

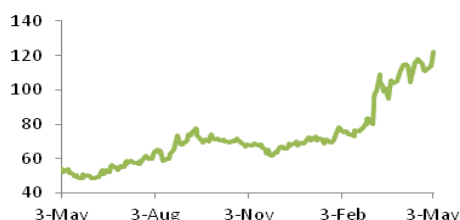
## Alembic Pharma Ltd.

Recommendation	HOLD
CMP (3/5/2013)	Rs. 122
Target Price	Rs. 138
Sector	Pharmaceuticals

### Stock Details

BSE Code	533573
NSE Code	APLLTD
Bloomberg Code	ALPM IN
Market Cap (Rs cr)	2300
Free Float (%)	25.9
52- wk HI/Lo (Rs)	127/48
Avg. volume BSE (Quarterly)	1,10,326
Face Value (Rs)	2.0
Dividend (FY 13)	125%
Shares o/s (Cr)	18.9

Relative Performance	1Mth	3Mth	1Yr
<b>Alembic</b>	6.5%	59.9%	125.7%
<b>Sensex</b>	4.1%	-1.0%	14.1%



### Shareholding Pattern 31<sup>st</sup> March 13

Promoters Holding	74.1
Institutional (Incl. FII)	8.8
Corporate Bodies	1.3
Public & others	15.8

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### Operational efficiency led to better performance

- Domestic business grew by 14% yoy where as exports continue to play spoilsport and grew by meager 5% yoy during the quarter on back of capacity constraints
- Overall sales grew by 11% yoy to Rs 376.4 cr. Because of seasonality factor sequential numbers are not comparable
- The positive surprise came from margins side as EBITDA margins improved to 17.4% as compared to 12.1% in Q4FY12, supported by better product mix and higher economies of scale.
- Strong operational performance and Lower interest expense (as Debt has reduced from Rs 353 cr as on Mar'12 to Rs 185 cr) led to 115% YoY growth in net profit, much higher than our expectation of Rs 28.4cr
- APL has strong product pipeline of 34ANDAs pending approvals, which shows the research capacities of the company and also provides for the revenue visibility. The company expects 8-10 product launches every year in US markets. Cumulative ANDAs stand at 57 and DMF 60
- APL managed to substantially reduce the debt on its books from Rs 305cr at the end of FY12 to Rs 185 cr at the end of FY13 as the cross holdings on Alembic Ltd has been removed. Current Debt : Equity ratio is 0.3x which reflects the sound financial policies followed by the company. It also provides scope for expansion by fund raising if the need arise. Management believes that it can be further reduced to below Rs 100 cr by FY14.
- The company didn't provide any quantitative number the its recent big win – Desvenlafaxine Base – a 505 (b) (2) launch, however expects to garner reasonable revenues in the next 18-21 months window it has.
- The management has given healthy outlook of overall 20% growth escorted by 30-35% in international generics (as new formulation facility has partially go operated easing the capacity constraints), 15% in domestic formulations and 10% in API. Management has also maintained 100-125 bps improvement in EBITDA margins going forward.

### Valuation & Recommendation

Considering the improving margins with steady growth, **We recommend investors to BUY the stock on declines with price target of Rs 138 (10x of FY15E EPS), an upside of 13.4% from current levels**

Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	Adj EPS (Rs)	P/E (x)	RoE (%)
FY12A	1375.3	18.1%	209.6	15.2%	120.5	8.8%	6.4	19.1	33.4%
FY13A	1516.3	10.2%	248.9	16.4%	165.3	10.9%	8.8	13.9	32.9%
FY14E	1787.3	17.9%	307.0	17.2%	204.8	11.5%	10.9	11.2	31.6%
FY15E	2110.7	18.1%	374.3	17.7%	260.7	12.4%	13.8	8.8	31.0%

## Alembic Pharma Ltd.

### Quarterly Result

Consolidated (Rs cr)	Q4FY13	Q3FY13	qoq	Q4FY12	yoy	FY13	FY12	yoy
<b>Total Revenues</b>	<b>376.4</b>	<b>372.3</b>	<b>1.1</b>	<b>339.5</b>	<b>10.9</b>	<b>1519.3</b>	<b>1461.3</b>	<b>4.0</b>
Cost of Materials	167.1	150.6	10.9	153.0	9.2	680.7	707.9	-3.8
Staff cost	50.8	49.5	2.5	43.1	17.8	193.8	168.5	15.0
Other Exps	92.9	102.8	-9.5	102.3	-9.1	392.9	364.5	7.8
<b>Total Expenses</b>	<b>310.8</b>	<b>302.9</b>	<b>2.6</b>	<b>298.4</b>	<b>4.2</b>	<b>1267.4</b>	<b>1240.9</b>	<b>2.1</b>
<b>EBITDA</b>	<b>65.6</b>	<b>69.4</b>	<b>-5.5</b>	<b>41.1</b>	<b>59.6</b>	<b>252.0</b>	<b>220.4</b>	<b>14.3</b>
<i>margins</i>	<i>17.4%</i>	<i>18.6%</i>		<i>12.1%</i>		<i>16.6%</i>	<i>15.1%</i>	
Depreciation	8.6	8.9	-2.4	8.9	-3.1	35.0	33.7	3.9
<b>EBIT</b>	<b>56.9</b>	<b>60.6</b>	<b>-6.0</b>	<b>32.2</b>	<b>76.9</b>	<b>217.0</b>	<b>186.8</b>	<b>16.2</b>
Interest	1.8	3.9	-52.8	5.4	-66.0	14.6	26.2	-44.4
Other income	0.1	3.4	-98.0	0.1	-46.2	3.9	0.4	793.2
<b>PBT</b>	<b>55.2</b>	<b>60.1</b>	<b>-8.2</b>	<b>26.9</b>	<b>104.9</b>	<b>206.4</b>	<b>161.0</b>	<b>28.2</b>
Tax	11.5	11.8	-2.5	6.6	73.9	41.1	30.9	33.2
<i>Tax rate</i>	<i>20.9%</i>	<i>19.7%</i>		<i>24.6%</i>		<i>19.9%</i>	<i>19.2%</i>	
<b>PAT</b>	<b>43.7</b>	<b>48.3</b>	<b>-9.6</b>	<b>20.3</b>	<b>115.0</b>	<b>165.3</b>	<b>130.1</b>	<b>27.0</b>
Equity Capital	37.7	37.7		37.7		37.7	37.7	
FV	2.0	2.0		2.0		2.0	2.0	
<b>EPS</b>	<b>2.3</b>	<b>2.6</b>	<b>-9.6</b>	<b>1.1</b>	<b>115.0</b>	<b>8.8</b>	<b>6.9</b>	<b>27.0</b>

### Revenue Breakup

Particulars (Rs cr)	Q4FY13	Q3FY13	qoq	Q4FY12	yoy	FY13	FY12	yoy
<b>Formulations</b>	<b>298.0</b>	<b>303.7</b>	<b>-1.9%</b>	<b>252.6</b>	<b>18.0%</b>	<b>1166.2</b>	<b>1081.1</b>	<b>7.9%</b>
Domestic	207.5	227.6	-8.8%	184.5	12.5%	886.3	782.6	13.2%
Export - ROW - Branded	12.9	15.0	-14.4%	17.7	-27.5%	44.1	56.7	-22.2%
Regulatory - Generics	77.7	61.1	27.2%	50.4	54.2%	235.8	241.8	-2.5%
<b>API</b>	<b>78.7</b>	<b>67.0</b>	<b>17.4%</b>	<b>87.4</b>	<b>-9.9%</b>	<b>350.6</b>	<b>373.4</b>	<b>-6.1%</b>
Domestic	25.0	25.0	0.1%	19.2	30.2%	113.8	94.2	20.8%
Export	53.7	42.0	27.8%	68.1	-21.3%	236.7	279.2	-15.2%
<b>Export Incentive &amp; Others</b>	<b>1.7</b>	<b>1.3</b>	<b>23.1%</b>	<b>2.4</b>	<b>-30.4%</b>	<b>9.3</b>	<b>13.3</b>	<b>-30.3%</b>
<b>Gross Sales</b>	<b>378.4</b>	<b>372.1</b>	<b>1.7%</b>	<b>342.3</b>	<b>10.5%</b>	<b>1526.0</b>	<b>1467.9</b>	<b>4.0%</b>

## Alembic Pharma Ltd.

**Change in Estimates**

FY14 includes one-time charge of Rs 20 cr for Pharma Policy

Change in estimates	FY14E			FY15E
	New	Old	% change	New
Sales	1787.3	1747.6	2.3%	2110.7
PAT	204.8	186.3	9.9%	260.7

**Valuation and Recommendation**

We had recommended stock at Rs 42 in March'12, at the time stock was trading at P/E of 6x. Since then it has been re-rated and currently trading at 1 year forward P/E of 11.2x. However, we feel the stock can be further bought on declines. Therefore we have roll forward our P/E to FY15E. At a multiple of 10x and FY15E EPS of Rs 13.8, target price comes to Rs 138, an upside potential of 13.4% from current levels. **We Recommend HOLD and BUY on declines.**

## Alembic Pharma Ltd.

### Financials

P&L (Rs. Cr)	FY12A	FY13A	FY14E	FY15E
<b>Net Sales</b>	<b>1375.3</b>	<b>1516.3</b>	<b>1787.3</b>	<b>2110.7</b>
% change	18.1%	10.2%	17.9%	18.1%
<b>EBITDA</b>	<b>209.6</b>	<b>248.9</b>	<b>307.0</b>	<b>374.3</b>
EBITDA margin (%)	15.2%	16.4%	17.2%	17.7%
Depn & Amort	33.6	35.0	46.0	48.8
<b>Operating income</b>	<b>175.9</b>	<b>213.9</b>	<b>261.0</b>	<b>325.5</b>
Interest	26.2	14.6	6.7	3.9
Other Income	0.4	7.0	3.6	4.2
<b>PBT</b>	<b>150.2</b>	<b>206.4</b>	<b>257.9</b>	<b>325.9</b>
Tax	29.6	41.1	53.1	65.2
EO	0.0	0.0	0.0	0.0
<b>Reported PAT</b>	<b>120.5</b>	<b>165.3</b>	<b>204.8</b>	<b>260.7</b>
<b>Adj PAT</b>	<b>120.5</b>	<b>165.3</b>	<b>204.8</b>	<b>260.7</b>
Sh o/s - Diluted	18.9	18.9	18.9	18.9
Adj EPS	6.4	8.8	10.9	13.8
EPS growth (%)	47.9%	37.1%	23.9%	27.3%
Cash EPS	8.2	10.6	13.3	16.4

Quarterly (Rs Cr)	Jun.12	Sept.12	Dec.12	Mar.13
<b>Net Sales</b>	<b>364.9</b>	<b>404.6</b>	<b>371.8</b>	<b>374.9</b>
<b>EBITDA</b>	<b>52.3</b>	<b>64.7</b>	<b>69.4</b>	<b>65.6</b>
Dep & Amorz	8.7	8.8	8.9	8.6
<b>Operating Income</b>	<b>43.6</b>	<b>55.9</b>	<b>60.6</b>	<b>56.9</b>
Interest	5.7	3.1	3.9	1.8
Other Inc.	0.9	1.3	3.9	1.6
<b>PBT</b>	<b>38.1</b>	<b>53.0</b>	<b>60.1</b>	<b>55.2</b>
Tax	7.3	10.5	11.8	11.5
EO	0.0	0.0	0.0	0.0
<b>Adjusted PAT</b>	<b>30.8</b>	<b>42.5</b>	<b>48.3</b>	<b>43.7</b>
EPS (Rs.)	1.6	2.3	2.6	2.3

Ratios	FY12A	FY13A	FY14E	FY15E
EBITDA margin (%)	15.2%	16.4%	17.2%	17.7%
Adj PAT margin (%)	8.8%	10.9%	11.5%	12.4%
PAT Growth (%)	47.9%	37.1%	23.9%	27.3%
Price Earnings (x)	19.1	13.9	11.2	8.8
ROE (%)	33.4%	32.9%	31.6%	31.0%
ROCE (%)	24.0%	31.7%	35.4%	36.7%
Debt/Equity Ratio (x)	1.0	0.4	0.2	0.1
Price/BV (x)	6.4	4.6	3.6	2.7
EV / Sales	1.9	1.6	1.4	1.1
EV / EBITDA	12.6	9.9	7.8	6.1

Balance Sheet (Rs Cr)	FY12A	FY13A	FY14E	FY15E
Share Capital	37.7	37.7	37.7	37.7
Reserves & Surplus	323.2	465.2	610.1	804.2
<b>Net Worth</b>	<b>360.9</b>	<b>502.9</b>	<b>647.8</b>	<b>841.9</b>
Deferred Tax Liab.	9.5	13.9	13.9	13.9
Other Non-Current Liab.	5.4	6.1	6.1	6.1
<b>Total Borrowings</b>	<b>299.8</b>	<b>206.5</b>	<b>126.5</b>	<b>96.5</b>
Trade Payables	181.9	240.0	288.4	338.3
Prov. & Other CL	186.2	131.6	121.6	111.6
<b>Total Liabilities</b>	<b>990.5</b>	<b>1047.8</b>	<b>1151.2</b>	<b>1355.1</b>
NFA + CWIP	326.1	376.5	395.5	386.7
Total Investments	3.4	3.3	3.3	3.3
Total Loans & Advances	189.8	152.2	169.1	198.4
Inventories	258.7	266.8	320.5	375.9
Debtors	186.8	232.9	272.0	319.1
Cash & Bank	25.7	16.1	-9.2	71.8
<b>Total Assets</b>	<b>990.6</b>	<b>1047.8</b>	<b>1151.2</b>	<b>1355.1</b>

Cash Flow (Rs. Cr)	FY12A	FY13A	FY14E	FY15E
<b>Operating Cash Flow</b>				
Op CF bef tax & WC	209.6	248.9	307.0	374.3
Change in WC	2.9	61.9	-61.2	-81.9
Tax	-30.0	-40.1	-53.1	-65.2
<b>CF from Operation</b>	<b>182.5</b>	<b>270.6</b>	<b>192.7</b>	<b>227.3</b>
<b>Investing Activities</b>				
Capex	-61.1	-85.4	-65.0	-40.0
Inv & Oth Income	0.4	7.1	3.6	4.2
<b>CF from Investing</b>	<b>-60.7</b>	<b>-78.3</b>	<b>-61.4</b>	<b>-35.8</b>
<b>Financing</b>				
Dividend Paid	-30.7	-54.8	-59.9	-66.6
Sh Cap & Premium	0.0	0.0	0.0	0.0
Interest Paid	-26.2	-14.6	-6.7	-3.9
Loans & Others	-40.5	-132.6	-90.0	-40.0
<b>CF from Financing</b>	<b>-97.4</b>	<b>-201.9</b>	<b>-156.6</b>	<b>-110.5</b>
Net Chg. in Cash	24.4	-9.6	-25.3	81.0
Cash at beginning	1.3	25.7	16.1	-9.2
Cash at end	25.7	16.1	-9.2	71.8
<b>Per Share Data</b>	<b>FY12A</b>	<b>FY13A</b>	<b>FY14E</b>	<b>FY15E</b>
Adj EPS	6.4	8.8	10.9	13.8
BV per share	19.1	26.7	34.4	44.7
Cash per share	1.5	1.0	-0.3	4.0
Dividend per share	1.4	2.5	2.7	3.0

## Alembic Pharma Ltd.

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