

# Alembic Pharmaceuticals

BSE Code: 533573

CMP : ₹523

Face Value : ₹2

Target price: ₹785

HP\* : Two years

## About the company

Our Pearl Pick for the month of August is Alembic Pharmaceuticals. The company is engaged in developing formulations and active pharmaceutical ingredients (APIs). The company focuses on anti-infective, analgesic and cough and cold therapies. It also focuses on therapies such as cardiology, diabetes, gynaecology, gastrointestinal, orthopaedic, dermatology and ophthalmology. The company's sales breakup stood at exports- 62% and domestic- 38%. Its business segments comprise of IG (international generics)- 45%, branded formulations- 35% and APIs- 20%.

## Why to Invest

**IG business on a roll :** The company's IG business contributes 45% to the total revenue and has spread across the US, Canada, Europe, Australia, South Africa and Brazil. The company's US operations contribute around 73% to its overall IG business. In the recent quarter Q1FY20, the company's US business posted massive jump in its revenue by 41% on a YoY basis. This massive growth was led by new launches and bigger market share in the other products. During FY19, the company has launched nine products in the US, which helped the company to lower its exposure to top five products.

The company has also expanded its reach to Europe, Canada, Australia and South Africa and has witnessed remarkable growth. The major growth drivers are new product launches, increase in the customer base and improved success rate in terms of tender applications, especially in Europe.

**Domestic branded business to grow on rising prescriber base:** The branded business contributed 35% to the total revenue and grew by 8%, driven by the increasing prescriber base. The company has acquired customers in all major therapeutic segments and added a remarkable number in specialty segment. In the speciality segment, it maintains a strong focus on cardiology, diabetes, gynaecology and ophthalmology. The company has also increased the contribution of the chronic disease portfolio to 68%.

**Progress on multi-year capex plan :** The company is making steady progress on the multi-year capex plan of Rs 2000 crore. The capex in FY19 stood at Rs. 626 crore. The major capex of the company is about to complete shortly and would start the commercialisation of the various processes. The margins are likely to be affected in the short run, but it would provide benefits in the long run on the commencement of various facilities. So post FY21, lower capex intensity would drive further improvement in the company's free cash flow generation.

**New facilities on track :** The company is intend to file ANDAs from ophthalmology, general injectables, oncology injectables and the oral solids plants with the USFDA by H2FY20.

The company has also strengthened production in general oral solids manufacturing unit at Panelav by increasing capacity through equipment and systems addition. Its Aleor Dermaceuticals JV filed nine products during the year and is expected to launch its first product in the US.

\* HP : Holding Period

Continued On PG 2...

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## Management commentary

- Management has guided the number of ANDA filings will be around 25 in FY20.
- R&D expenses are likely to be Rs 140 crore per quarter.
- Already launched three products in the US and has guided for 10-15 launches for FY20, out of which more than 10 products would be launched in Q2FY20.

## Financials

Looking at the recently concluded quarter Q1FY20, the revenue grew by nearly 11 per cent yoy to Rs. 896.74 crore. The growth in revenue was supported by the US markets, but sales in domestic and other markets remained muted. EBITDA for the quarter surged by around 31 per cent yoy to Rs. 224.78 crore with corresponding margin expansion of 392 bps. EBITDA margin for the period was 25.07 per cent. With better operating performance, the company's net profit during the quarter jumped by 36.2 per cent yoy to Rs. 155.22. PAT margin for the quarter stood strong at 17.31 per cent.

## Investing in the stock

The company has a share capital of Rs. 37.70 crore, with promoters' holdings at 72.97 per cent. Therefore, the available free float comes to 5.09 crore shares. The two-week average traded quantity comes to around 4248 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table.

Price	Accumulation
470-480	20 per cent
430-470	40 per cent
410-430	20 per cent
<410	20 per cent

## Valuation & Outlook

The strong product pipeline is likely to drive the US business. Besides, business from the rest of India is expected to stabilise from the second half of FY20 owing to normalisation of impact of serialisation. However, the domestic business might put a hurdle on the growth trajectory due to the overall industry slowdown. In the short term, there could be margin pressure due to rising R&D, but as the spending gets normalised, margin could improve in the long term. However, the company has maintained a strong return on equity (ROE) of over 20%, despite significant increase in R&D spend. It expects ROE to further improve once product commercialisation begins from new facilities. The company is trading at a TTM P/E of 28.22x with TTM EPS of Rs. 10.17. Owing to all these factors, we see an upside of 50 per cent, with a target price of Rs 785 over the next two years.

### Inc/Exp Statement(Consolidated)(Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	3934.68	3130.18	3134.61	3165.99	2056.13
Total Income	3961.54	3165.05	3137.19	3174.82	2068.22
Total Expenditure	3078.58	2514.92	2519.90	2160.88	1660.92
PBIDT	882.96	650.13	617.29	1013.94	407.29
PAT	592.57	420.91	406.90	720.18	282.72
Dividend %	275.00	200.00	200.00	200.00	175.00
Adj. EPS(Rs)	31.00	21.89	21.39	38.20	15.73

Continued On PG 3...

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**Quarter On Quarter (Consolidated) (Rs in Crore)**

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	948.91	926.95	2.37	862.53	10.01
Total Expenditure	723.99	748.91	-3.33	711.54	1.75
PBIDT (Excl OI)	224.92	178.04	26.33	150.99	48.96
PAT	119.08	131.48	-9.43	90.38	31.75
PBIDTM% (Excl OI)	23.70	19.21	23.37	17.51	35.35
PBIDTM%	24.05	19.57	22.89	17.52	37.27
PATM%	12.55	14.18	-11.50	10.48	19.75
Adj. EPS(Rs)	6.56	6.58	-0.30	4.80	36.67



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