

BUY

TP: Rs 1,130 | ▲ 13%

ALEMBIC PHARMA

Pharmaceuticals

22 July 2020

Strong beat (ex-India) drives earnings upgrade

Alembic Pharma (ALPM) reported another strong quarter with a 36% EBITDA beat. US, ROW and API sales were a solid beat while India business was in line. This along with sharp R&D cost reduction and a temporary drop in SG&A spend led to a 30% EBITDA margin. ALPM's fund raise plan to pursue organic opportunities in US complex generics is marginally ROCE dilutive. We raise FY21/FY22 EPS by 21%/8%. Maintain BUY as we roll to a Sep'21 TP of Rs 1,130 (vs. Rs 810). Expect some near-term consolidation in the stock post a strong rally.

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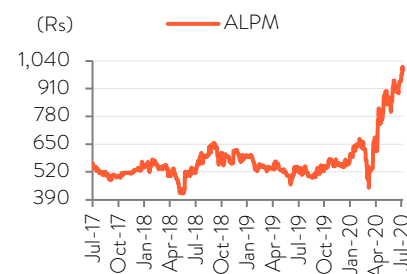
ROW/API pick-up a key positive, US steady: ROW sales surged 62% YoY in Q1FY21 as EU supply began to normalize after serialisation issues while the China disruption-related opportunity aided exceptional API sales +54% YoY (led by Azithromycin). ALPM expects the API business to grow 15-18% in FY21. US sales were steady QoQ at US\$ 81mn with stable contribution from the sartans franchise (15 products) despite higher competition. We continue to expect US sales of US\$ 390mn by FY23 (+20% CAGR over FY20 ex-sartans).

Ticker/Price	ALPM IN/Rs 1,000
Market cap	US\$ 2.5bn
Shares o/s	189mn
3M ADV	US\$ 6.6mn
52wk high/low	Rs 1,045/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

Temporary cost decline boosts margins; QIP planned: Lower R&D and SG&A spends due to the lockdown more than offset low gross margins, fuelling a large EBITDA margin beat. The company is planning fresh investments in the US, mainly in complex generics (injectables and 505 b (2) products) via a ~Rs 9bn QIP. We continue to believe that the deep US pipeline opportunity, best US margin (ex-R&D) track record of ~60% vs. Indian peers, and nimble supply chain would ensure healthy ROCE on the fresh US allocation in the long run.

STOCK PERFORMANCE



Earnings call takeaways: (1) India sales: more positives of strategic intervention to reflect from Q2. (2) US sales are guided at US\$ 400mn-500mn in the next three years. (3) QIP funds will be used to expand capacity in the Jarod injectable block, expand APIs and repay debt. (4) Net debt totals Rs 12bn.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	39,350	46,050	51,705	56,084	63,163
EBITDA (Rs mn)	8,737	12,223	12,807	13,475	16,078
Adj. net profit (Rs mn)	5,938	8,718	8,875	8,602	10,558
Adj. EPS (Rs)	31.0	46.3	47.1	45.6	56.0
Adj. EPS growth (%)	32.6	49.2	1.8	(3.1)	22.7
Adj. ROAE (%)	23.4	29.4	24.9	20.0	20.7
Adj. P/E (x)	32.3	21.6	21.2	21.9	17.9
EV/EBITDA (x)	21.9	16.1	15.7	15.0	12.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var (%)	FY20	FY19
Net Sales	13,410	9,489	41.3	12,060	11.2	11,609	15.5	46,047	39,346
EBITDA	4,083	2,250	81.5	3,268	24.9	2,994	36.4	12,226	8,737
Depreciation	415	354	-	441	-	500	-	1,572	1,152
EBIT	3,668	1,896	93.5	2,827	29.7	2,494	-	10,654	7,585
Interest	66	50	-	77	-	90	-	270	184
Other Income	3	33	-	9	-	10	-	49	93
PBT	3,605	1,879	91.8	2,759	30.7	2,414	49.3	10,433	7,494
Less: Taxation	668	359	-	620	-	579	-	1,989	1,568
Less: Minority Interest	(83)	42	-	(211)	-	0	-	(197)	87
Recurring PAT	3,020	1,478	104.3	2,350	28.5	1,835	64.6	8,640	5,839
Exceptional items	0	(327)	-	(118)	-	(327)	-	(445)	0
Reported PAT	3,020	1,151	162.4	2,232	35.3	1,508	100.3	8,195	5,839
Key Ratios (%)									
Gross Margin	74.8	78.5	-	78.1	-	76.5	-	77.4	74.8
EBITDA Margin	30.4	23.7	-	27.1	-	25.8	-	26.6	22.2
Tax / PBT	18.5	19.1	-	22.5	-	24.0	-	19.1	20.9
NPM	22.5	15.6	-	19.5	-	15.8	-	18.8	14.8
EPS (Rs)	16.0	7.8	-	12.5	-	9.7	-	45.8	31.0

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT SALES

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var (%)	FY20	FY19
Formulations	10,770	7,770	38.6	10,510	2.5	9,648	11.6	38,970	31,650
India	3,060	3,240	(5.6)	3,420	(10.5)	3,000	2.0	14,250	13,830
US	5,960	3,450	72.8	5,770	3.3	5,328	11.9	19,760	12,660
RoW	1,750	1,080	62.0	1,320	32.6	1,320	32.6	4,960	5,160
API	2,640	1,720	53.5	1,550	70.3	1,961	34.6	7,080	7,700
Net Sales	13,410	9,490	41.3	12,060	11.2	11,609	15.5	46,050	39,350

Source: Company, BOBCAPS Research

FIG 3 – REGULATORY/COMMERCIALISATION UPDATE ON KEY FACILITIES

Formulation	Dosage form	Audit/Filing Status
Panelav F1	Oral solid	Mar'20*
Panelav F2	Oncology oral solid	June'19*
Panelav F2	Oncology injectable	H2FY21#
Karkhadi F3	Injectable & Ophthalmic	Jan'20#
Jarod F4	Oral solid	June'20#
Karkhadi Aleor JV	Dermatology	Jan'20*
API		
Panelav API 1 & 2		Dec'18*
Karkhadi API 3		Jan'20*

Source: Company | #Expected filings, *Last USFDA inspection

Valuation methodology

At CMP, the stock is trading at 15x FY22E EV/EBITDA which we believe is reasonable ahead of stronger earnings growth (expect +20% growth), FCF generation and stable 25-30% ROIC vs. a 15% average for large and mid-sized generic-focused companies. Following the Q1FY21 beat steered by the US business, we raise FY21/FY22 EPS estimates by 21%/8%.

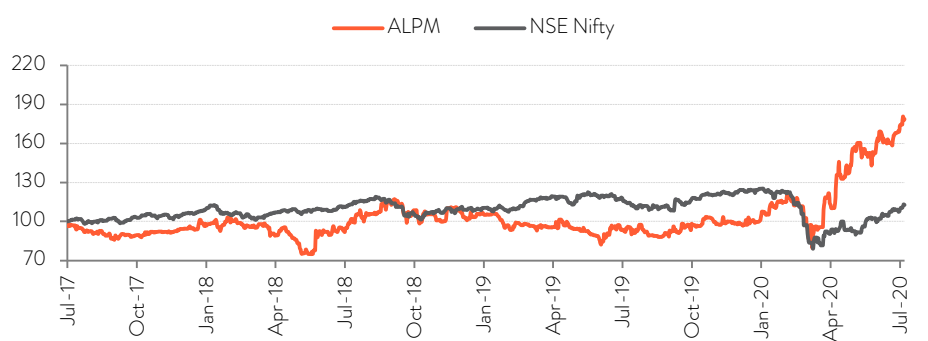
We retain BUY and roll over to a Sep'21 target price of Rs 1,130 (from Rs 810), based on a revised 15x (earlier 13.5x) EV/EBITDA multiple on Sep'22E – this represents an implied P/E of 22x. Our target valuation multiple is higher than the midpoint of the eight-year historical band (8-18x) and factors in (1) a resilient business model (relatively lower impact from Covid-19), and (2) a supportive global generic environment amidst the virus-led disruption which is creating multiple drug shortages and hence opportunities for Indian players. Pricing pressure should ease in the medium term.

FIG 4 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY20	FY21E	FY22E	FY20P	FY21E	FY22E	FY20	FY21E	FY22E
Sales	46.1	51.7	56.1	46.2	49.8	54.3	(0.3)	3.8	3.3
EBITDA	12.2	12.8	13.5	12.2	11.4	12.3	(0.1)	12.6	9.4
EBITDA margin (%)	26.5	24.8	24.0	26.5	22.8	22.7	4bps	194bps	133bps
EPS (Rs)	46	47	46	45	39	42	3.0	21.4	7.7

Source: Company, BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **US execution critical:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delays with respect to key launches, early generic competition in Theophylline (~12% of FY21E EPS) and tardy commercialisation of the new capacities across Panelav, Karakhadi and Jarod can potentially impact profit growth.
- **US regulatory risk:** A majority of ALPM's US sales are dependent on the Panelav unit (~80% of existing sales). While the compliance track record with the FDA has been clean so far, plant concentration risk remains. We note that ALPM is working towards derisking its current manufacturing concentration to other newer units, but this is still two years away.
- **Regulatory action and slowdown in India formulations business:** Expansion of NLEM (national list of essential medicines) coverage and the FDC (fixed dose combination) ban in 2018 hit growth across the Indian pharmaceutical market. Roughly 15% of ALPM's domestic sales are under price control vs. 17% for the IPM on average. In addition, ALPM has low price leadership in top brands and chronic therapies, which should act as a cushion against substantial risk. However, regulatory action on pricing is unpredictable and hence remains a risk. Further, any slowdown in IPM growth and delays in new launches can adversely affect ALPM's earnings.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	39,350	46,050	51,705	56,084	63,163
EBITDA	8,737	12,223	12,807	13,475	16,078
Depreciation	1,152	1,573	1,740	2,249	2,498
EBIT	7,585	10,650	11,067	11,226	13,580
Net interest income/(expenses)	(184)	(271)	(367)	(367)	(367)
Other income/(expenses)	94	49	124	312	498
Exceptional items	0	0	0	0	0
EBT	7,495	10,429	10,824	11,171	13,711
Income taxes	1,567	1,992	1,948	2,569	3,154
Extraordinary items	0	(437)	0	0	0
Min. int./Inc. from associates	(10)	(281)	0	0	0
Reported net profit	5,938	8,281	8,875	8,602	10,558
Adjustments	0	(437)	0	0	0
Adjusted net profit	5,938	8,718	8,875	8,602	10,558

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	7,022	6,259	9,916	10,756	12,113
Other current liabilities	1,221	3,125	2,585	2,804	3,158
Provisions	843	1,126	1,264	1,371	1,544
Debt funds	11,284	17,474	17,474	17,474	17,474
Other liabilities	0	0	0	0	0
Equity capital	377	377	377	377	377
Reserves & surplus	27,021	31,519	39,075	46,169	54,842
Shareholders' fund	27,398	31,896	39,452	46,546	55,219
Total liabilities and equities	47,768	59,880	70,692	78,951	89,508
Cash and cash eq.	2,055	808	7,453	13,358	19,832
Accounts receivables	4,888	8,647	11,333	13,061	14,709
Inventories	9,672	11,875	13,316	14,444	16,267
Other current assets	3,426	4,401	5,171	5,608	6,316
Investments	483	172	172	172	172
Net fixed assets	10,984	15,249	19,519	21,080	20,984
CWIP	15,660	18,460	13,460	10,960	10,960
Intangible assets	600	269	269	269	269
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	47,768	59,880	70,692	78,951	89,508

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	6,996	9,855	10,616	10,851	13,055
Interest expenses	184	271	367	367	367
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,064)	(5,513)	(1,640)	(2,128)	(2,295)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	6,117	4,613	9,342	9,090	11,128
Capital expenditures	(2,771)	(5,703)	(6,010)	(3,811)	(2,402)
Change in investments	(67)	311	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,838)	(5,392)	(6,010)	(3,811)	(2,402)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,207	6,190	0	0	0
Interest expenses	(184)	(271)	(367)	(367)	(367)
Dividends paid	(907)	(1,131)	(1,320)	(1,508)	(1,885)
Other financing cash flows	(5,237)	(5,257)	5,000	2,500	0
Cash flow from financing	(2,122)	(469)	3,314	625	(2,252)
Changes in cash and cash eq.	1,157	(1,248)	6,646	5,905	6,474
Closing cash and cash eq.	2,055	808	7,453	13,358	19,832

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	31.0	43.9	47.1	45.6	56.0
Adjusted EPS	31.0	46.3	47.1	45.6	56.0
Dividend per share	5.5	6.0	7.0	8.0	10.0
Book value per share	145.3	169.2	209.3	246.9	292.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.9	4.3	3.9	3.6	3.1
EV/EBITDA	21.9	16.1	15.7	15.0	12.2
Adjusted P/E	32.3	21.6	21.2	21.9	17.9
P/BV	6.9	5.9	4.8	4.1	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	79.2	83.6	82.0	77.0	77.0
Interest burden (PBT/EBIT)	98.8	97.9	97.8	99.5	101.0
EBIT margin (EBIT/Revenue)	19.3	23.1	21.4	20.0	21.5
Asset turnover (Revenue/Avg TA)	28.8	26.1	24.3	23.2	23.1
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.4	1.3
Adjusted ROAE	23.4	29.4	24.9	20.0	20.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.7	17.0	12.3	8.5	12.6
EBITDA	30.2	39.9	4.8	5.2	19.3
Adjusted EPS	32.6	49.2	1.8	(3.1)	22.7
Profitability & Return ratios (%)					
EBITDA margin	22.2	26.5	24.8	24.0	25.5
EBIT margin	19.3	23.1	21.4	20.0	21.5
Adjusted profit margin	15.1	18.9	17.2	15.3	16.7
Adjusted ROAE	23.4	29.4	24.9	20.0	20.7
ROCE	22.5	24.3	21.1	19.1	20.6
Working capital days (days)					
Receivables	45	69	80	85	85
Inventory	90	94	94	94	94
Payables	65	50	70	70	70
Ratios (x)					
Gross asset turnover	2.7	2.3	2.0	1.9	1.9
Current ratio	2.2	2.4	2.7	3.1	3.4
Net interest coverage ratio	41.2	39.3	30.2	30.6	37.0
Adjusted debt/equity	0.3	0.5	0.3	0.1	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ALEMBIC PHARMA (ALPM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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