

On a sustainable curve HOLD

Result Update

Alembic Pharma's result was above our estimates. Revenues de-grew by 13% YoY to INR 8.7bn driven by robust growth of 22% YoY in Domestic business despite a high base of international generics business on account of gAbilify revenues. gAbilify revenues for the quarter contributed at a decent level to the sales. The company has launched 23 products under their own label. EBITDA degrew by 53% YoY to INR 1.8bn with margins at 20.4% declining by 1,700bps YoY. R&D for the quarter stood at INR 1.1bn. Reported PAT stood at INR 1.2bn down 58% YoY.

Robust growth in Domestic business

Domestic branded formulations grew 19% YoY to INR 3.4bn led by a robust growth of 22% in the Acute Portfolio and 16% YoY growth in Specialty segment on back of 28%, 34% and 35% growth in Anti-diabetic, Gynecology, and Cough & Cold segments. Acute segment showcased a robust growth of 22% during the quarter on account of seasonality and a good monsoon. We believe company will strengthen its specialty business through selective product portfolio expansion and 20-25 new product launches annually which will drive domestic formulations growth. We expect domestic formulation business to show 13% CAGR over FY16-18E from INR 11.8bn in FY16 to INR 15.2bn in FY18E.

Softer H2 expected on account of a normalized base of gAbilify in US

International business de-grew by 38% YoY to INR 3.5bn during the quarter and grew by 14% QoQ on account of market share gain of gAbilify by Alembic's partner. The gAbilify earnings in Q2FY17 are reflective of the previous quarter's earnings for gAbilify as the revenues are booked on a quarter lag by Alembic. 75% of the International sales are from the US markets at INR 4.9bn. We estimate sales from gAbilify to be at USD 95-100mn for FY16 to Alembic, tapering off going forward and as per our estimates reaching modest levels of USD 25-30mn in FY17E. Alembic has launched 23 products from its front-end model in US and plans to launch 6-8 new products per year. The company filed 4 ANDAs taking the cumulative filings & approvals to 82 as of Q2FY17. 40% of the pending ANDAs are Para IV/FTF filings signifying a robust pipeline. The management has indicated to ramp-up its filing efforts to 10-12 ANDA filings annually in the US. Ramp-up of launches from its front end model and scheduled product launches of products such as **Benicar**, **Tracleer**, **Sular**, **Elmiron**, **Multaq**, **Enablex**, **Cialis**, **Xarelto**, **Toprol XL**, **Atacand**, **Nexium** etc in US over FY17E & FY18E are to drive the earnings momentum going forward.

Valuation:

With sustained focus on specialty segment in the domestic business, healthy momentum in International generics business on account of niche filings and ramp-up in the filing process through elevated R&D investments; we believe Alembic's long term growth prospects remains robust, with the management laying out the framework for a superior quality pipeline and newer therapeutic categories. We expect revenues to post 4% CAGR growth over FY16-18E on a high base of FY16 with EBITDA margins set to face pressure post highly captive phase of planned R&D investments and elevated capex plan from a high of 32% in FY16 to 21% in FY18E. We enhance our earnings estimates and rate the stock 'HOLD' valuing it (at a higher multiple given the enhanced potential of its pipeline) at 22x of FY18E EPS of INR 31.3 (earlier EPS of INR 29.1), to arrive at a Revised Target Price of INR 690 (as compared to INR 640).

Key Financials:

,						
INR mn	FY13	FY14	FY15	FY16	FY17E	FY18E
Revenues	15,203	18,632	20,561	31,487	29,651	33,917
EBITDA	2,520	3,577	4,030	10,059	5,308	7,720
PAT	1,652	2,355	2,825	7,194	3,970	5,908
EPS	8.8	12.5	15.0	38.2	21.1	31.3
P/E (x)	76.9	54.0	44.9	17.7	32.0	21.5
EV/EBITDA(x)	51.7	36.4	32.0	12.7	24.4	16.3
RoE (%)	36.8	40.0	36.3	57.9	23.5	29.3

Source: Company Data, KRChoksey Estimates

Target Price (INR): 690

Potential Upside: 2.4%

Market Data	
Shares outs (Mn)	188.51
Equity Cap (INR Mn)	377
Mkt Cap (INR Mn)	126907.6
52 Wk H/L (INR)	727/514
Avg Vol (3M avg K)	120.11
Face Value (INR)	2
Bloomberg Code	ALPM IN

Market Info:	
SENSEX	28091
NIFTY	8691

Price Performance



Shareholding pattern (%)

Particulars	Sep16	Jun16	Mar16
Promoters	74.35	74.13	74.13
FIIs	10.91	10.85	10.82
DIIs	2.88	2.69	2.1
Others	11.86	12.33	12.95
Total	100	100	100

Source: BSE

Analyst:

Hemanshu Srivastava

hemanshu.srivastava@krchoksey.com

91-22-6696 5568

www.krchoksey.com

91-22-6696 5555

91-22-6691 9569

Alembic Pharmaceuticals



Q2FY17 Result Snapshot

Profit & Loss account

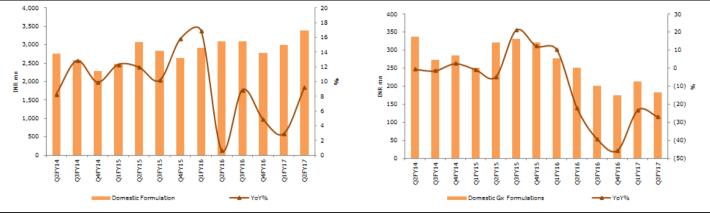
INR mn	Q2FY17	Q1FY17	Q2FY16	QoQ (%)	YoY (%)
Net Sales	8,716	7,233	10,033	20	(13)
Other operating income	7	10	9	(32)	(25)
Total Income	8,723	7,244	10,043	20	(13)
Expenditure	6,945	5,674	6,285	22	10
Materials Consumed	2,398	1,909	2,263	26	6
% of sales	28	26.4	22.6		
Employee Cost	1,187	1,163	1,191	2	(0)
% of sales	14	16.1	11.9		
Other Exp	3,360	2,601	2,832	29	19
% of sales	39	36.0	28.2		
EBITDA	1,778	1,569	3,758	13	(53)
EBITDA margin (%)	20.4	21.7	<i>37.4</i>	(128)	(1,703)
Depreciation	206	194	133	6	55
EBIT	1,572	1,376	3,625	14	(57)
Other Income	5	4	1	28	900
Interest expenses	10	11	7	(10)	32
CSR Expense	0	0	0	0	0
E/o expense	0	0	0		
PBT	1,567	1,369	3,618	14	(57)
Tax	332	333	737	(0)	(55)
Effective tax rate (%)	21	24.3	20.4		
PAT	1,236	1,036	2,882	19	(57)
Minority Interest	37	(1)	(4)		
Reported PAT	1,199	1,037	2,885	16	(58)
Net Margin (%)	13.7	14.3	28.7		
EPS	6.4	5.5	15.3	16	(58)

Source: Company Data, KRChoksey Research

Con-call Highlights:

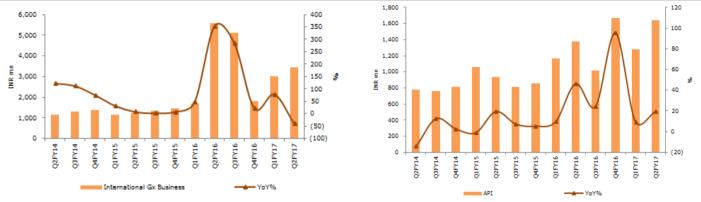
- US sales for the quarter stood at INR 2.7bn on account of a decent contribution from qAbilify and US front-end model.
- Alembic filed 4 ANDAs and 1 DMF with the US FDA taking the cumulative ANDA and DMF filings to 82 and 83 respectively in Q2FY17 and received approval for 2 ANDA during the quarter. Overall ANDA filing in H1FY17 stood at 6.
- Alembic has launched 23 products in the US market through its own front-end model. No new ANDA was launched in Q2FY17. The management expects to launch 6-8 new products in the US markets going forward.
- Domestic markets grew 19% YoY on account of robust growth in Alembic's Acute portfolio which grew at 22% and the Chronic portfolio growth at 16%. Volume growth stood at 5.5% and new product growth at ~6%.
- The management aims to expand its breadth and quality of pipeline through aggressive R&D initiatives with FY16 R&D investments at INR 3.5bn (10.9% as a percentage of sales). In Q1FY17, R&D for the quarter stood at INR 795mn and as a % of sales was at 11%, in Q2FY17, R&D at INR 1.1bn and as a % of sales at 12.4%. The management expects R&D spend in FY17E to be in tune of INR 4bn and similar trend to continue in FY18E.
- The management has identified strategic areas such as Oncology Injectables, Ophthalmics and Derma for filings in the US markets going forward, with planned R&D investments to be ~INR 4bn+ going forward.
- Capex for the FY16 stood at INR 3bn, with planned capex to be at INR 6bn in FY17E, with a focus on constructing facilities for oncology injectables, general injectables, OSD's and expanding existing API capacities. Capex planned for Fy18E stood at INR 4bn.
- The oncology injectable facility is expected to be completed by the end of FY17E with filings to commence from H2FY18E onwards. The general injectable facility is expected to be completed by FY18E with filings to commence from FY19E.
- Aleor Dermaceuticals, a 60:40 joint venture between Alembic and Orbicular for developing dermatological products has shortlisted 40 odd projects targeting a market of USD 5bn for the US markets. 10-15 projects are in advance stages of developmental process and we expect the filing to commence from FY20E onwards.
- All the facilities have been inspected successfully by US FDA.
- The company has 33 pending ANDAs with the US FDA with 40% of those being a Para IV or an FTF opportunity.
- Current capacity utilization levels stood at 70-75%.

Exhibit 1 Quarterly Domestic Bx sales trend (LHS, INR mn) and Quarterly Domestic Gx sales trend (RHS, INR mn)



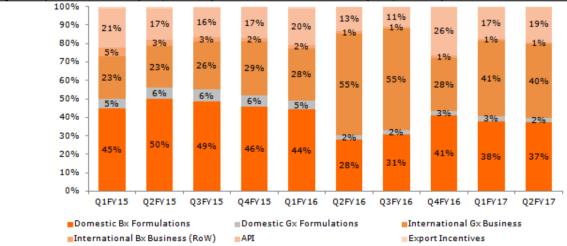
Source: Company Data, KRChoksey Research

Exhibit 2 International Gx quarterly sales trend (LHS, INR mn) and Quarterly API sales trend (RHS, INR mn)



Source: Company Data, KRChoksey Research

Exhibit 3 Quarterly US sales trend (LHS, INR mn) and Annual US sales trend (RHS, INR mn)



Source: Company Data, KRChoksey Research

Exhibit 4 Change in estimates

TND		FY17E			FY18E	
INR mn	Old	New	% Chg	Old	New	% Chg
Revenue	29,651	29,651	0.0	33,917	33,917	0.0
EBITDA	5,456	5,308	(2.7)	7,228	7,720	6.8
EBITDA Margin (%)	18.4	17.9		21.3	22.8	
PAT	4,097	3,970	(3.1)	5,485	5,908	7.7
EPS (INR)	21.7	21.1	(3.0)	29.1	31.3	7.7

Source: Company Data, KRChoksey Research



Consolidated Financial Statements

	C				

INR mn	FY13	FY14	FY15	FY16	FY17E	FY18E
Revenues	15,203	18,632	20,561	31,487	29,651	33,917
Op. Expenses	12,684	15,055	16,532	21,427	24,343	26,197
EBITDA	2,520	3,577	4,030	10,059	5,308	7,720
Other Income	39	32	23	55	69	86
Depreciation	350	405	444	722	713	888
EBIT	2,209	3,204	3,609	9,392	4,664	6,918
Interest	146	98	18	37	51	51
CSR expense	0	0	0	0	0	0
PBT	2,063	3,106	3,591	9,356	4,614	6,867
Tax	411	751	763	2,160	646	961
PAT	1,652	2,355	2,827	7,195	3,968	5,906
Minority	0	0	2	(2)	2	2
Sh. of Associates	0	0	0	0	0	0
Adj. Pat	1,652	2,355	2,825	7,194	3,970	5,908

Source: Company Data, KRChoksey Estimates

Bal	lan	ce	S	he	e.	t
-----	-----	----	---	----	----	---

INR mn	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	377	377	377	377	377	377
Reserves & Surplus	4,652	6,379	8,469	15,628	17,428	22,100
Total Shareholders Fund	5,029	6,756	8,846	16,005	17,805	22,477
Non- current liabilities	1,494	1,261	974	914	914	914
Long term Borrowings	1,167	840	438			
Deferred tax liabilities	139	227	314	501	501	501
Other LT Liabilities & provisions	188	194	222	413	413	413
Current Liabilities	3,955	4,162	6,591	7,674	6,857	7,625
Short-term borrowings	701	254	2,197	1,325	1,050	1,052
Trade payables	2,400	2,884	3,109	5,664	4,335	4,665
Other cur Liabilities & Provisions	854	1,023	1,285	685	1,472	1,908
Total Liabilities	10,478	12,178	16,412	24,594	25,576	31,016
Assets						
Non- current Assets	4,157	4,626	7,504	9,529	12,114	15,186
Fixed assets	3,765	4,176	5,947	8,238	10,822	13,891
Goodwill	0	0	353	436	436	436
Non-current investments	0	0	0	0	0	0
Long-term loans & adv	359	416	1,182	834	834	834
Other non-current assets	33	34	23	21	23	26
Current assets	6,322	7,552	8,907	15,066	13,461	15,830
Current investments	0	0	0	0	0	0
Trade receivables	2,329	2,734	3,612	3,505	4,549	5,204
Inventories	2,668	3,108	3,828	5,776	5,280	6,319
Cash & bank balances	161	240	268	4,508	1,853	1,933
Short-term loans & adv	1,164	1,471	1,200	1,277	1,779	2,374
Other current assets	0	0	0	0	0	0
Total Assets	10,478	12,178	16,412	24,594	25,576	31,016

Source: Company Data, KRChoksey Estimates

Cash Flow Statement						
INR mn	FY13	FY14	FY15	FY16	FY17E	FY18E
PBT	2,064	3,106	3,591	9,356	4,614	6,867
Depreciation	350	405	444	722	713	888
Interest Exp	240	104	38	37	51	51
Others	(57)	189	(36)	0	0	0
CF before W.cap	2,597	3,804	4,037	10,114	5,377	7,806
Inc/Dec in W.cap	439	(715)	(1,625)	37	(1,594)	(1,522)
Op CF after W.cap	3,035	3,088	2,412	10,152	3,784	6,284
Less Taxes	387	683	694	2,160	646	961
Net CF From Operations	2,648	2,405	1,718	7,992	3,138	5,322
Inc/(Dec) in F.A + CWIP	5	1	1	(3,013)	(3,297)	(3,958)
(Purchase)/sale of Investments	(860)	(820)	(2,578)	2	(2)	(2)
Others	184	8	21	0	0	0
CF from Investment Activities	(670)	(811)	(2,556)	(3,011)	(3,299)	(3,960)
Loan Raised/(repaid)	(1,984)	(965)	1,522	252	(1,282)	(47)
Equity Raised	0	0	0	0	0	0
Dividend	(304)	(546)	(655)	(992)	(1,213)	(1,235)
CF from Fin Activities	(2,288)	(1,511)	867	(740)	(2,495)	(1,282)
Net inc /(Dec) in cash	(310)	84	29	4,240	(2,656)	81
Op. bal of cash	471	161	240	268	4,508	1,853
Cl. balance of cash	161	245	268	4,508	1,853	1,933

Source: Company Data, KRChoksey Estimates

Ratio Analysis						
INR mn	FY13	FY14	FY15	FY16	FY17E	FY18E
Per share (Rs)						
EPS	8.8	12.5	15.0	38.2	21.1	31.3
CEPS	10.6	14.6	17.4	42.0	24.8	36.1
BVPS	26.7	35.8	46.9	84.9	94.5	119.2
DPS	2.9	3.6	4.2	5.3	6.4	6.6
Payout (%)	33.4	28.9	28.1	13.8	30.6	20.9
Valuation (x)						
P/E	76.9	54.0	44.9	17.7	32.0	21.5
P/BV	25.3	18.8	14.4	7.9	7.1	5.7
EV/EBITDA	51.7	36.4	32.0	12.7	24.4	16.3
Dividend Yield (%)	0.4	0.5	0.6	0.8	1.0	1.0
Return ratio (%)						
EBIDTA Margin	16.6	19.2	19.6	31.9	17.9	22.8
PAT Margin	10.9	12.6	13.8	22.9	13.4	17.4
RoE	36.8	40.0	36.3	57.9	23.5	29.3
RoCE	29.5	41.4	35.6	59.0	23.2	30.4
Leverage Ratios (x)						
Long Term D/E	0.2	0.1	0.0	0.1	0.0	0.0
Net Debt/Equity	0.3	0.1	0.3	-0.1	0.0	0.0
Debt/EBITDA	0.7	0.3	0.7	0.3	0.3	0.2
Interest Coverage	14.9	32.3	201.4	253.7	90.5	134.2
Current ratio	1.9	1.9	2.0	2.4	2.3	2.4
Growth Ratios (%)						
Income growth	3.7	22.6	10.4	53.1	-5.8	14.4
EBITDA growth	14.3	42.0	12.7	149.6	-47.2	45.4
PAT growth	27.0	42.5	20.1	154.5	-44.9	48.8
Turnover Ratios						
F.A Turnover x	2.7	2.8	2.5	2.8	2.1	1.9
Inventory Days	63.1	56.6	61.6	55.7	68.0	62.4
Debtors Days	51.9	49.6	56.3	41.2	49.6	52.5
Payable days	64.6	64.1	66.2	74.7	75.0	62.7

Source: Company Data, KRChoksey Estimates

Alembic Pharmaceuticals



Alembic Pharmaceuticals				Rating Legend	
Date	CMP (INR)	TP (Rs)	Recommendation	Our Rating	Upside
26-Oct-16	674	690	HOLD	Buy	More than 15%
01-Aug-16	627	640	HOLD	Accumulate	5% - 15%
28-Apr-16	619	623	HOLD	Hold	0 - 5%
20-Αρι-10	019	023	HOLD	Reduce	-5% - 0
22-Jan-16	626	761	BUY	Sell	Less than -5%

ANALYST CERTIFICATION:

I, Hemanshu Srivastava (B.Tech, MBA), research analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014

We submit that no material disciplinary action has been taken on KRCSSPL and its associates by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

We, KRCSSPL, our Analysts & our Associates hereby solemnly declare & disclose that we:

- Do not have any financial interest of any nature in the company referred in this research report
- Do not individually or collectively hold 1% or more of the securities of the company referred in this research report
- Do not have any other material conflict of interest in the company referred in this research report
- Do not act as a market maker in securities of the company referred in this research report
- Do not have any directorships or other material relationships with the company referred in this research report
- Do not have any personal interests in the securities of the company referred in this research report
- Do not have any past significant relationships with the company referred in this research report, including Investment Banking or other advisory assignments or relationships

It is confirmed that Hemanshu Srivastava (B.Tech, MBA), research analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

It is confirmed that Hemanshu Srivastava (B.Tech, MBA), research analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

> Please send your feedback to research.insti@krchoksey.com Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001. Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai - 400 053. Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.