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Dual dose of profitable growth for Alembic

Focus on high margin segments in domestic business and strong US pipeline to ensure growth

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The Alembic Pharmaceuticals stock has gained 25 per cent over the past month after a series of re-ratings driven by growth prospects from high margin domestic formulations and US generics business. Indian operations are expected to benefit from increased proportion of higher margin specialty products while new launches and expanded capacity is expected to boost sales from the US business. As a result, the company is expected to improve its annual revenue growth from 16 per cent between FY11 and FY14 to 19 per cent in the FY14-17 period.

IIFL analysts expect the stock to re-rate on the back of strong growth visibility, margin upsides and a robust balance sheet. At the current price of ₹305, the stock is trading at 15 times its FY16 earnings per share estimate of ₹20. Average target price for the stock is ₹332, indicating potential upside of nine per cent. Long-term investors can consider accumulating the stock on dips.

US, DOMESTIC BOOST

In ₹ crore	FY14	FY15E	FY16E
Net sales	1,861	2,178	2,605
% change y-o-y	22.7	17.0	19.6
Ebitda	355	428	563
% change y-o-y	42.6	20.6	31.5
Net profit	235	282	377
% change y-o-y	42.4	20.0	33.7

E: Estimates Source: CIMB

Strong US pipeline

A large part of the revenue growth for the company is expected to come from the US business which at 16 per cent of overall revenues is relatively small. But, there is a silver lining. Analysts at Motilal Oswal Securities believe the US business will grow by a factor of three to four times over FY14-17 to about $167 million from the current $50 million. With half of its abbreviated new drug molecules filed with US FDA being Para IVs (drugs where there is potential for the company to enjoy a period of limited competition), the company has a differentiated pipeline, say analysts.

Given that the company is expected to launch six to eight products every year in the world's largest healthcare market, is setting up its own front-end in the current financial year and focussing on products with higher complexity, these should ensure steady revenue engine and higher profitability. While a low base, new products and higher capacities helped the company post a 65 per cent annual growth in FY11-14 period, expect the company to grow it US business by about 30-35 per cent over in the FY14-17 period.

Specialty products to drive India show

Indian branded formulations which account for about half of the company's ₹1,860 crore revenues, has seen a higher proportion of specialty segment products. The latter now constitutes 58 per cent of its India sales as against 45 per cent four years ago. A focus on these high growth, high margin therapies such as cardio vascular systems, respiratory ailments and gastrology is expected to help the company's India revenue growth to improve by 300 basis points over the next couple of years as against 12 per cent growth earlier. Overall margins, which were at about 16 per cent in FY13, are expected to touch about 23 per cent in FY17, according to analysts at research firm, CIMB. Currently, the company has a basket of 170 products with a strong presence in anti-infectives, pain management and cough/cold segments with key brands such as Azithral, Wikoryl and Roxid.

The rest (a third) of the revenues come from API and Europe (about eight per cent). While API enjoys lower margins, it is a steadily growing business and provides consistent source of revenues and inputs. The prospects for European business are also healthy with sales growing 28 per cent year-on-year in dollar terms in FY14.

Company