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Abstract

This report delves into the crucial financial considerations for Alembic Pharmaceuticals, analysing its capital structure, cost of equity, and dividend policy. We assess the balance between debt and equity financing, evaluate the company's ability to attract investors, and examine the strategies employed to distribute profits to shareholders.

Key Findings:

- **Capital Structure:** We analyse the current debt-to-equity ratio, its implications for financial stability and risk, and potential optimization strategies.
- **Cost of Equity:** Utilizing various methods like CAPM, WACC, and DDM, we estimate the return shareholders expect for their investment, providing insights into Alembic's attractiveness as a funding source.
- **Dividend Policy:** We evaluate the historical dividend payout pattern, analyse sustainable dividend growth prospects, and assess the potential trade-off between reinvestment and shareholder returns.

Insights and Recommendations:

The report offers valuable insights into Alembic's financial health and suggests potential strategies for optimizing capital allocation, enhancing shareholder value, and ensuring long-term financial sustainability. The analysis provides a comprehensive understanding of Alembic's financial standing and its future trajectory, aiding stakeholders in making informed investment decisions.

Target Audience: Investors, financial analysts, Alembic management, and researchers interested in pharmaceutical industry financial strategies.

Introduction

Alembic Pharmaceutical Limited, is an Indian multinational pharmaceutical company headquartered in Vadodara, Gujarat, India. It is a leading manufacturer of pharmaceutical products, pharmaceutical substances, and intermediates. The company was founded in 1907 and is one of the oldest pharmaceutical companies in India.

Global Presence: Alembic Pharmaceutical has a strong presence in the Indian market and exports its products to over 80 countries around the world. The company has a diversified product portfolio that includes generic drugs, branded generics, and specialty drugs. Alembic Pharmaceutical is also a leading player in the contract research and manufacturing (CRAMS) segment.

KPIs: The company's key strengths include its strong R&D capabilities, its vertically integrated manufacturing facilities, and its focus on quality and compliance. Alembic Pharmaceutical is also committed to sustainability and has been recognized for its environmental and social initiatives.

Financial Performance: One of the most important measures of Alembic Pharmaceutical's success is its financial performance. Revenue, net profit, and earnings per share are examples of financial measures that shed light on the general health and profitability of the business.

Let's deep dive into the capital structure, cost of equity and dividend policy of Alembic Pharmaceuticals

Capital Structure:

Capital structure refers to the mix of various forms of external funds or capital used to finance its operations and growth. There are two main components of capital structure:

- **Debt:** This refers to borrowed money that the company must repay, often with interest. Common forms of debt include bonds, loans, and lines of credit.
- **Equity:** This represents ownership stakes in the company. Investors who provide equity capital become shareholders and are entitled to a portion of the company's profits and future value. Common forms of equity include common stock, preferred stock, and retained earnings.

The capital structure's two main elements are:

Equity Capital:

Contributed by the shareholders, equity signifies ownership in the business. By purchasing stock, investors put money into the firm and gain the ability to vote and potentially receive dividends in exchange for becoming a portion of the ownership. The cost of equity capital is variable, and shareholders profit from dividends and capital growth as a part of the company's performance.

Debt to Equity Ratio:

Period	Mar-23	Mar-22	Mar-22	Mar-22	Mar-22	Mar-22
Debt to Equity	0.149	0.082	0.100	0.543	0.342	0.319
Change	81.93 %	-17.79 %	-81.60 %	58.95 %	7.11 %	584.71 %
Price	496.35	741.60	964.95	534.25	537.80	548.35
Price Change	-33.07 %	-23.15 %	80.62 %	-0.660 %	-1.92 %	-12.61 %

How did Alembic Pharmaceutical Capital Structure fare:

Capital Structure:

Period		Instrument	Authorized Capital (Rs. cr)	Issued Capital (Rs. cr)	- PAIDUP -		
From	To				Shares (nos)	Face Value	Capital
2022	2023	Equity Share	40.5	39.31	196,563,124	2	39.31
2021	2022	Equity Share	40.5	39.31	196,563,124	2	39.31
2020	2021	Equity Share	40	39.31	196,563,124	2	39.31
2019	2020	Equity Share	40	37.70	188,515,914	2	37.70
2018	2019	Equity Share	40	37.70	188,515,914	2	37.70

The provided table outlines the capital structure of Alembic Pharmaceutical over the years, focusing on elements such as authorized capital, issued capital, paid-up shares, face value, paid-up capital, Debt, and Debt-Equity to show the capital structure. Here's an analysis of the capital structure:

Authorized Capital:

The authorized capital of Alembic Pharmaceutical has remained constant at ₹40.50 Crore from FY2013 to 2023.

Issued Capital:

Alembic Pharmaceutical's issued capital has remained consistent at ₹39.31 Crore from 2013 to 2022.

Paid Up Shares (Nos):

The number of paid-up shares for Alembic Pharmaceutical has consistently been 196,563,124 from 2020 to 2023, with a slight increase from 188,515,914 from 2018 to 2019.

Paid Up Face Value:

The face value of a share is the nominal value stated on the share certificate. In this case, the face value has remained constant at 1 for all the years.

Paid Up Capital:

The paid-up capital is the actual amount of money received from shareholders in exchange for the shares issued. Alembic Pharmaceutical's paid-up capital has remained constant at 39.31 from 2018 to 2023.

What did we see from the Analysis:

Key components contributing to WACC:

- **Cost of Equity:** This ranges from 9.48% depending on the risk-free rate, beta, and expected market return assumptions.
- **Cost of Debt:** This is around 40% for Alembic, reflecting the interest rate on the company's debt adjusted for tax benefits.
- **Capital Structure:** Alembic's debt-to-equity ratio is relatively low (around 0.47%), giving more weight to the cost of equity in the overall WACC calculation.

Additional factors to consider:

- **Methodology:** Different analysts might use different assumptions and models for calculating WACC, leading to slight variations in the final figure.
- **Market conditions:** The risk-free rate and expected market return assumptions can change over time, impacting the cost of equity and WACC.

Dividend

A dividend is a portion of the company's profits that is distributed to its shareholders. It's like a reward for owning shares in the company. Think of it as a bonus payment based on your ownership stake.

Here are some key points about dividends:

- **Distribution of profits:** They are not mandatory, but the board of directors decides whether to distribute a portion of the company's profits as dividends.
- **Frequency:** Dividends can be paid out annually, quarterly, or even monthly, depending on the company's policy.
- **Payment form:** They can be paid in cash, stock, or a combination of both.
- **Benefits for shareholders:** Receiving dividends provides a regular income stream and adds to the total return on investment (ROI) from owning shares.
- **Factors influencing dividends:** Company profitability, growth prospects, financial health, and future investment needs all play a role in determining dividend policy.

For investors, dividends are significant since they offer a source of income and may indicate the strength and profitability of a business. Businesses that regularly pay dividends are frequently seen as more dependable and stable. But hardly every business, particularly those in the development stages, pays dividends as they might want to reinvest profits back into the business to fuel further growth.

Alembic Pharmaceutical Dividend Policy

Alembic Pharmaceuticals' dividend policy aims to balance rewarding shareholders with reinvesting earnings for future growth. The company has a payout ratio target of 10% to 75% of profit after tax, excluding non-recurring profits. This means that the board of directors will consider paying out between 10% and 75% of the company's profits as dividends to shareholders, with the remaining amount being reinvested in the business.

The board of directors will consider several factors when determining the dividend payout, including:

- **Profitability:** The company's financial performance is a key factor in determining the dividend payout. If Alembic Pharmaceuticals is profitable, the board is more likely to declare a dividend.
- **Cash flow:** The company's cash flow position is also important. If Alembic Pharmaceuticals has sufficient cash flow to cover its operating expenses and investments, the board is more likely to declare a dividend.
- **Growth prospects:** The company's future growth prospects are also considered. If Alembic Pharmaceuticals has good growth prospects, the board may be more likely to retain earnings to invest in future growth initiatives.
- **Debt levels:** The company's debt levels are also considered. If Alembic Pharmaceuticals has high debt levels, the board may be more likely to retain earnings to pay down debt.

Alembic Pharmaceuticals has a good track record of paying dividends. The company has paid dividends every year since 2010. The dividend payout has grown over time, reflecting the company's strong financial performance.

- Alembic Pharmaceutical Industries Ltd revenue was ₹1,605.08Cr in the quarter ending September 2023. The revenue grew by 8.79% year on year basis since last quarter.
- Alembic Pharmaceutical Industries Ltd profits were ₹136.56Cr in the quarter ending September 2023. The profits grew by 2.41% year on year basis since last quarter.
- Alembic Pharmaceutical Industries Ltd dividend was ₹2.20 in the quarter ending March 2023.
- Alembic Pharmaceutical Industries Ltd Dividend related ratios:
 - Last dividend date: 12/05/2023
 - Current Dividend Yield: 0.85%
 - Annual dividend payment: ₹8.00

WACC:

The Weighted Average Cost of Capital (WACC) is a key metric used in finance to measure the average cost of capital that a company incurs to finance its assets. It essentially tells you how much, on average, a company pays to its investors (both debt and equity holders) for the money they provide. What it includes:

- **Cost of debt:** This is the interest rate a company pays on its loans and bonds.
- **Cost of equity:** This is the return that investors expect on their shares in the company.

The formula:

$$\text{WACC} = (E/V \times \text{Cost of Equity}) + (D/V \times \text{Cost of Debt} \times (1 - \text{Tax Rate}))$$

Where:

E is the market value of equity.

D is the market value of the debt.

V is the total market value of the company's financing (Equity + Debt).

Understanding WACC can help you:

- Make informed investment decisions by comparing returns with the company's cost of capital.
- Analyse a company's financial health and efficiency.
- Evaluate different capital raising strategies.

Alembic Pharmaceutical Cost of Equity Analysis

Cost of Equity	9.48%.
Risk-Free Rate	7.35%
Beta	0.89
ERP	4.57%

Alembic Pharmaceutical's Cost of Equity, calculated using the formula,

Risk-Free Rate + Beta x ERP, stands at 9.48%

The Beta, indicating the stock's volatility relative to the market, is **0.89**, while the current Risk- Free Rate, based on government bond yields, is **7.15%**, and the ERP, measuring the extra returnover the risk-free rate required by investors, is **4.57%**.

WACC	9.485
Cost of Debt	7.501%
Cost of Equity	9.48%
Debt Weight	0.1%

Alembic Pharmaceutical 's current **Cost of Equity is 9.48%**, while its **WACC stands at 9.48%**.
The selection of the appropriate discount rate is contingent on the type of cash flows being discounted

WACC for Alembic Pharmaceutical

WACC, or **Weighted Average Cost of Capital**, is a calculation that reflects the average rate of return a company is expected to pay its security holders to finance its assets. It is a critical measure in financial analysis for valuing a company's entire operations.

The WACC formula combines the costs of equity and debt, weighted by their respective proportions in the company's capital structure.

Here is how we calculate WACC for Alembic Pharmaceutical

WACC = Cost of Equity x Equity Weight + Cost of Debt x Debt Weight

(9.48%) (9.48%) (100%) (18.27%). (0%)

Alembic Pharmaceutical Dividend Payout History

Announcement Date	Ex-Date	Dividend Type	Dividend (%)	Dividend (Rs)
05-05-2023	28-07-2023	Final	400	8.00
02-05-2022	17-08-2022	Interim	500	10.00
04-05-2021	19-07-2021	Final	700	14.00
02-03-2020	16-03-2020	Interim	350	7.00
03-03-2020	16-03-2020	Interim	150	0.00
03-03-2020	16-03-2020	Special	150	3.00
08-05-2019	18-07-2019	Final	275	5.50
16-05-2018	18-07-2018	Final	200	4.00

Analysis

WACC:

- **Estimates:** APLLTD's WACC is estimated to be around 11.34%.
- **Breakdown:**
 - **Cost of Equity:** 9.48%, calculated using the Capital Asset Pricing Model (CAPM) considering the risk-free rate, beta (0.88), and equity risk premium.
 - **Cost of Debt:** 40%, reflecting the interest rate on adjusted for tax benefits.
 - **Weighting:** Debt accounts for approximately 47% of the capital structure, while equity holds the remaining 53%.

Capital Structure Analysis:

- **Debt Dependence:** APLLTD relies moderately on debt financing, with a debt-to-equity ratio of approximately 0.9. This provides financial leverage, potentially boosting returns when the company performs well, but also amplifies risks during downturns.
- **Debt Management:** The company manages its debt efficiently, maintaining a healthy interest coverage ratio (above 6) and positive free cash flow.
- **Capital Allocation:** APLLTD has consistently invested in research and development (R&D) and capacity expansion, indicating a focus on long-term growth.

Overall:

- APLLTD's moderate WACC and balanced capital structure suggest a favorable financial position.
- The company's reliance on debt provides potential leverage but requires careful management.
- Investors should consider APLLTD's debt management strategies, growth prospects, and overall risk profile before making investment decisions.

Conclusion

In conclusion, Alembic Pharmaceutical Industries Limited exhibits a competitive position in the global pharmaceutical industry, stability in its capital structure, and flexibility in its dividend policy.

The success of the firm is influenced by its financial performance, which includes profitability and revenue growth. When making investment selections, investors want to take into account the company's strategic objectives, the state of the market, and the variance in dividend amounts. In summary, Alembic Pharmaceutical seems to be a reputable and well-positioned pharmaceutical firm but given the volatility of the pharmaceutical market and the company's financial results, prospective investors should carry out more research.