kotak Private Client Research

Initiating Coverage

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FOR PRIVATE CIRCULATION

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Alembic Ltd

Price: Rs.274 **Recommendation: BUY**

Target Price: Rs.463

Stock details

BSE code	: 506235
NSE symbol	: ALEMBICLTD
Market cap (Rs bn)	: 7.6
Free float (%)	: 39%
52-wk Hi/Lo (Rs)	: 428/232
2 Wk Avg Volume	: 27,527
Shares o/s (Mn)	: 27.7

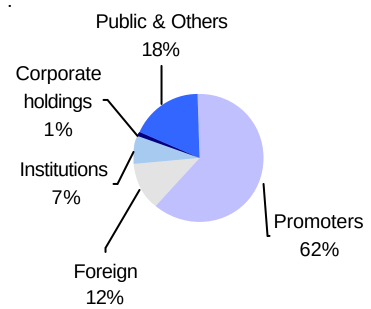
Summary table

(Rs mn)	FY06	FY07E	FY08E
Revenues	6,309	7,380	8,437
Growth (%)	21.3	17.0	14.3
EBITDA	1083	1352	1626
EBITDA margin (%)	17.2	18.3	19.3
Net profit	785	920	1155
Net Margin (%)	12.4	12.5	13.7
EPS (Rs)	28.4	33.2	41.7
Growth (%)	50.9	17.2	25.5
DPS (Rs)	4.0	5.0	5.0
RoE (%)	25.7	24.6	25.0
RoCE (%)	17.2	19.0	20.6
EV/Sales (x)	1.8	1.2	1.0
EV/EBITDA (x)	10.7	6.7	5.3
P/E (x)	12.8	8.2	6.6
P/BV (x)	3.0	1.8	1.5

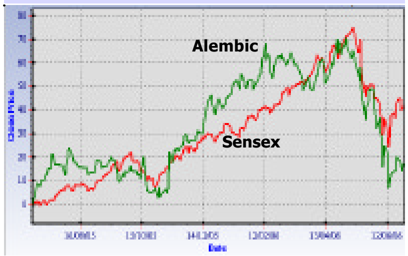
FY06	Q1	Q2	Q3	Q4
Net sales	1,347	1,860	1,662	1,440
EPS (Rs)	3.9	9.6	8.6	6.2

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern



One-year performance (Rel to sensex)



Source: Capitaline

Established in 1907, Alembic is a vertically integrated pharmaceutical company with the ability to develop, manufacture and market pharmaceutical products and services. With more than 75% of its sales coming from formulations, Alembic has strong brand equity among the medical fraternity in India. The company has world-class active pharmaceutical ingredients (API) (USFDA approved), formulation manufacturing facilities, a fully equipped R&D center with over 200 scientists and a state-of-the-art 36 bed bio-study center. The company has a vision of becoming a knowledge-driven pharma company with the highest level of operational excellence in all spheres.

Key growth drivers are - retaining the strong presence in acute therapies in the domestic market through new product launches and line extensions, entering the US generic market through the formation of alliances and contract manufacturing for the leading generic companies. We initiate coverage with a BUY recommendation.

Investment argument

- **New product launches and line extension to lead domestic formulation growth.** Alembic is a major formulation player with strong presence in anti-infective, inflammation, cough and cold, neutraceutical and gastro-intestinal therapeutic areas. For FY06, the formulation business has contributed around 76% of the total sales. The company is now shifting its focus to specialty segments like ENT, pediatrics, general physicians, geriatrics and gynecology. The company has been ranked 18th in the domestic formulations markets with a market share of 1.73% and 11th in doctor's prescription universe. Alembic is the market leader with a 43% market share in macrolides (a sub-segment of antibiotics) and the fourth largest player in the respiratory segment.

  In FY06, the company has launched around **29 new products** including line extensions (23 in FY05) to expand its product portfolio and drive growth in new emerging categories. New products contribute around 10% of the sales, which is higher vis-à-vis the industry average.

- **21% CAGR earning expected in FY06-08E.** We expect the domestic formulation business to grow at 13% and export sales to grow at 20% CAGR, respectively over the next two years. Net earnings after taxes is likely to grow at a higher rate of 21% CAGR over the same period mainly due to improvement in operating margins led by change in sales mix - increasing share of exports sales and ramp up of the CRAMS business.

- **Generic alliance for sale of API and formulations:** Alembic has started focusing on the Europe, Canada and South American markets apart from the US. The company is expecting revenue streams through both: sale of APIs and supply chain partnership with leading generic companies for formulation from its dedicated formulation facility at Vadodara. It has entered into long-term supply agreements for three APIs with generic companies in the US and Europe that would commence from FY07 onwards.

- **CRAMS would support the growth going forward.** Alembic, during the year, has focused its attention towards contract research and manufacturing services with the commissioning of BioArc research centre at Vadodara in August 2004. In contract research, it is providing different kinds of research services in different areas like chemistry, pre-clinical pharma biology, formulations development, and bio-equivalence studies for global life science companies like Chiron, Watson, Stada, Novartis and Ratiopharm.

  Alembic has generated income of Rs.112 mn from contract research activities in FY06 and, going forward, we do expect marginal growth in revenue streams as the company has made it clear that it is intending to use a large part of the facility for its captive purpose.

Valuations

- For FY06, the company has posted EPS of Rs28.4 and going forward we expect it to report EPS of Rs33.2 and Rs41.7 for FY07E and FY08E respectively. At CMP Rs.274, the stock is available at 8.2x FY07E and 6.6x FY08E earnings and 6.7x and 5.3x EV/EBIDTA of FY07E and FY08E estimates, respectively, which is very attractive.

Key risks and concerns

- Greater than anticipated pricing pressure in generic APIs/formulation business and/or lower market share would impact the profitability adversely.
- Any delay in drug master files (DMF) filings and/or approval and any delay in supply of APIs to its global partners would impact the growth and profitability of the company.
- Risk of widening the DPCO coverage: Possible negative impact of price cuts in Althrocin.
- Any delay in execution of the contract research and manufacturing services (CRAMS) strategy.

Valuation and recommendation

- We have valued Alembic on the basis of the DCF value Rs.463 (WACC - 12%; Terminal growth - 3%; Beta 0.94) for one year time horizon.
- At our target price of Rs. 463 per share, the stock will be valued at 8.5x EV/ EBIDTA and 11.1x P/E on the basis of FY08E earnings.
- Our target price provides an upside of 69% over the period of one year. We recommend BUY.

COMPANY AND BUSINESS PROFILE

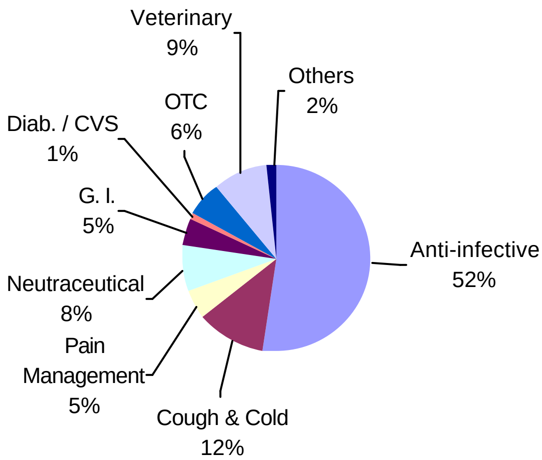
Alembic is a vertically integrated pharmaceutical company with the ability to develop, manufacture and market pharmaceutical products and services

Alembic Ltd, headquartered in Vadodara, is an integrated pharma company, which has the ability to research, develop, manufacture and effectively market pharmaceutical products and services. The company has three manufacturing facilities in Vadodara (Gujarat), a formulation facility in Baddi (Himachal Pradesh), a bio-equivalence study centre, and a state-of-the-art R&D center that conducts projects in chemistry, microbiology, and pharmaceutical technology.

The company has completed the final phase for investment in assets. In a record time of eight months it has set up a state-of-the-art formulation manufacturing facility at Baddi with a capital investment of Rs.280 mn. It is spread over 19,000 sq mt. The plant has a production capacity of 900 mn tablets and 600 mn liquid oral bottles annually. The plant is now operational at around 100% of its capacity. Alembic also invested Rs.216 mn in the last year on a new 120,000 sq ft R&D facility in Vadodara. The entire facility is designed according to GLP guidelines and became operational in July 2004.

The company has launched 14 new products in 2003-04, 23 products in 2004-05 and 29 products in 2005-06 including line extensions to expand its product portfolio. Further, the company has launched ZERO, a new generation and no calories, sucralose-based sugar substitute, which gave entry for the company into the high-growth lifestyle OTC product segment.

Therapeutic break-up of FY06



Source: Company; Kotak Securities - Private Client Research

KEY INVESTMENT POSITIVES

New product launches and line extension to lead domestic formulation growth

Key growth drivers are - retaining the strong presence in acute therapies in the domestic market through new product launches and line extensions

Alembic is a major formulation player with a strong presence in anti-infective, inflammation, cough and cold, neutraceutical and gastro-intestinal therapeutic areas. For FY06, the formulation business has contributed to around 76% of the total sales. The company is now shifting its focus to specialty segments like ENT, pediatrics, general physicians, geriatrics and gynecology. The company has been ranked 18th in the domestic formulations markets with a market share of 1.73% and 11th in doctor's prescription universe. Alembic is the market leader with a 43% market share in macrolides (a sub-segment of antibiotics) and fourth largest player in the respiratory segment.

Strong brand equity among the medical fraternity

Top 10 brands in the domestic market

Brand	Molecule	Therapeutic Area	Sales (Rs mn)	Rank (in TA)
Althrocin	Erythromycin	Anti-biotic (Macrolides)	630.3	1
Roxid	Roxithromycin	Anti-biotic (Macrolides)	540.4	1
Azithral	Azithromycin	Anti-biotic (Macrolides)	371.1	1
Wikoryl	Paracetamol comb.	Antihistamines	178.3	3
Zeet	Bromhexine & Phenylpropanolamine	Cough & Cold	173.0	11
Rekool	Rabeprozole	Gastrointestinal	129.0	2
Sharkoferrol	Malt extracts	Nutraceuticals	84.8	1
Nimegesic	Nimesulide	NSAID	74.6	3
Protinules	Protein	Nutraceuticals	64.4	7
Cepime	Cefepime	Anti-biotic (Critical Care)	58.5	3
Total			**2,304.4**	

Source: Company, Kotak Securities - Private Client Research

Contribution from new products is 11% of sales in FY06

New products have been prime growth drivers in the pharmaceutical industry and are used as the health barometer of a firm. In FY06, the company has launched around **29 new products** including line extensions (23 in FY05) to expand its product portfolio and drive growth in new emerging categories. New products contribute around 10% of the sales, which is higher vis-à-vis the industry average.

New product launches in 2005-06 (Top 10)

Product	Molecule	Sales (Rs mn)
CEPIME O	Cefpodoxime	13.3
NITA O 6TABS	Nitazoxanide + Ofloxacin	5.4
D KOOL	Rabepraozole + Diclofenec	5.2
ALPENAM 1.0	Morepenam	4.2
GERIMAC 500 3 TABS	Azithromycin	4.0
ACTIGAUT CAPS	Probitic	3.8
LAVETA D TABS	Levocetrizne + Pseudophedrine	3.8
ISOVON PLUS 10 CAPS	Soy Isoflavon	3.5
NARESOL	Sodium Chloride Drops	3.4
LAVETA A TABS	Levocetrizne + Ambroxol	3.1
Others (19 products)		**20.4**
Total Sales from New products in 2005-06		**70.3**

Source: Company, Kotak Securities - Private Client Research

Focus on customer relationship through seven marketing arms

Alembic has restructured its domestic marketing team with increasing focus on customer relationship, introduction of two new divisions, more new product introductions and rationalization of field force, which will help the company to achieve sustained growth of around 15% in the domestic formulations markets.

Alembic's formulation business is managed through seven marketing arms

Divisions	Remark
ALEMBIC	■ Mature brands contribute 72% to the total sales. Big brands viz. Athrocin, Roxid, Zeet, Wikoryl, Magadol, Nimegesic and Sharkoferrol fall into this category. ■ Strategy: Maintain franchise by building top of the mind recall. ■ Long-term strategy: Build new products to replace ageing franchise. ■ New product contribution increased from 7.5 % to 15 % in FY06. ■ Key drivers for increasing new product contribution in FY07 will be Rekool, Xceft and Megaclav. This franchise is estimated to generate Rs.200 mn, Rs.100 mn and Rs.80 mn, respectively for FY07.
MEGACARE (Multi specialty division)	■ Focus is on ENT, gynecology, and pediatric and physicians specialty. ■ Therapy focus is in respiratory, anti-infective, anti natal care and gastroenterology. ■ Presence in niche segment like pain management & critical care. ■ The flagship brand of the division is Azithral –the No 1 Azithromycin. A growing and vibrant macrolide with highest market growth of 40% as per ORG ■ Other major contributors for the division are Protinules, Hermin Inj, Cepime Inj. ■ New products, which were launched and successful last year, are Nitacure and Ignis.
SPECIA (New)	■ To provide therapeutic solutions to variety of medical problems seen and observed among elderly population, and ensure better quality of life to senior citizens.
Veterinary	■ Concentrating on new segments where its presence is currently either too less or negligible i.e. poultry, pet, herbal etc. Project itself as a company with complete animal health care solution.
OTC	■ Consumer healthcare division will focus on driving the business through three categories - cough and cold, nutritional and pain management. ■ Focus will be on the consumers belonging to socio economic class category A1 & A2 and therefore will have a premium pricing to the product. Rational for this being the increased awareness about self medication and exposure to markets outside India, where OTC culture is predominantly prevalent.
EXPORTS	■ API exports
NSA & GENERICS	■ Formulation exports and Contract manufacturing & Research.

Source: Company, Kotak Securities - Private Client Research

API business expected to catch up growth in FY07 with focus on new products, market and customers

Aggressively focussing on API supplies to MNCs through its US FDA approved plant at Vadodara

Alembic's core competence lies in the fermentation technology and it also has end-to-end integration in Macrolides in which it is the market leader. The company has created a robust product basket with 10-12 DMFs and 10-12 dossiers every year.

In its efforts to grow at a rate faster than the industry average, the company is aggressive on new products launches, new markets, and increasing customers base through rationalization of marketing force. Alembic is developing new products in the cardiovascular, anti-diabetes, anti-epileptic and anti-Parkinson segments.

Seven new APIs are under development

Alembic's APIs product basket is classified into:

- Fermentation based products - Penicillin and Lovastatin.
- Macrolides - Erythromycine, Azithromycin, Clarithromycin and Roxithromycin.
- Cephalosporin - Cefipime, Cefuroxime and Cefetamet.
- Anti-Parkinson – Pramipexole, Ropinirole.
- Anti-depressant – Moclobemide, Venlafaxine.
- Products based on synthesis - Leflunomide and Fenofibrate.
- Others – Modafinil, Lamotrigine, Cilostazole, Nitazaxonide.

Generic alliance for sale of API and formulations

Partnering with Global life science companies for marketing and distribution

Alembic is treading on the footprint of Cipla and has started focusing on Europe, Canada and the South American markets apart from the US. The company is expecting revenues streams through both: sale of APIs and supply chain partnership with leading generic companies for formulation from its dedicated formulation facility at Vadodara. This facility has a current annual production capacity of 1bn tablets/ capsules and will be expanded to 3 bn plus over two years. Another formulation facility at Baddi (annual production capacity of 2-2.5 bn tablets/capsules) is also operating at almost 100% of its capacity, which cater to domestic market as it enjoys fiscal benefits.

Alembic has already entered into long-term supply agreements for three APIs with generic companies in the US and Europe that would start FY07 onwards.

Set the target to file 10-12 DMFs and dossiers every year

List of Cumulative DMF filings

DMF	Remark
Leflunomide	Approved by USFDA
Roxithromycin	Approved by EDQM & TGA
Azithromycin monohydrate	
Premipexol Dihydrochloride monohydrate	
Venlafaxine hydrochloride	Polymorph B
Venlafaxine hydrochloride	Polymorph C
Lamotrigine	
Fenofibrate	
Modafinil	
Ciloztazol	
Clarithromycin	

Source: Company, Kotak Securities - Private Client Research

CRAMS would support the growth going forward

Key focus area to support growth as it has capability and infrastructure to provide ene-to-end solutions

Alembic, during the year, has focused its attention towards contract research and manufacturing services with the commissioning of the BioArc research center at Vadodara in August 2004. In contract research, it is providing different kind of research services in different areas like chemistry, pre-clinical pharma biology, formulations development, and bio-equivalence studies for global life science companies like Chiron, Watson, Stada, Novartis and Ratiopharm.

Alembic has generated income of Rs.112 mn from contract research activities in FY06 and, going forward, we do not expect a significant change in revenue stream as the company has made it clear that it is intending to use large part of the facility for its captive purpose.

The company has also entered into an agreement to manufacture and supply formulation products to five to six generic companies. The supplies would start from FY07 and the company expects to generate around Rs.350-400 mn sales from this initiative in the first year itself with relatively higher EBITDA margin then current.

Company has planned capex of Rs.1 bn over the next two years

All capex plans would be met through internal accruals and / or debts

Alembic has created assets (gross block) of around Rs.2 bn over the last few years. While productivity of these assets measured by assets turnover has fallen from 1.6x in FY04 to 1.3x in FY06 due to high capex without corresponding incremental revenue, we believe this ratio will improve to 1.5x by FY08E driven by changing sales mix, rationalization of field force and widening geographical coverage. For the next few years, the company has planned capex of around Rs.500 mn per year funded through internal accruals.

RESEARCH AND DEVELOPMENT

Increased thrust on R&D to create intellectual property

The company has a fully equipped R&D center with over 200 scientists and a state-of-the-art 36 bed bio-study center

Alembic has set up '**BioArc'** a well-equipped R&D center spread over an area of 120,000 sq ft. with an investment of Rs.216 mn according to GLP guidelines, which became operational in August 2004. BioArc offers value added solutions in the following domains:

1. Chemistry – Custom synthesis and compound supply of NCE, process chemistry, process innovation, development and optimization; manufacturing of intermediates and analytical chemistry services.
2. Pharmabiology – Pre-clinical evaluation using in-vitro system (cell-based and enzyme-based assays) followed by in vivo (pharmacokinetics and toxicology) studies in small animals; in vivo/in vitro screen for efficacy; and early safety and toxicity profile.
3. Bioequivalence/Bioavailability.
4. Clinical-Bioequivalence assessment of generic dosage forms; drug interaction studies; food effect bioavailability studies; and different route of administration (Oral, IV, IM, rectal etc).
5. Bio-analytical - Development and validation of new analytical assay methods and adaptation and revalidation of sponsor's assay methods.

Further, Alembic's research endeavors can be classified into three sub-segments –

API Research

- Participate in business strategy by developing non-infringing technologies (see table below for new APIs under development)

Formulation Research

- Expertise to develop tablets, pellets, capsules, liquids, semisolids and powders.
- Focus on drug delivery research in the area of oral-controlled release systems.

Contract Research

- Offers services to global drug discovery companies.
- Contract research is undertaken in the areas of chemistry, pre-clinical pharma biology and bio-equivalence.
- Income from contract research was Rs.112 mn in FY06.

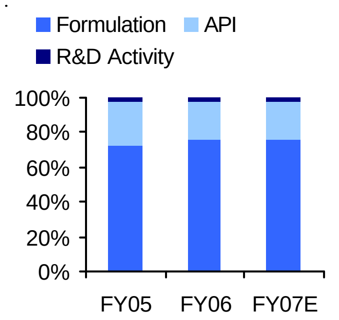
New APIs under development

API	Molecule
Tamsulosin	Alpha1-Andrenoceptor Anat agonist
Pioglitazone	Anti diabet ics-Type 2 (Insulin Sensitizers)
Pramipexole	Anti Parkinson (Bipolar Disorders)
Ropinirole	Anti Parkinson
Aripripazole	Antipsychotic
Telit hromycin	Ketolide/Ant imicrobial
Ezetimibe	Treatment of Lipoprotein Disorders

Source: Company

FINANCIALS: ON THE GROWTH TRAJECTORY

Business-Wise sales breakup



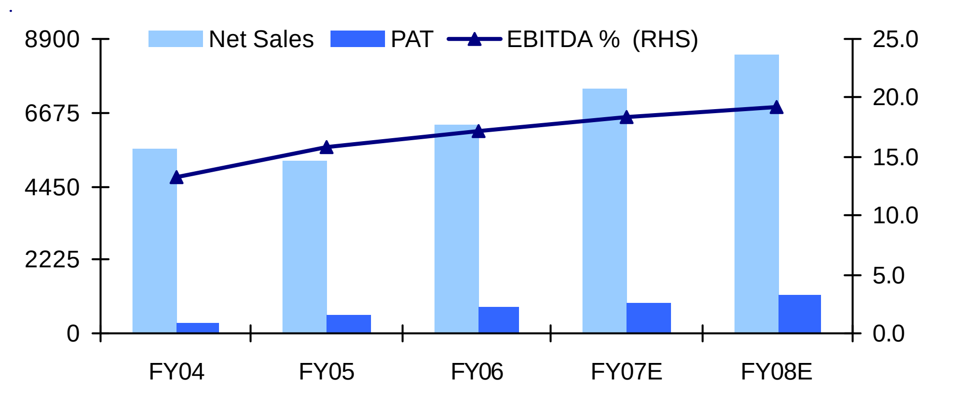
Source: Company

Strong revenue growth seen in domestic formulation business

Alembic has registered total revenue of Rs.6.6 bn for the year ended March 31, 2006 an increase of 16% from Rs.5.7 bn. However, the net profit during the year has seen a sharp jump of 51% to Rs.785 mn from Rs.520 mn in FY05, primarily due to improving EBITDA margins. EBITDA margin has increased by 130 bps over FY05 because of changing sales mix and commissioning of Baddi formulation facility where the company gets fiscal benefits in the form of tax savings.

The formulation business has registered a satisfactory growth of 18% (above industry average) fuelled by **29 new products** — including line extensions, launches (23 in FY05) in the domestic market. The export sales have grown by 10% against the negative growth on 12% in FY05. Going forward, the company expects the domestic formulation business to grow at 13% and export sales to grow at 20% CAGR, respectively over the next two years. Net earnings after taxes are likely to grow at higher a rate of 21% CAGR over the same period mainly due to improvement in operating margins led by change in sales mix – increasing share of exports sales and ramp-up of CRAMS business.

Annual Performance Trend

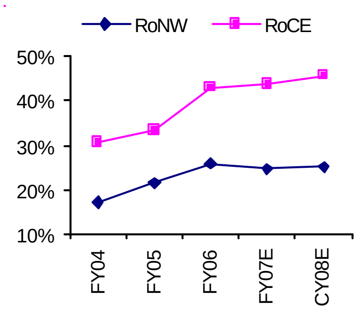


Source: Kotak Securities - Private Client Research

Increasing focus on international generic markets; margins to improve

Alembic is now shifting its focus to increase its sales contribution from international (both regulated and non-regulated) markets of the US, Europe, Canada and South Africa because it is now vertically integrated, has sizable infrastructure, world-class manufacturing and R&D facilities. The exports business also offers better profitability and opens up larger markets. Going forward, as the exports will increase, the margins should also improve.

Return to stakeholder



Source: Kotak Securities - Private Client Research

Return of Equity: DuPont Analysis

DuPond analysis

	FY06	FY07E	FY08E	FY09E
Net Profit Margin (%)	12.4%	12.5%	13.7%	14.9%
Assets Turnover (x)	1.3	1.4	1.5	1.5
Financial Leverage	1.6	1.4	1.2	1.1
RoE (%)	25.3%	24.5%	24.5%	23.7%

Source: Kotak Securities - Private Client Research

Alembic is expected to witness a sustained or marginally lower return on equity (RoE) due to decreasing financial leverage despite the fact that net profit margin and assets turnover is improving. We believe RoE should improve going forward if financial leverage stays at current level.

Q4 FY06 result highlights - Growth on track

- The fourth quarter revenue has confirmed the higher performance trajectory, which is propelled by the exports business, which has grown by 40.7% to Rs.462 mn from Rs.328 mn, while the domestic formulation business grew by 21.9% to Rs.1.03 bn from Rs.843 mn in Q4 FY05. Net sales for the quarter grew by 33.2% to Rs.1.45 bn from Rs.1.09 bn in Q4 FY05.
- EBITDA grew by 253% to Rs.208 mn due to the combined effect of increasing share from formulation business and export business which has higher profitability, cost curtailment, and lower base of profitability to VAT related issue in Q4 FY05. Because of these reasons EBITDA margin has shown sharp jump by 890 bps to 14.4%.
- Net profit has seen a sharp rise of 169% to Rs.785 mn from Rs.521 mn, which was negatively impacted due to VAT-related issue and extraordinary expenses in Q4 FY05.

Financial Performance (Q4 FY06)

(Rs mn)	Q4FY06	Q4FY05	YoY (%)	Q3FY06	QoQ (%)
Net Sales	**1,447**	**1,086**	**33.2**	**1,708**	**-15.3**
Expenditure	1,239	1,027		1,412	
EBIDTA	**208**	**59**	**250.6**	**296**	**-29.8**
Depreciation	72	65		70	
EBIT	**136**	**(5)**	**-2662.3**	**226**	**-39.9**
Interest	30	21		32	
Other Income	53	21		55	
PBT	**158**	**(5)**	**-3468.1**	**249**	**-36.4**
Tax	(13)	(99)		10	
Minority Interest	-	-		-	
Reported PAT	**171**	**94**	**81.3**	**239**	**-28.5**
Extra-Ordinary Items	-	(31)		-	
Adjusted PAT	171	64	168.9	239	-28.5
Equity Shares (Mn)	28	28		28	
EPS (Rs)	**6.2**	**3.4**	**81.3**	**8.6**	**-28.5**
EBIDTA Margin	14.4%	5.5%		17.3%	
EBIT Margin	9.4%	-0.5%		13.2%	
PAT Margin (%)	11.8%	8.7%		14.0%	

Source: Kotak Securities - Private Client Research

Key risks

- Greater than anticipated pricing pressure in generic APIs/formulation business and/or lower market share would impact the profitability adversely.
- Any delay in drug master files (DMF) filings and/or approval and any delay in supply of APIs to its global partners would impact the growth and profitability of the company.
- Risk of widening the DPCO coverage: Possible negative impact of price cuts in Althrocin.
- Any delay in execution of the contract research and manufacturing services (CRAMS) strategy.

VALUATIONS AND RECOMMENDATION

For FY06, the company has posted EPS of Rs.28.4 and, going forward, we expect it to report EPS of Rs.33.2 and Rs.41.7 for FY07E and FY08E, respectively. At CMP Rs.274, the stock is available at 8.2x FY07E and 6.6x FY08E earnings and 6.7x and 5.3x EV/EBIDTA of FY07E and FY08E estimates, respectively, which is very attractive.

We initiate coverage on the stock with a BUY recommendation with a target price of Rs.463 based on DCF valuation, which implies an upside of 69% from the current price level.

DCF valuation

DCF valuation per share (Rs mn)	
Terminal Value	7,801
Total FCFF	14,510
Net Debt (adjusted for cash)	1,697
Shareholders' Value	12,813
Value per share (Rs)	**463**

Source: Kotak Securities - Private Client Research

Assumptions	
Growth (FY12E-16E) (%)	5
Terminal Growth (%)	3
WACC (%)	12.0
Equity (M Cap) (Rs mn)	7,587
Debt (Rs mn)	1,797
Cost of debt (%)	6
Risk free rate (%)	7.0
Risk premium (%)	7.0
Beta (x)	0.94
Cost of equity (%)	13.6

Free Cash Flow to Firm (FCFF)

	FY05	FY06	FY07E	FY08E	FY09E	FY10E	FY11E
PAT	**520**	**785**	**920**	**1,155**	**1,396**	**1,548**	**1,718**
Add: Depreciation	256	288	272	291	308	323	337
Add: Interest (1-tax rate)	82	80	97	92	86	86	86
Less: Capex	625	255	500	500	500	500	500
Less: Change in NWC	64	427	443	356	328	316	350
Less: Investments	150.0	(44.9)	-	-	-	-	-
FCFF	**19**	**516**	**346**	**681**	**962**	**1,141**	**1,292**
Years from now	-	-	-	1.00	2.00	3.00	4.00
Discounted Value		516	346	609	767	813	822

Source : Kotak Securities - Private Client Research

Sensitivity Analysis

	WACC (%)				
Terminal growth (%)	**10.8%**	**11.3%**	**11.8%**	**12.3%**	**12.8%**
2%	478	441	408	378	351
3%	526	483	**444**	410	379
4%	589	536	489	448	412
5%	673	605	547	498	545
6%	792	701	626	563	509

Source: Kotak Securities - Private Client Research

- We have valued Alembic on the basis of the DCF value Rs.463 (WACC - 12%; Terminal growth - 3%; Beta 0.94) for one year time horizon.
- At our target price of Rs.463 per share, the stock will be valued at 8.5x EV/ EBIDTA and 11.1x P/E on the basis of FY08E earnings.
- Our target price provides an upside of 69% over the period of one year. We recommend BUY.

Profit and loss statement (Rs mn)

Year end March	FY06	FY07E	FY08E	FY09E
Revenues	**6,309**	**7,380**	**8,437**	**9,377**
% Change Y-o-Y	21.3	17.0	14.3	11.1
Total Expenditure	5226	6028	6811	7472
EBITDA	**1,083**	**1,352**	**1,626**	**1,905**
% Change Y-o-Y	30.9	24.9	20.2	17.1
Other Income	41	50	50	50
Depreciation	288	272	291	308
EBIT	**837**	**1,130**	**1,385**	**1,647**
Interest	87	108	102	96
Profit before tax	835	1,023	1,283	1,551
Tax	50	102	128	155
as % of PBT	6.0	10.0	10.0	10.0
Net Income	785	920	1,155	1,396
% Change Y-o-Y	50.9	17.2	25.5	20.9
Shares outstanding (Mn)	27.7	27.7	27.7	27.7
EPS (Rs)	28.4	33.2	41.7	50.4
CEPS (Rs)	38.7	43.1	52.2	61.5
BVPS (Rs)	121	149	185	230
DPS (Rs)	4.0	5.0	5.0	5.0

Balance sheet (Rs mn)

Year end March	FY06	FY07E	FY08E	FY09E
Shareholder's Equity	277	277	277	277
Reserves	3,085	3,848	4,845	6,083
Total Networth	3,362	4,125	5,122	6,360
Secured Loans	1,424	1,424	1,224	1,224
Unsecured Loans	373	373	373	373
Total Loans	1,797	1,797	1,597	1,597
Net deferred tax liability	398	398	398	398
Total Liability	**5,558**	**6,320**	**7,117**	**8,355**
Net Fixed Assets	3,158	3,386	3,595	3,787
Investments	242	242	242	242
Inventory	1,403	1,546	1,758	1,954
Debtors	1,517	1,588	1,806	2,007
Cash & Bank Balance	9	100	332	1,049
Loans & Advances	492	773	879	977
Current Liabilities	1,106	1,159	1,318	1,465
Provisions	158	155	176	195
Net Current Assets	2,158	2,693	3,280	4,326
Total Assets	**5,558**	**6,320**	**7,117**	**8,355**

Cash flow statement (Rs mn)

Year end March	FY0E	FY07E	FY08E	FY09E
PAT	785	920	1,155	1,396
Depreciation	279	272	291	308
Change in NWC	427	443	356	328
Operating Cash Flow	637	749	1,090	1,375
Investments	(45)	-	-	-
Capex	255	500	500	500
Investment Cash Flow	(300)	(500)	(500)	(500)
Loans	(235)	-	(200)	-
Dividend	158	158	158	158
Financial Cash Flow	(393)	(158)	(358)	(158)
Change in Cash	(5)	91	232	717
Opening Cash	14	9	100	332
Closing Cash	9	100	332	1,049

Source: Company, Kotak Securities - Private Client Research

Ratio analysis

Year end March	FY06	FY07E	FY08E	FY09E
Debt-Equity Ratio	0.5	0.4	0.3	0.3
Current Ratio	2.7	3.0	3.2	3.6
Inventory Turnover	4.1	4.1	4.1	4.0
Debtors Turnover	5.1	5.0	5.2	5.1
Fixed Assets Turnover	1.3	1.4	1.5	1.5
Interest coverage (x)	10.6	10.5	13.6	17.2
EBIDTA Margin (%)	17.2	18.3	19.3	20.3
PAT Margin (%)	12.4	12.5	13.7	14.9
RoE (%)	25.7	24.6	25.0	24.3
RoCE (%)	17.2	19.0	20.6	21.3
EV/Sales (x)	1.8	1.2	1.0	0.8
EV/ EBITDA (x)	10.7	6.7	5.3	4.1
Price to earnings (x)	12.8	8.2	6.6	5.4
Price to book value (x)	3.0	1.8	1.5	1.2
Price to cash earnings (x)	9.4	6.4	5.2	4.5

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Disclaimer

Analyst holding in stock: Nil