.1	14.7	15.1	15.0	21.3	9.5
		Target	230	FY09	1062.4	18.2	12.2	9.5	20.8	13.6
MCap	1795.5	Upside (%)	3	FY10E	911.9	15.8	14.1	11.1	18.0	9.5
				FY11E	1075.3	19.8	11.3	7.9	18.4	12.1
IPCA Labs					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	IPCLAB	CMP	265	FY08	1051.3	10.9	24.4	6.0	23.1	15.2
		Target	266	FY09	1284.0	8.1	32.8	4.3	16.0	19.6
MCap	3312.5	Upside (%)	0	FY10E	1516.3	17.3	15.3	3.0	26.7	24.1
				FY11E	1745.4	18.2	14.5	2.7	22.8	21.9
Piramal Health					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	NICPIR	CMP	580	FY08	2848.3	16.0	36.3	24.6	30.7	24.6
		Target	458	FY09	3281.1	15.1	38.3	23.0	24.0	17.7
MCap	12117.8	Upside (%)	-21	FY10E	3668.8	21.0	27.6	19.3	26.4	17.8
				FY11E	3819.7	26.2	22.1	15.0	25.8	21.8
Sun Pharma					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	SUNPHA	CMP	1564	FY08	3356.7	71.8	21.8	20.0	29.8	30.4
		Target	1600	FY09	4271.4	88.1	17.8	16.6	25.9	28.5
MCap	32393.2	Upside (%)	2	FY10E	3999.3	63.7	24.6	23.7	17.4	17.9
				FY11E	4920.7	84.2	18.6	17.0	19.3	20.8
Glenmark					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	GLEPHA	CMP	281	FY08	2037.4	25.4	11.0	9.7	41.7	34.2
		Target	325	FY09	2093.0	7.7	36.7	21.8	19.4	16.4
MCap	7547.6	Upside (%)	16	FY10E	2373.3	11.6	24.3	14.5	12.8	14.1
				FY11E	2730.8	19.9	14.1	11.1	19.7	20.6
Lupin					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	LUPIN	CMP	1814	FY08	2706.4	49.8	36.5	36.3	31.9	22.2
		Target	2101	FY09	3775.9	61.3	29.6	24.9	35.6	23.6
MCap	16082.9	Upside (%)	16	FY10E	4740.5	78.7	23.0	19.9	33.0	25.8
				FY11E	5930.3	94.3	19.2	14.8	27.5	25.7
				FY12E	6997.7	116.7	15.5	11.6	24.8	24.7
Unichem Labs					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	LUPIN	CMP	406	FY09	735.2	30.0	14.3	10.3	22.3	23.2
		Target	486	FY10E	760.2	28.6	14.2	10.2	18.0	20.1
MCap	1463.8	Upside (%)	20	FY11E	899.4	39.3	10.3	6.9	20.9	23.6
				FY12E	1050.6	47.6	8.5	5.5	21.4	24.5
Indoco Remedies					Sales (Rs Cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	LUPIN	CMP	425	FY09	350.6	25.6	16.6	11.9	11.3	10.9
		Target	403	FY10E	398.3	34.2	12.4	10.0	13.3	11.1
MCap	522.4	Upside (%)	-5	FY11E	466.1	42.6	10.0	7.5	14.3	13.5
				FY12E	530.6	49.0	8.7	6.4	14.3	13.8

Source: Company, ICICIdirect.com Research

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 Add: Up to 10%;
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