THE BEST STOCK TO ADD TO YOUR PORTFOLIO THIS MONTH IS HERE!

MAY 2020

Alembic Pharma

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SO HOW DO WE CHOOSE THIS STOCK?

- Shortlisting basis our top Mojo Scores
- Doing detailed Investment Case
- Looking at the future of this company and sector
- Single focus on maximizing returns with minimal risk

08 May 2020
- By research team
(research@marketsmojo.com)

STOCK OF THE MONTH

Alembic Pharma

CMP	**Rs. 769.65** Price as of 08 May 2020
Decision	**BUY**

SUMMARY

- During the uncertain scenario on the economy front, Alembic Pharma reported excellent numbers for FY20 with net profit growth of 42 percent
- The company in its post result conference call indicated that they are confident of maintaining growth momentum even in FY21
- Many investors feared that company's US division performance would fizzle out as a shortage of hypertension drugs (sartans) is a short-term opportunity, but the company demonstrated that it was not a flash in the pan. The company has indicated that US division will do minimum $70 million every quarter
- While many Indian pharma companies struggled with USFDA, the company has demonstrated very clear track record
- The company restructured its domestic formulation business. The benefits of the same are expected in FY21
- The company enjoys a healthy balance sheet (Debt to Equity ratio is 0.54x) with RONW 26 percent
- The company is heavily focusing on R&D (14 percent of sales) to make it future-ready
- Alembic Pharma counter has shown high resilience in the year 2020. The share price of the company is up YTD 36 percent against Sensex fall of by 23 percent
- The company's at present trading at the reasonable valuation leaving good score for further capital appreciation

WHO SHOULD BUY

Risk Appetite	**Low Risk**
Expectations	**High Return**
Portfolio Sector Exposure	**<30% (Pharma)**

If sector exposure > 30%, use Portfolio Optimizer tool

STOCK INFO

BSE	533573
NSE	APLLTD
Market Cap	Mid Cap (Rs.14,892 cr)
Sector	Pharma
52 w H/L (Rs.)	435.10/840.95
Average Vol (6M)	22,670
Equity Capital (Rs.)	37.7 cr
Book Value per share (Rs.)	144.23

STOCK PERFORMANCE

Price as of 08 May 2020

Period	1m	3m	6m	1y
Alembic Pharma (%)	20.2	18.9	33.2	39.5
Sector Index (%)	8.9	6.9	16.7	10.2
Sensex (%)	5.9	-23.1	-21.5	-16.3

KEY RATIOS

PE ratio	16.81
PB ratio	4.5
Dividend Yield	1.94%
ROE	26.61
ROCE	33.31
D/E	0.54
EPS	43.99
EPS (diluted)	43.98

INVESTMENT ARGUMENT

Alembic Pharma is one of the oldest pharmaceutical company manufacturing and marketing generic products in India as well as abroad. The US is the biggest market for the company accounting for 43 percent of the company's revenue. Domestic formulation business accounts for 31 percent, while API business accounts for 15 percent. The balance is accounted by other international markets (Europe, Canada, Australia, Brazil, and S Africa).

The company in the last few years did many things correctly, helping it make it stronger player. Its US division is firing from all cylinders, which saw 53 percent growth in FY20, helping the company to report the highest ever revenue and net profit in FY20. Another credit goes to the management that its approval from USFDA has been pretty good. Many Indian pharma companies struggled on this front.

In India, Alembic Pharma enjoys a 1.50 percent market share with three brands of its feature in Top300. This division has muted growth as 25 percent of the formulation business falls under DPCO. Also, the company is active in the acute therapeutic segment where competitions are high, restricting margins. The management restructured the division and hopeful that the benefits of restructuring will start showing from FY21. In FY20, the Indian formulation business grew at an anaemic rate of a mere 3 percent.

The impact of COVID on Alembic Pharma is neutral. It neither faced the problem of raw materials shortage nor logistics issues. The company is confident of maintaining its growth trajectory despite COVID.

For FY20, the company reported sales of Rs 4610 crore-growth of 17 percent while net profit grew by handsome 42 percent to Rs 829 crore. The growth was reported despite spending heavily on its R&D to make the company future-ready. It spent Rs 645 crore on R&D in FY20 and likely to spend about Rs 700 crore in FY21. Due to R&D, it filed 25 ANDAs in FY20 with cumulative 183 ANDA. It launched 69 products in the US last year and planned to launch another ten products in the first half of FY21. While many experts thought that US business growth was temporary for the company as the US was facing a shortage of sartans (a drug for controlling BP). But with its strong product line up, the company has demonstrated that its US division performance is sustainable. The top five products (that includes Sartans) accounts for only 35 percent of the US business. Hence the company has moved beyond dependence on Sartans. The management is now confident that the US division will clock at least $70 million in revenue every quarter. I have feeling that US division in the current year could report revenue of Rs 2500 crore as against last year of Rs 1976 crore.

There are a few things that I will be observing closely. First, its expansion plans, where it is setting up four manufacturing units of which one is with JV. Any delay in implementing the same could hurt the company's bottom line. Due to capex company's borrowings have gone up to Rs 1747 crore from last year's level of Rs 929 crore. The figure is likely to move up further by Rs 200 crore in FY21, as the company is doing capex of Rs 700 crore this year. The company's fundamentals are strong, and hence I see no problem in servicing the debt at the present moment. For FY20, its cash flow from the operation was healthy Rs 449 crore.

The company is doing well on all our four dots. The quality of the company is good, and valuation is at a fair level. The recent financial trend is positive, and technically the company's share price is in the bullish zone, indicating further upside.

The score of the company is at 75. It is an excellent company to have in the portfolio and hence advise to buy the same.

Exhibit 1
Alembic Pharma vs Benchmark (Returns)

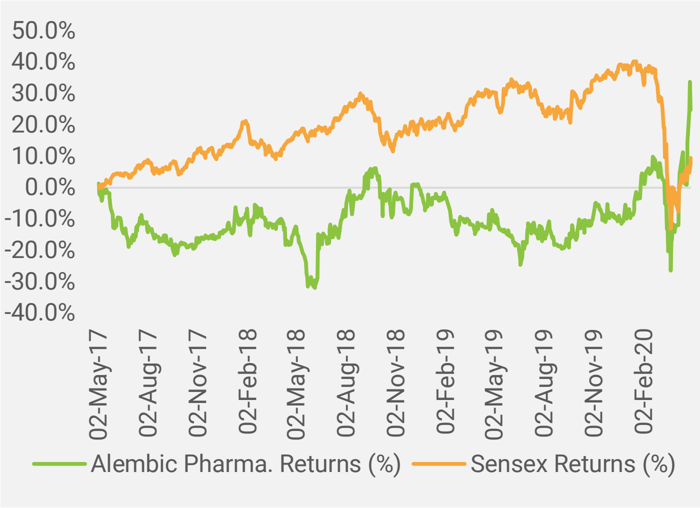

Exhibit 2
Alembic Pharma Price Movement

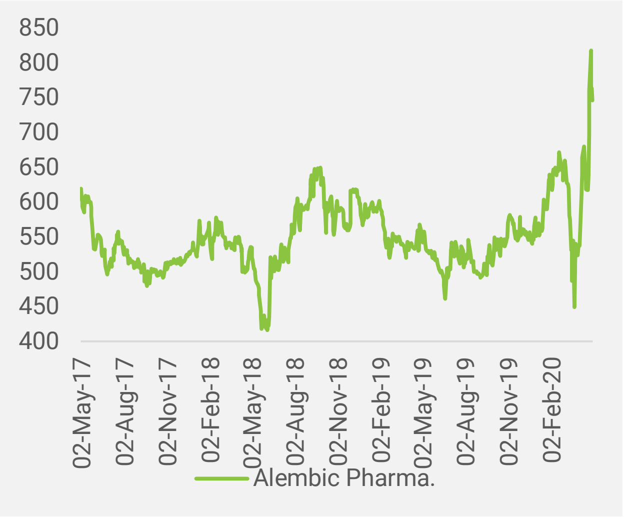

Exhibit 3
Sales Growth

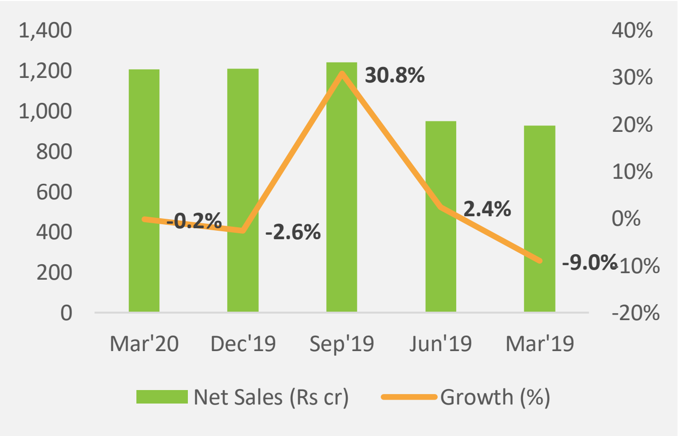

Exhibit 4
Gross Profit Margin

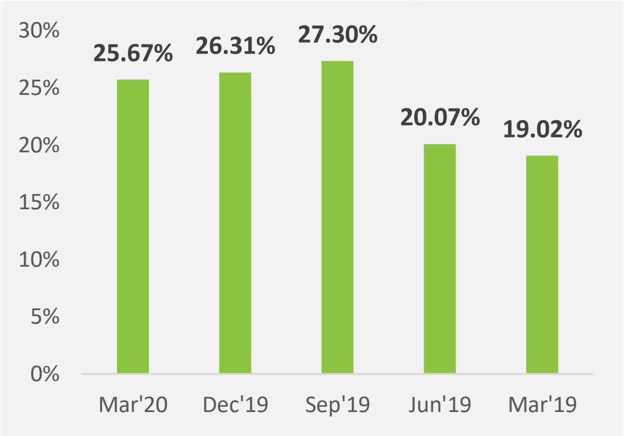

Exhibit 5
EBITDA Growth

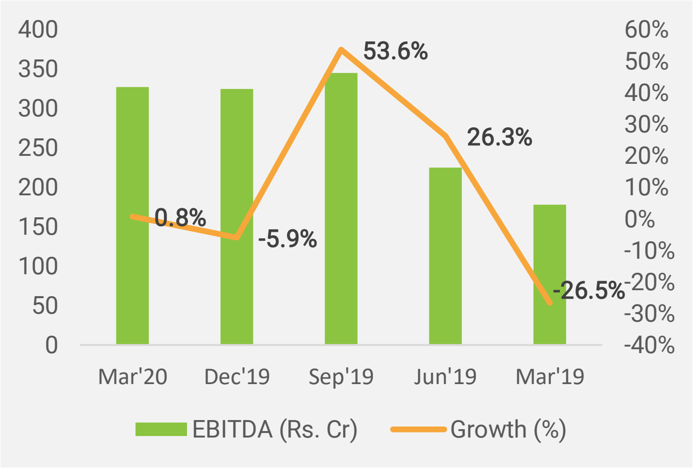

Exhibit 6
EBITDA Margin

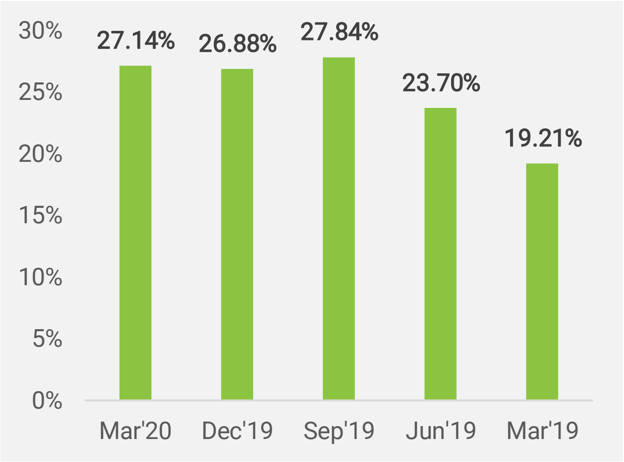

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Exhibit 7
PAT Growth

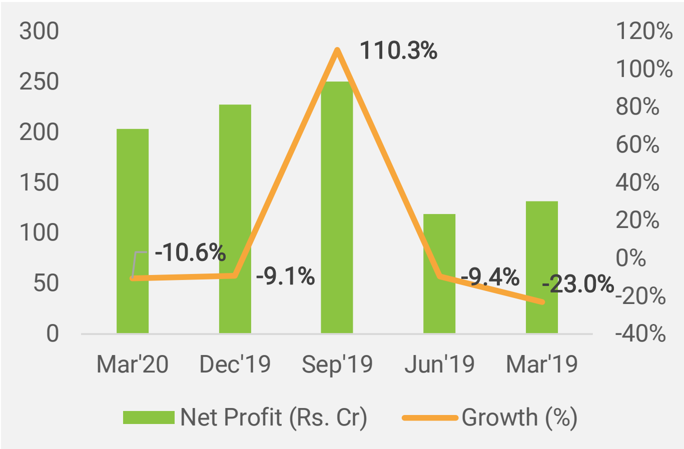


Exhibit 8
PAT Margin

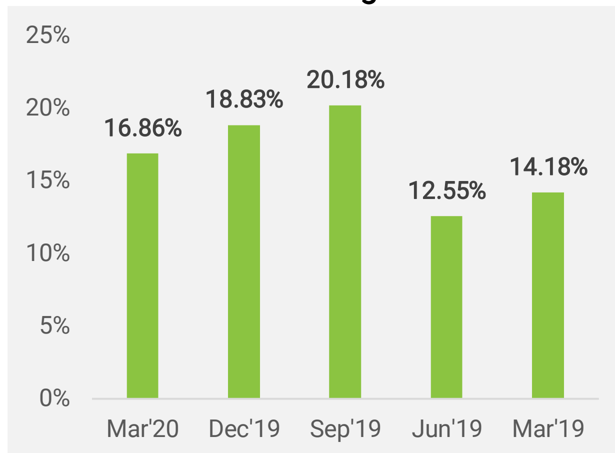


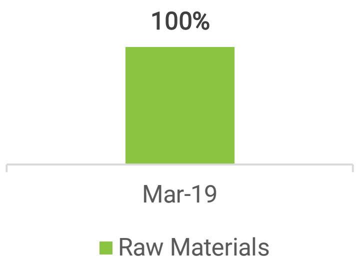
Exhibit 9
Variance Analysis

	Mar'20	Dec'19	QoQ	Mar'19	YoY	Comments
Total Operating income	1,206.83	1,209.13	-0.2%	926.95	30.2%	Promising topline growth
Total Expenditure (Excl Depreciation)	879.31	884.08	-0.5%	748.91	17.4%	In line compared to previous quarters
Operating Profit (PBDIT) excl OI	327.52	325.05	0.8%	178.04	84.0%	PBDIT in line with QoQ but grew YoY
Other Income	0.89	0.41	117.1%	3.37	-73.6%	
Operating Profit (PBDIT)	328.41	325.46	0.9%	181.41	81.0%	
Interest	7.75	7.36	5.3%	5.08	52.6%	
Depreciation	44.14	41.82	5.5%	29.95	47.4%	
Profit Before Tax	265.66	276.28	-3.8%	146.38	81.5%	In line with QoQ but grew YoY
Tax	62.14	48.6	27.9%	14.9	317.0%	
Profit After Tax	203.52	227.68	-10.6%	131.48	54.8%	Fell QoQ but grew YoY

Exhibit 10
Margins

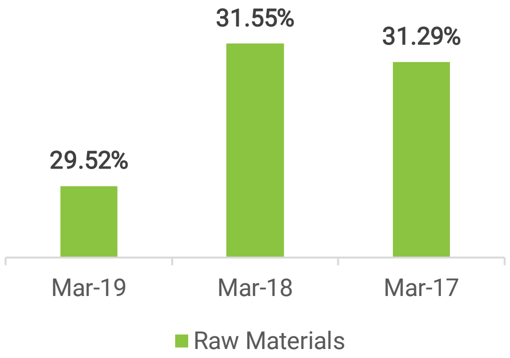
	Mar'20	Dec'19	Sep'19	Jun'19	Mar'19	Avg. (4 Qtrs)	Comments
GPM	25.67%	26.31%	27.30%	20.07%	19.02%	23.18%	Higher than Average (4 Qtrs) - Promising
OPM	27.14%	26.88%	27.84%	23.70%	19.21%	24.41%	Higher than Average (4 Qtrs) - Promising
NPM	16.86%	18.83%	20.18%	12.55%	14.18%	16.44%	In line with Average (4 Qtrs)

Exhibit 11
Raw Materials (%RMC)



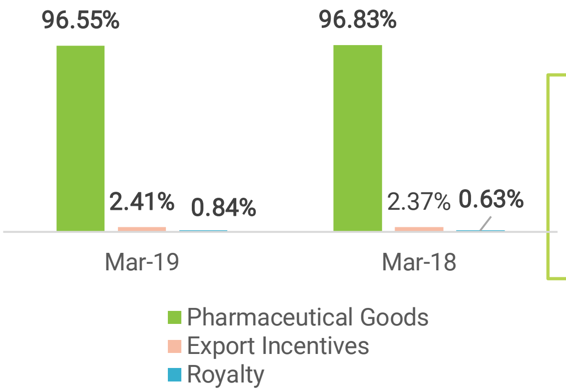
Raw Materials remained the highest in Raw Material Cost. Also, Raw Materials as %RMC remained in line as compared to previous year

Exhibit 12
Raw Materials (% Gross Sales)



Total Raw Material Cost (RMC) as % Gross Sales has decreased in the last year

Exhibit 13
Finished Goods (% Gross Sales)



Pharmaceutical Goods remained the highest in Finished Goods. Also, all components of Finished Goods as % Gross Sales remained in line as compared to previous year

COMPANY BACKGROUND

Alembic Pharmaceuticals is a leading pharmaceutical company in India. The company is vertically integrated with the ability to develop, manufacture & market pharmaceutical products. Alembic is the market leader in the macrolides segment of anti-infective drugs in India. Spread over 75 countries, Alembic Pharmaceuticals is one of the most integrated and robust pharmaceutical companies across the globe. The Company's international network drives its mission of providing access to the best healthcare products at competitive prices to the people of most remote countries.

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