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Alembic Pharma (ALPM)

PRICE: RS.510 | **RECOMMENDATION: BUY**
TARGET PRICE: RS.600 | **FY17E PE: 17.8X**

Stock details

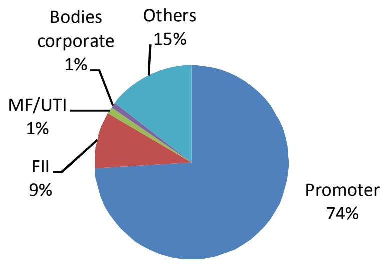
BSE code	: 533573
NSE code	: APLLTD
Market cap (Rs mn)	: 80119
Free float (%)	: 30%
52 wk Hi/Lo (Rs)	: 517/228
Avg daily volume	: 63520
Shares (o/s) (mn)	: 189

Summary table

(Rs mn)	FY15E	FY16E	FY17E
Sales	20,563	28,166	30,748
Growth (%)	10.4	37.0	9.2
EBITDA	4,062	7,718	6,996
EBITDA margin (%)	19.8	27.4	22.8
PBT	3,614	6,779	6,413
Net profit	2,851	5,220	5,387
Core EPS (Rs)	15.0	19.5	28.6
Growth(%)	20.1	30.2	46.3
CEPS(Rs)	17.4	30.9	32.4
BVPS(Rs)	47	70	92
DPS (Rs)	3.5	4.5	5.0
ROE (%)	36.3	47.5	35.2
ROCE (%)	30.7	42.8	34.5
Net debt	2217	-62	(1045)
NW capital (Days)	72.7	61.8	75.7
Core P/E (x)	34.0	26.1	17.8
P/BV (x)	10.9	7.3	5.5
EV/Sales (x)	4.8	3.4	3.1
EV/EBITDA (x)	24.2	12.4	13.6

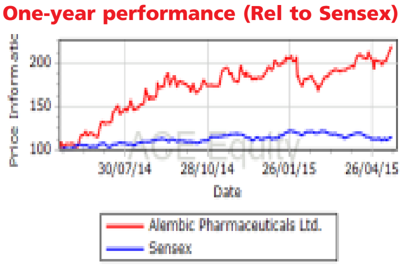
Source: Company, Kotak Securities - Private Client Research

Shareholding pattern



Source: ACE Equity

One-year performance (Rel to Sensex)



Source: ACE Equity

Alembic Pharma (ALPM) is a mid-size pharma company with a major chunk of revenues coming from domestic formulations (53%). Export formulations contribute ~29% and the rest comprises APIs. ALPM's interesting filings for US and increasing contribution from specialty portfolio (~56%) in domestic formulations segment will drive 22%/38% CAGR in revenues/PAT over FY15-17E. With robust growth expected over FY15-17E, ROE/ROCE of >35% and free cash flows improving significantly (from ~Rs 1.5bn to Rs 3.5bn in three years), we believe ALPM is the best bet in the mid cap pharma space. Initiate coverage with a BUY rating, TP of Rs 600, 21x FY17E EPS.

- **Domestic formulations going steady** - ALPM has emerged from a plain anti-infective player in FY07 to a focused specialty company in FY15. The specialty segment accounted for ~56% of revenues (in FY15) at ~Rs 6.2bn (from Rs 750mn in FY07) and posted a CAGR of >30% over last eight years. Recent addition in field force from 3,500 to ~4,000 and new product launches will drive >20% growth in the specialty portfolio. Acute portfolio though will remain sluggish, but overall we expect the domestic formulations segment (Specialty plus Acute) to post 16% CAGR over FY15-17E. For the year FY15, specialty portfolio has grown at 21% whereas the acute portfolio has grown at 9%.
- **US - the growth engine** - ALPM's US revenue posted a muted ~13% growth in FY15 (our assumptions, as company does not give region wise revenues) post registering a whopping 114% growth YoY in FY14. US revenue growth was primarily impacted by high base and price erosion in base portfolio. FY16E is expected to be an eventful year for ALPM, led by 6-7 launches of which 3-4 are interesting Para IV opportunities. The most interesting opportunity is gAbilify (launched in Apr-15) where initial price erosion appears to be < 20%, if the price of the generic drug stabilizes at this level, gAbilify alone can contribute over 150% growth to the US revenues (we have modelled US$63mn revenues from gAbilify, assuming price erosion of 60%+ over the next 3-6 months). We expect ALPM's US segment to post US$ 144mn revenues by FY17E, a 40% CAGR and 32% CAGR (ex - gAbilify) over FY14-17E.
- **Strong balance sheet/Healthy return ratios** - Given ALPM's consistent margin expansion (>650bps increase in EBIT/NP margins over FY11-15) and best in class asset turns (Gross block turnover of ~3.0x) we envisage RoCE/RoE to remain at a robust ~35-40% level. Foreseeable robust free cash flows in spite of higher capex requirements further instill confidence.

Outlook and valuation

- Although ALPM has witnessed P/E expansion from ~8-10x levels to 15-17x levels, we see enough room for further re-rating on the stock as its US pipeline unfolds. The stock currently trades at 16.0x FY17E EPS. We value ALPM at 21x FY17E EPS of Rs 28.6 and recommend BUY with a TP of Rs 600.
- Alembic's constant effort on complex molecules for US markets as well as specialty portfolio for the domestic market can augur well over the next 2-3 years, hence as per our blue sky horizon, we believe Alembic has potential to trade at 1.5-2.0x higher from current levels at ~Rs 800.

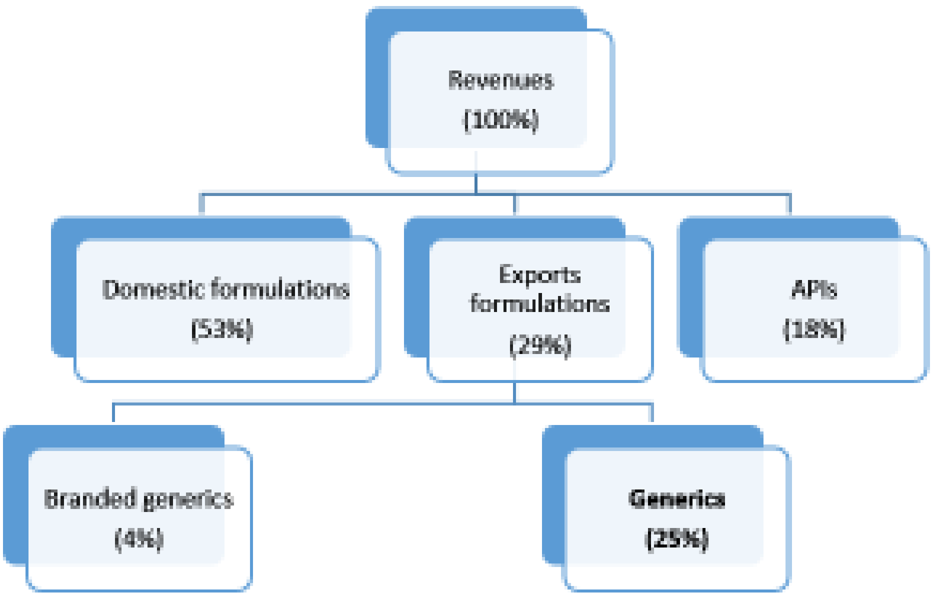
Risk and Concerns

- Regulatory delays or compliance issues, Adverse currency movements, Margin stability.

Company Background

- Alembic Pharma was established in 1907 as Alembic Ltd for manufacturing of tinctures and alcohol at its Baroda plant. Starting 1940, Alembic Pharma transformed in to a Pharma focused company engaged in manufacturing of cough syrups, vitamins, tonics and sulphur drugs.
- Until 2010 Alembic was a pure domestic focused company but post demerger of company's core Pharma business (now Alembic Pharma) from Alembic Ltd, ALPM transformed into an aggressive and focused company. Management started focusing aggressively on regulated market exports (US and Europe) and chronic therapies in the domestic market.
- As of FY15, ALPM's Domestic formulations was the largest segment with 53% revenue contribution. The specialty segment accounted for ~56% of the domestic formulations revenues (up from <25% in FY07) with presence across therapies like Ophthalmology, Cardiology, Diabetes, Gastro, Gynaec and Derma. Increasing contribution from specialty segment gets stability in growth as well as improves margins. The US, though the largest pharma market globally, still accounted for a mere ~18% of the revenues (our assumptions, as company does not give region wise revenues), but higher from ~10% contribution in FY13. Growth in high margin specialty segment and increasing US revenues also led to increase in EBIDTA margins from ~13% in FY10 to 19.8% in FY15.

Revenue break up – FY15

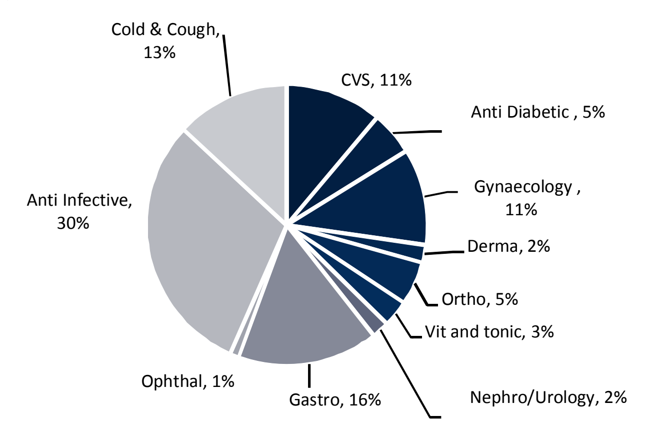


Source: Company

DOMESTIC FORMULATIONS GOING STEADY

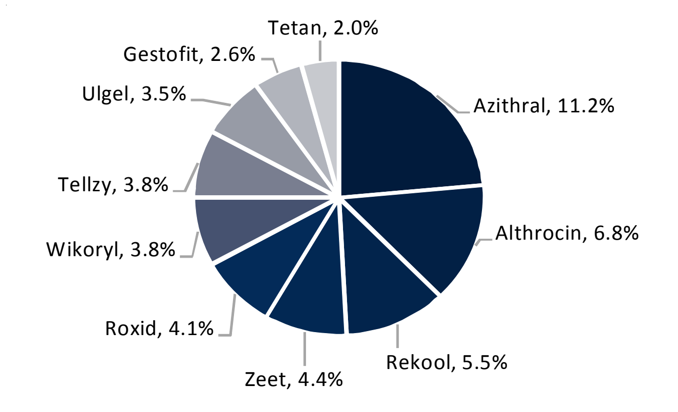
- ALPM's appetite for the specialty segment can be traced back to 2007, when it acquired non-oncology business of Dabur Pharma for Rs 1.6bn. Through this acquisition, ALPM stepped into the specialty space with 24 brands (revenues of Rs 750mn) in the CVS, Diabetes and Gastro therapies. Over the years ALPM has entered into various other specialty therapies like Opthal, Orthopedic, Nephrology, Respiratory, Derma and Gynecology. This has led to a robust >30% CAGR in ALPM's specialty portfolio from FY07 to FY15. ALPM's specialty portfolio stood at ~Rs 6.2 bn in FY15 and accounted for ~56% of the domestic formulations revenues.
- Going forward, we expect the contribution of specialty segment to further grow on the back of 20-25 product launches every year. ALPM has also expanded its MR strength from ~3500 to 4000 in FY15 to enhance its focus in the Respiratory (under the Asthma/Nasal segment) and CVS segments, giving a further push to the specialty segment.
- Moreover, ALPM's acute segment has been underperforming the industry growth due to (1) majority of the portfolio (~70%) consisting of older generation molecules (2) stiff competition from smaller regional players, paving way for specialties to take a larger share.
- ALPM's traditional tilt towards acute therapies is still evident in its top 10 products which are mainly from the acute space and account for ~44% of domestic formulation revenues. However, we expect this to change gradually as ALPM's new product introductions have largely been in the specialty segment. Moreover, the new launches in the last three years already account for ~15% of the segment which also points towards lower dependence on legacy brands of acute therapy.

Domestic formulations - Therapeutic area contribution-FY15



Source: Company

Domestic formulations – Top 10 products/contribution-FY15

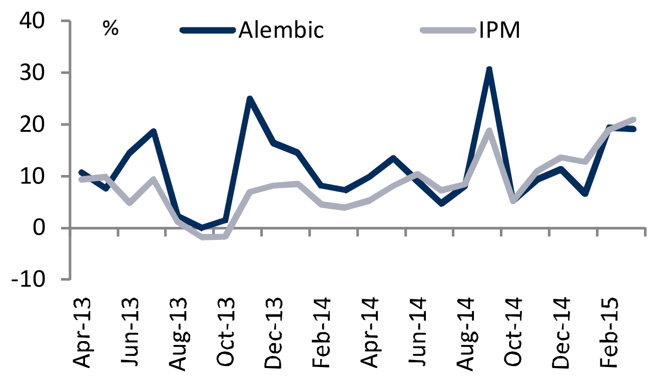


Source: Company

ALPM has outperformed the IPM over the last 24 months- Although ALPM's monthly growth in the domestic formulations has been lumpy compared to the IPM over the past few months. However, over the last two years, ALPM has outperformed the IPM. The growth in last six months was hampered due to NLEM implementation as well low growth in the acute portfolio (which still accounts for ~44% of the domestic segment). However, the specialty segment growth has been robust with >20% growth over the last 18-24 months. For FY16E too, ALPM will be impacted led by price reduction in brand - Althrocin (Erythromycin). Management expects the impact to be ~Rs170mn. Post factoring for the price reduction impact, we expect FY16E growth to be at 14%.

ALPM's continued focus on increasing the specialty segment contribution through better penetration and newer launches will lead to gradual increase in the overall domestic formulation segment over the next 1-2 years. Moreover, the price increase window available in April every year for the DPCO products will further cushion the growth. However, drug price regulation of newer drugs will remain a risk.

Monthly growth ALPM vs. IPM



Source: AIOCD, Company, Kotak Securities - Private Client Research

FY14 - Growth in Specialty therapies

(%)	Alembic	Industry
Opthal	41	11
Cardio	26	11
Diabetes	24	23
Gastro	10	10
Gyneac	23	8
Nephro	13	8
Ortho	9	9

Source: AIOCD, Company, Kotak Securities - Private Client Research

Domestic formulations to post 16% CAGR over FY15-17E - We believe revival in the acute segment will remain an uphill task and expect this segment growth to remain at ~9%. However, higher growth of >20% in the specialty products would more than make up for the lower growth in the acute space driven by (1) new launches targeting existing specialty segment, (2) entry into newer therapies and (3) increasing MR strength. We expect the domestic formulations segment to post 16% CAGR over FY15-17E.

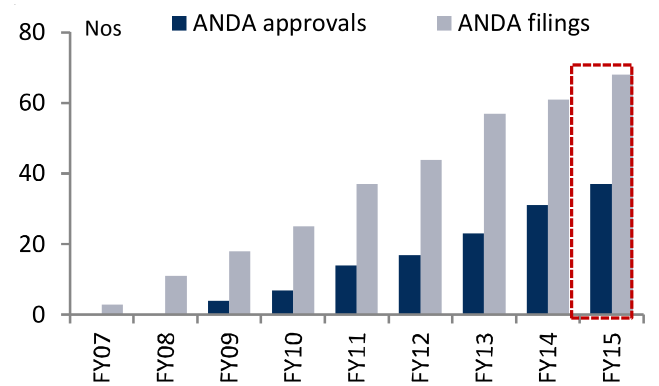
US – The growth engine

ALPM entered the US markets in FY08 and has witnessed a 33% CAGR in its US revenues over FY08-15. The growth in the initial years was primarily driven by highly genericised products. Over the years, Alembic has been consistently filing for US markets (DMFs as well as ANDAs) and has created a product portfolio of 68 ANDAs (filed) of which 31 are approved.

As of FY15, Alembic posted revenues of US$60mn (our assumption, as company does not share region wise revenues) which was up 13% YoY (much lower compared to previous years CAGR) due to high base as well price reductions in certain base products. However, over the last eight years, Alembic has posted ~37% growth in the US revenues led by highly generic products.

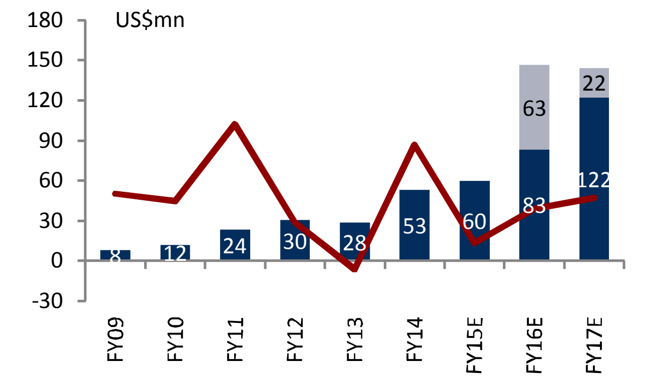
Along with ANDA launches, Alembic had also launched generic Pristiq in Mar-13. Alembic was the first company to launch Desvenlafaxine (Pfizer's Pristiq for treating major depressive disorder - market size US$550mn) through NDA route in Mar-13, way ahead of its patent expiry in Jul-22. Ranbaxy was the marketing partner for the generic version of Pristiq. An NDA differs from ANDA, as it requires better R&D capabilities. Though the product could not take off well, the approval of an NDA showcases Alembic's R&D capabilities.

Alembic awaits approval for 31 ANDAs



Source : Company, Kotak Securities - Private Client Research

US revenues expected to post 40% CAGR in US revenues



Source : Company, Kotak Securities - Private Client Research

Complex pipeline/ front end presence to escalate US rev/profits

Over the last 3-4 years, management has focused on building a niche pipeline for US markets which will fructify over the next 2-3 years. The US growth, which was so far was driven by highly competitive product launches, would see a shift towards high margin niche complex generics from FY16E onwards. Alembic is also working at building a pipeline in areas other than oral solids. In the recent interactions, management has indicated Derma and Injectable as the focus areas. We believe, these new drug deliveries would drive the next leg of growth for Alembic, beyond FY18E. Alembic has followed the strategy of backward integration for most of the products which augurs well not only for currently marketed products but also from a longer horizon wherein products would tilt towards complex generics.

ALPM has built a strong pipeline targeting Para IV opportunities and is incrementally targeting complex products. ALPM currently markets ~25 ANDAs in the US markets and is awaiting approval for ~31 ANDAs of which 40-50% are Para IVs. Para IV opportunities lead an exclusive launch for 180 days where non Para IV filers cannot enter the market. Interestingly, more than half of Alembic's Para IV opportunities are FTFs (First to file). A Para IV opportunity without FTF would mean a shared exclusivity with more than one player competing whereas an FTF would mean no other generic competition during the exclusivity period.

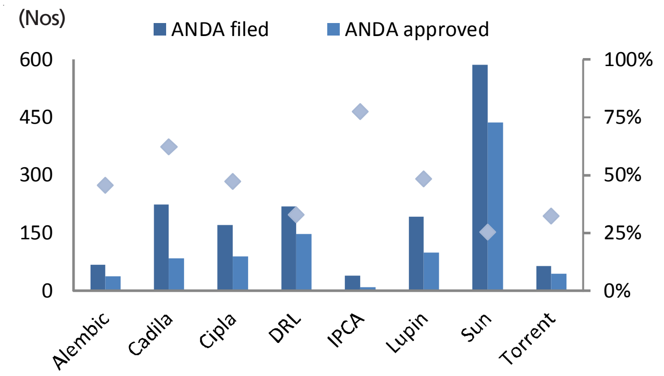
Moreover, Alembic is also planning to have a front end presence in the US by the end of FY16E (as of now Alembic has a partnership model for marketing products in the US). This would not only lead to a better say in launch timelines and pricing but will also lead to margin expansion (as of now Alembic shares ~30-50% profits with the marketing partner).

Way ahead of peers in terms on complex pipeline

On the competitive landscape, ALPM's US revenues can be closely compared to IPCA or Torrent Pharma (US revenues of less than US$150mn). The US growth for all the three players, including Alembic, was largely driven by highly competitive products, so far. However, a closer look at the US pipeline (post screening the DMF filings for all peers), for future launches, highlights that Alembic has been filing for far more complex and niche products compared to its peers. Going ahead we foresee Alembic closely competing with large peers like Lupin and Cadila in few interesting opportunities. Interestingly, Alembic has also filed for complex generics like Elmiron and Toprol XL wherein patents have expired but due to complexity of the drug there have been no or less generic competition.

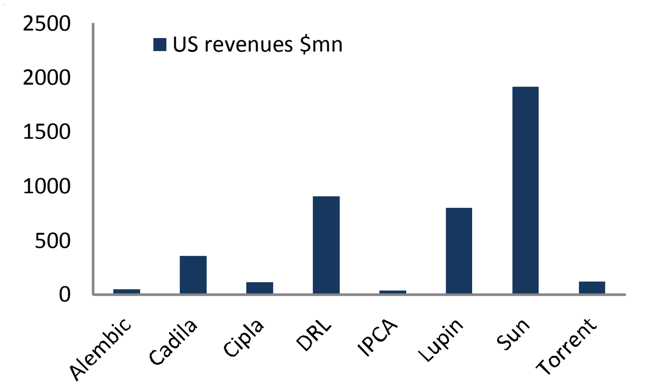
On the ANDA pipeline, ALPM's pending approval (which are 46% of its ANDA filings) can be closely compared to Lupin (with ~50% pending ANDAs), Cadila (with 62% pending ANDAs) and Cipla (with ~47% pending approvals). Though IPCA too awaits approval for a whopping 78% of its pending ANDAs, the delay in approvals has been due to compliance issues from USFDA. Moreover, qualitatively too Alembic's pending ANDAs are more complex in nature compared to the currently marketed products/approved products. This is lacking in peers like IPCA and Torrent.

ALPM's >50% of filings await USFDA approvals.....



Source: Company

ALPM can be closely compared to Torrent and IPCA



Source: Company

Revenue pie to shift towards US

In FY15, US accounted for ~18% of revenues (up from 10% in FY13). With interesting launches lined up over the next 2-3 years, we expect a significant change in the revenue pie, wherein we expect US to take a larger share at ~30% of revenues (in line with large peers).

Key US launches

Brand	Generic name	Brands sales - USD mn	Time line
Namenda	Memantine Hydrochlorothiazide	1300	FY16E
Celebrex	Celecobix	2440	FY16E
Tracleer	Bosentan	1500	FY16E
Atacand	Candesartan Cilexetil	100	FY16E
Exforge HCT	Amlodipine, Valsartan, Hydrochlorothiazide	150	FY16E
Nexium	Esomeprazole	6000	FY16/17E
Enablex	Darifenacin	170	FY17E
Topamax	Topiramate	-	FY17E
Fanapt	Iloperidone	50	FY17E
Elmiron	Pentosan	100	Unknown
Sular	Nisoldipine	100	Unknown

Source: Kotak Securities - Private Client Research

US to post 40% CAGR over FY15-17E

- ALPM's US revenue posted a muted ~13% growth in FY15 (our assumptions, as company does not give region wise revenues) post registering a whopping 114% growth YoY in FY14. US revenue growth was primarily impacted by high base and price erosion in base portfolio. Moreover, we also believe that the 4-5 launches which were mostly in 2HFY15 could not see ramp in till end of FY15. However, we are witnessing an increased market share for those products since Apr-15. Additionally, FY16E is expected to be an eventful year for ALPM, led by 6-7 launches of which 3-4 are interesting Para IV opportunities. The most interesting opportunity is gAbilify (launched in Apr-15) where initial price erosion appears to be < 20%, it the price of the generic drug stabilizes at this level, gAbilify alone can contribute over 150% growth to the US revenues (we have modelled US$63mn revenues from gAbilify, assuming price erosion of 60%+ over the next 3-6 months). We expect ALPM's US segment to post US$ 144mn revenues by FY17E, a 40% CAGR (inc gAbilify) and 32% CAGR (ex - gAbilify) over FY14-17E.

Strong balance sheet/Healthy return ratios

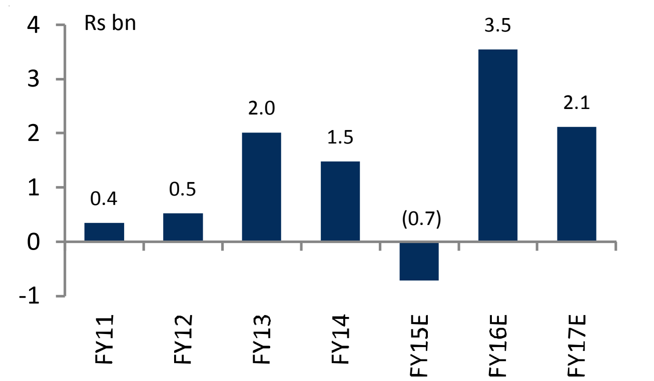
- ALPM's policy to outsource ~35-40% of its domestic formulation requirements has led to best in class asset turns (Gross block turnover of ~3.0x). ALPM has also been able to halve its working capital days from ~90 levels in FY11 to ~70 in FY15.
- Simultaneously the robust margin expansion over FY11-15 (~650bps increase in EBIT/NP margins) has led to consistent RoCE - RoE of ~35-40%, in spite dip in the asset turnovers. The total asset turnover has dipped from 3.8x in FY11 to 2.0x in FY15, the gross block turnover has also dipped from 5.5x in FY11 to 2.8x in FY15. Going ahead too, Alembic has planned for huge capex outgo for the next two years which would continue to restrict asset turnovers. However, with a high margin opportunity, gAbilify, in FY16E, higher profit margins would lead to impressive RoCE/RoE in FY16E. We expect RoE/RoCE to dip in FY17E, but it will still remain at a robust ~35% levels, which is higher than most of small as well as large peers.
- ALPM's tight working capital cycle had led to a healthy and consistent free cash flow generation (Rs 1.5bn in FY14). This in turn has helped to significantly lower debt from Rs 3.3bn in FY11 to Rs 1.09bn in FY14. The net debt to equity stood at a healthy 0.1x (as at FY14) from 1.1x in FY11. However, huge capex of ~Rs 2.2 bn led to a negative cash flow in FY15. Alembic also inflated its short term debt with ~Rs 2.0 bn addition, D/E stood at 0.28x at the end of FY15. However with controlled working capital cycle (~70 days) and high margin opportunity in FY16E, we expect ALPM to generate free cash flows of ~Rs 3.5bn in FY16E. For FY17E, we expect Rs 2.1bn as free cash flows.

Du-Pont analysis

	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
EBIT margin	11%	13%	15%	17%	18%	25%	21%
Gross block turnover	5.50	3.27	2.94	3.01	2.80	3.11	2.78
GB (x)	0.69	0.64	0.69	0.80	0.73	0.65	0.64
RoCE	**41.5%**	**26.6%**	**29.5%**	**41.4%**	**36.2%**	**51.6%**	**37.3%**
NPM	7%	9%	11%	13%	14%	19%	18%
Asset turnover	3.8	2.1	2.0	2.4	2.0	2.0	1.8
Equity (x)	2.1	2.0	1.7	1.3	1.3	1.3	1.1
RoE	**58%**	**38%**	**37%**	**40.0%**	**36.3%**	**48.2%**	**35.0%**

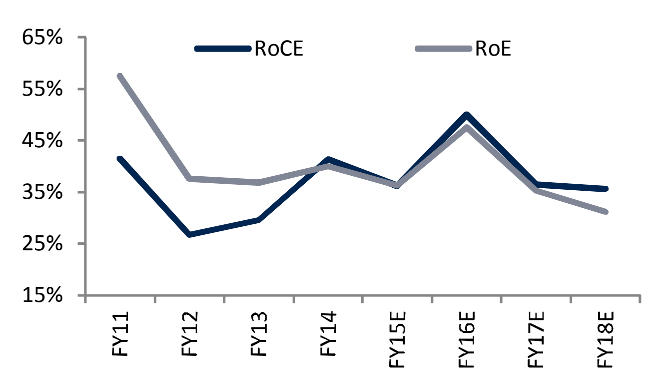
Source : Company, Kotak Securities - Private Client Research

Free cash flow generation to improve significantly



Source : Company, Kotak Securities - Private Client Research

RoE/RoCE to remain robust in spite of lower asset turns



Source : Company, Kotak Securities - Private Client Research

Outlook and Valuation

ALPM's strong US pipeline and steady growth in the domestic market gives us strong visibility over the next 2-3 years. We expect revenues to post 22% CAGR led by 16% CAGR in domestic formulations revenues and 40% CAGR in the US revenues

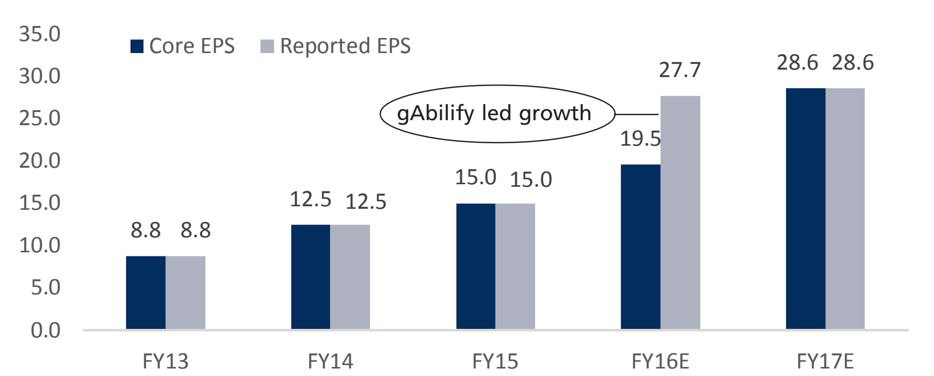
Limited competition launches in the US, increasing contribution of specialty therapies in the domestic revenues coupled with lower growth in (low margin) acute therapies, gives strong visibility over margin expansion. In spite of front end expansion in developed markets like US/EU and increasing R&D expenses, we expect the base business (ex- Abilify) EBIDTA margin to expand by 300bps (from 19.8% in FY15 to 22.8% in FY17E)leading to a PAT CAGR of 38% over FY15-17E.

Over the past two years Alembic posted ~40% CAGR in PAT driven by sharp expansion in EBIDTA margins from 16.6% in FY13 to 19.8% in FY15. The expansion was led by increase in the US revenue contribution and swelling chronic basket in the domestic formulations franchise. This robust performance led to a whopping 5.0x increase in the stock price from ~Rs100 levels to CMP of ~Rs 500 levels. In spite of this sharp run-up we believe there is still value in the stock purely due to the impressive US pipeline.

We expect ALPM to post a sharp 85% rise in profits in FY16E, led by gAbilify launch and a flattish growth of mere 3% in FY17E on a high base. However, adjusted for gAbilify (which is a one off opportunity), we expect an impressive 30% and 46% growth in PAT in FY16E and FY17E respectively.

We initiate coverage on Alembic Pharma with a BUY recommendation. We are valuing ALPM at its core EPS, excluding the one of impact of FTF launches. Our Core EPS for FY16E/17E stands at 19.5/28.6 vs. our reported EPS of Rs 27.7/ 28.6. Our Core EPS exlucdes impact of gAbilify, which is a onetime opportunity due to low competition, however, this opportunity will not be lasting for more than 4-6 months, hene we have calculated Core EPS to get a fair assumption for growth in base business. We value ALPM at 21x FY17E Core EPS of Rs 28.6 and arrive at a target price of Rs 600.

Core EPS vs. Reported EPS (Rs)

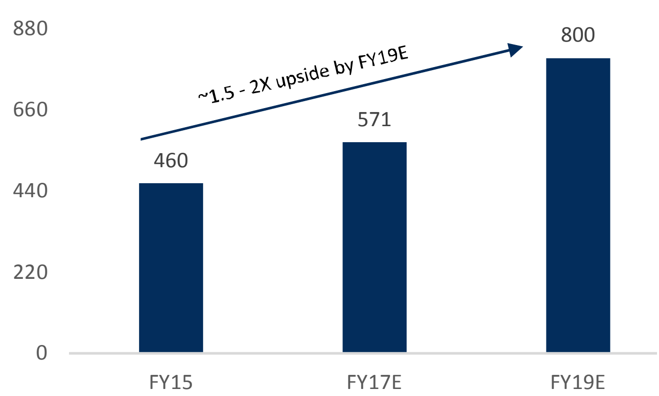


Source: Company; Kotak Securities - Private Client Research

Risks and concerns

- **Margin stability -** Alembic Pharma is putting up the front end presence in developed markets like US and EU. Simultaneously it is also working on complex products which would restrict margin expansion in the immediate future. Though modeled in our assumption any outgo beyond our expectation would be a risk to our earnings. However, we believe key launches in US and expanding chronic portfolio in domestic segment would cushion the margins against higher expenses.
- **Regulatory delays or compliance issues –** US being the key driver, any delays in product approvals or non-compliance issues from the regulatory authorities can impact our earnings estimates significantly. Alembic Pharma recently had inspection from USFDA at its USFDA approved plants. Hence we do not expect any inspection in near term.
- **Adverse currency movements -** ALPM derives ~45% of its revenues from exports and does not actively hedge its exposure. Any adverse currency movements may impact our earnings significantly.
- **Drug price control –** Alembic has been facing restricted growth in the domestic segment led by NLEM policy. For FY16E too ALPM has indicated of Rs 170mn impact due to price reduction in brand Althrocin. Any such announcements of price reduction can impact our profit assumptions.

Potential return over 3 year horizon (Rs)



Source : Company, Kotak Securities - Private Client Research

Potential for 2x return over the next two years

Alembic, we believe, is gearing up to enter the big league with higher visibility for US revenues. Alembic's guidance of higher R&D outgo at ~7-7.5% of revenues or ~Rs 2.0bn per year would be nearly 2x its R&D outgo of FY14 and it would imply ~4x increase compared to FY12. This highlights management's vision for US markets. With Alembic's small revenue base for US (at US$60mn), interesting pipeline for next 2-3 years for US and significant increase in R&D expenses which would take care for growth beyond 2-3 years, we believe ALPM has a higher probability to give a 1.5-2x return over the next 2 years.

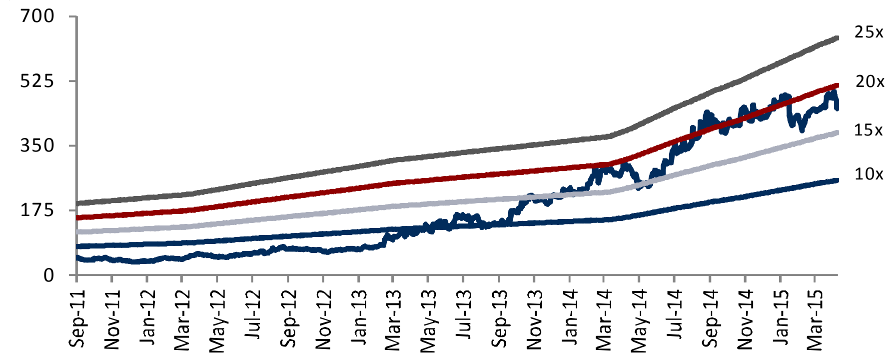
Source : Company, Kotak Securities - Private Client Research

Financial Summary over FY17E-FY19E

(Rs mn)	FY17E	FY18E	FY19E
Revenues	30,748	36,279	41,720
EBIDTA (%)	22.8%	23.2%	23.5%
EPS (Rs)	28.6	33.7	39.8
Target price (Rs)	600	690	800

Source: Kotak Securities - Private Client Research

One year forward P/E chart



Source: BSE, Company, Kotak Securities - Private Client Research

FINANCIALS

Profit and Loss Statement

(Rs mn)	FY14	FY15E	FY16E	FY17E
Revenues	**18,632**	**20,563**	**28,166**	**30,748**
% Change YoY	22.6	10.4	37.0	9.2
EBITDA	**3,577**	**4,062**	**7,718**	**6,996**
% Change YoY	42.0	13.6	90.0	-9.4
Other Income	32	23	28	200
Depreciation	405	444	603	723
EBIT	**3,204**	**3,641**	**7,142**	**6,472**
% change YoY	45.0	13.6	96.2	-9.4
Interest cost	98	27	364	60
Profit before Tax	**3,106**	**3,614**	**6,779**	**6,413**
% change YoY	50.5	15.6	88.7	-5.4
Tax	751	763	1,559	1,026
as % of PBT	24.2	21.2	23.0	16.0
Net Income	2,355	2,851	5,220	5,387
% change YoY	42.5	20.1	84.5	3.2
Shares outstanding (mn)	188.5	188.5	188.5	188.5
EPS (reported) (Rs)	**12.5**	**15.0**	**27.7**	**28.6**
Core EPS (Rs)	**12.5**	**15.0**	**19.5**	**28.6**
CEPS (Rs.)	14.6	17.4	30.9	32.4
DPS (Rs)	3.0	3.5	4.5	5.0

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY14	FY15E	FY16E	FY17E
EBT	3,106	3,614	6,779	6,413
Depreciation	405	444	603	723
Change in working capital	(498)	(691)	(673)	(1,609)
Taxes Paid	751	763	1,356	1,283
Operating CF	**2,262**	**2,604**	**5,354**	**4,244**
Capex	(816)	(2,568)	(2,051)	(2,053)
Change in Investments/Loans	(58)	(754)	(121)	(130)
Dividends	(662)	(772)	(993)	(1,103)
CF from investments	**(1,536)**	**(4,094)**	**(3,164)**	**(3,286)**
Proceeds from issue of equities	-	-	-	-
Increase/(decrease) in debt	(774)	1,391	312	(2,000)
Deferred tax credit /other adj.	127	149	89	24
CF from financing	**(647)**	**1,540**	**401**	**(1,976)**
Opening cash	161	240	268	2,859
Closing cash	240	290	2,859	1,842

Source: Company, Kotak Securities - Private Client Research

Balance sheet

(Rs mn)	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	240	268	2,859	1,842
Accounts receivable	2,734	3,612	4,784	5,728
Inventories	3,108	3,828	4,784	5,897
Loan and Advances	1,471	1,200	1,320	1,452
Current Assets	7,552	8,907	13,748	14,919
LT Investments	34	23	25	25
Net Fixed Assets	4,176	5,947	7,395	8,725
Long term loan and advances	416	1,182	1,300	1,430
Total Assets	**12,178**	**16,059**	**22,467**	**25,098**
Payables	2,884	3,109	4,399	4,633
Others	289	486	584	700
Short term Provisions	734	949	1,139	1,366
Current liabilities	3,907	4,544	6,121	6,700
Deferred tax liabilities	227	314	518	261
Total Debt	1,094	2,485	2,797	797
Other long term liabilities	127	128	141	155
Long term provisions	67	94	103	113
Equity	377	377	377	377
Reserves	6,238	8,469	12,697	16,980
Minority interest				
Total Liabilities	**12,037**	**16,412**	**22,753**	**25,384**
BVPS	36	47	70	92

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

	FY14	FY15E	FY16E	FY17E
EBITDA margin (%)	19.2	19.8	27.4	22.8
EBIT margin (%)	17.2	17.7	25.4	21.0
PAT margin (%)	12.6	13.9	18.5	17.5
Receivables (days)	53.6	64.1	62.0	68.0
Inventory (days)	60.9	67.9	62.0	70.0
Sundry creditors (days)	56.5	55.2	57.0	55.0
Sales/assets (x)	2.4	2.0	2.0	1.7
Interest coverage (x)	32.7	134.9	19.6	108.3
Debt/equity ratio (x)	0.2	0.3	0.2	0.0
ROE (%)	40.0	36.3	47.5	35.2
ROCE (%)	38.7	30.7	42.8	34.5
EV/ Sales (x)	5.2	4.8	3.4	3.1
EV/EBITDA (x)	27.1	24.2	12.4	13.6
Price to earnings (x)	40.8	34.0	18.4	17.8
Core Price to earnings (x)	40.8	34.0	26.1	17.8
Price to book value (x)	14.2	10.9	7.3	5.5
Price to Cash Earnings (x)	34.8	29.4	16.5	15.7

Source: Company, Kotak Securities - Private Client Research

RATING SCALE

Definitions of ratings

BUY – We expect the stock to deliver more than 12% returns over the next 9 months

ACCUMULATE – We expect the stock to deliver 5% - 12% returns over the next 9 months

REDUCE – We expect the stock to deliver 0% - 5% returns over the next 9 months

SELL – We expect the stock to deliver negative returns over the next 9 months

NR – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.

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NA – **Not Available or Not Applicable.** The information is not available for display or is not applicable

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NOTE – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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