

HOLD

TP: Rs 615 | ▼ 4%

ALEMBIC PHARMA

| Pharmaceuticals

| 14 November 2022

Broad-based growth; margin crunch persists

- Q2 revenue increased 14% YoY supported by growth across businesses; commissioning of new facilities in Q4 to further propel topline
- Challenging US price environment and elevated raw material and freight cost keep up pressure on margins
- We cut FY23/FY24 EBITDA 25%/20% amid margin headwinds; reiterate HOLD with reduced TP of Rs 615 (vs. Rs 770)

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US growth supported by one-offs and launches: ALPM reported 14% YoY revenue growth to Rs 14.8bn in Q2FY23 supported by growth across segments. US business increased 20% YoY (+14% QoQ) on the back of one-off opportunities. The company launched five products during the quarter (10 in H1) and reiterated base US guidance of US\$ 45mn-50mn. ALPM's new formulation facilities (F-2/F-3) are likely to be commercialised in Q4FY23, which should fuel US business given the brisk pace of product approvals from these facilities.

Healthy India growth: Domestic branded business grew 8% YoY and 14% QoQ (+11% YoY excluding one-time sale in Q2FY22). The acute segment grew 11% YoY, outperforming the industry (+6%), and specialty revenue rose 10%, boosted by gynaecology, anti-diabetes and ophthalmology therapies. Active pharma ingredient (API) growth of 23% YoY was underpinned by high offtake and a better product mix. ALPM expects good growth in API business through FY23 backed by a strong order book. ROW business increased 9% YoY (+18% QoQ) and management indicated a strong demand outlook.

Margin pressure to stay: ALPM's gross margin shrank 430bps YoY to 70% in Q2 (flat sequentially) due to continued price erosion in the US (high teens) and elevated raw material & freight cost. Other expenses rose 31% YoY during the quarter. However, various employee cost-cutting measures and R&D spend optimisation (post Aleor integration) limited EBITDA margin contraction to 270bps YoY at 15.8%. Management expects to commercialise the two new brownfield facilities by Q4 which would result in expensing of capitalised cost for these facilities, further dampening margins.

Maintain HOLD, TP cut to Rs 615: We scale back our FY23/FY24 EBITDA estimates by 25%/20% and reiterate HOLD considering margin pressures arising from pricing issues in the US, rising operational costs as well as expensing of facility capitalization costs (expected in Q4). Our TP stands revised to Rs 615 (vs. Rs 770), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 19x), which is at 25% discount to the stock's 5Y historical average.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALPM IN/Rs 640
Market cap	US\$ 1.5bn
Free float	31%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 849/Rs 540
Promoter/FPI/DII	69%/6%/11%

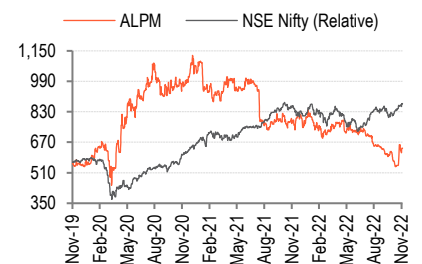
Source: NSE | Price as of 14 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,060	57,135	63,172
EBITDA (Rs mn)	8,744	7,594	11,077
Adj. net profit (Rs mn)	5,406	3,890	6,401
Adj. EPS (Rs)	27.8	19.8	32.6
Consensus EPS (Rs)	27.8	22.0	33.0
Adj. ROAE (%)	10.6	7.3	11.3
Adj. P/E (x)	23.0	32.3	19.7
EV/EBITDA (x)	15.4	17.1	11.9
Adj. EPS growth (%)	(56.5)	(28.7)	64.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Net Sales	14,750	12,923	14.1	12,621	16.9	27,372	26,184	4.5
EBITDA	2,328	2,386	(2.4)	147	1487.7	2,474	4,723	(47.6)
Depreciation	677	546	24.0	671	0.9	1,348	1,078	-
EBIT	1,651	1,840	(10.3)	(524)	(414.7)	1,126	3,646	(69.1)
Interest	124	46	-	88	-	212	67	-
Other Income	3	209	-	11	-	14	249	-
PBT	1,530	2,003	(23.6)	(602)	(354.3)	928	3,828	(75.8)
Less: Taxation	180	395	-	(15)	-	165	737	-
Less: Minority Interest	17	(33)	-	72	-	89	(132)	-
Recurring PAT	1,334	1,640	(18.7)	(659)	(302.5)	675	3,223	(79.1)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,334	1,640	(18.7)	(659)	(302.5)	675	3,223	(79.1)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	70.0	74.2	(428)	70.0	(7)	70.0	72.6	(258)
EBITDA Margin	15.8	18.5	(268)	1.2	1,462	9.0	18.0	(900)
Tax / PBT	11.7	19.7	-	2.5	-	17.7	19.3	-
NPM	9.0	12.7	-	(5.2)	1,426	2.5	12.3	-
EPS (Rs)	6.8	8.4	(19)	(3.4)	(303.5)	3.5	16.4	(79.0)

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Formulations	11,820	10,540	12.1	10,290	14.9	22,110	21,010	5.2
India	5,490	5,090	7.9	4,800	14.4	10,290	9,900	3.9
US	4,180	3,480	20.1	3,670	13.9	7,850	7,170	9.5
ROW	2,150	1,970	9.1	1,820	18.1	3,970	3,940	0.8
API	2,940	2,390	23.0	2,330	26.2	5,270	5,180	1.7
Net Sales	14,750	12,923	14.1	12,621	16.9	27,372	26,184	4.5
USDINR	81	74	9.2	79	2.5	80	74	7.7
US revenue (US\$ mn)	52	47	10.0	46	11.1	98	97	1.6

Source: Company, BOBCAPS Research

Earnings call highlights

- **India formulations:** The base quarter last year (Q2FY22) saw one-time non-recurring sales of Rs 130mn for Amphotericin-B, excluding which India business grew 11% YoY in Q2FY23 (vs. 8% reported). Both specialty (+10% YoY) and acute (+11%) segments reported double-digit growth and outperformed the industry. Animal health business grew 15% YoY and management expects the strong trend to continue.
- **US formulations:** Though blended price erosion in the US was in the high-teens in Q2, it was as high as 30% in certain products. ALPM plans to launch 20+ new products in FY23 (10 in H1). Product-specific injectable approvals have started coming through from the F2/F3 facilities which will be launched post site approval (expected in Q4FY23). The company has a total of 34 filings from these two new facilities and will shift 17 more from contract manufacturing organisations (CMO), taking the total filings to over 50. ALPM indicated that it is a late entrant in gRevlimid.
- **US filings/approvals:** Cumulative filings consist of 242 ANDAs with 170 approvals (including 24 tentative approvals). ALPM launched 5 products in Q2FY23 (10 in H1) and has a total of 115 products in the US market so far.
- **ROW formulations:** Per management, the demand outlook for the ROW market remains strong and the extension of dossiers to new geographies is on track to accelerate growth.
- **API:** API growth was healthy at 23% YoY in Q2, underpinned by high offtake and a better product mix. ALPM expects good growth in API business through FY23 backed by a strong order book
- **Aleor one-offs:** The company had Aleor-related write-offs totalling Rs 1.3bn in H1FY23 (Rs 160mn in Q2) and is yet to write off Rs 240mn.
- **Capitalisation and operating expenses of new facilities:** So far, Rs 11bn has been capitalised towards the new F2, F3, and F4 facilities. The new base to annual depreciation will be Rs 3bn annually. Operating expenses from F2 and F3 are guided at ~Rs 1.8bn, which will be charged to the income statement from Q4FY22, along with an additional Rs 1bn towards depreciation.
- **R&D:** Per management, R&D spend for FY23 will be ~Rs 6.5bn, including R&D from Aleor.

Valuation methodology

The stock is trading at 17.1x/11.7x FY23E/FY24E EV/EBITDA (32.3x/19.6x P/E). We scale back our FY23/FY24 EBITDA estimates by 25%/20% and reiterate HOLD considering margin pressures arising from pricing issues in the US, rising operational costs, integration expenses for Aleor and expensing of facility capitalized costs (expected in Q4FY23). Our TP stands revised to Rs 615 (vs. Rs 770), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 19x), which is at 25% discount to the stock's five-year average.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	F23E	FY24E
Revenue	57.1	63.2	57.4	63.8	(0.4)	(1.0)
EBITDA	7.6	11.1	10.2	13.8	(25.4)	(19.9)
EBITDA Margin (%)	13.3	17.5	17.7	21.7	(445bps)	(413bps)
EPS (Rs)	19.8	32.6	32.0	45.9	(38.2)	(29.1)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
India	19.3	20.9	22.5
US	16.7	17.6	20.2
ROW	7.8	8.5	9.4
API	9.4	10.1	11.2

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY22-24E (%)	EV/EBITDA		ROCE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
Ajanta Pharma	AJP IN	HOLD	1,470	5.6	11.3	10.1	21.2	21.3	12.0
Alkem Labs	ALKEM IN	SELL	2,700	0.7	21.7	18.2	15.5	17.5	15.0
Alembic Pharma	ALPM IN	HOLD	615	12.6	8.3	7.3	8.0	12.2	11.0

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected resolution of USFDA observations at the new facilities,
- prudent cost control measures to improve margins, and
- traction in US revenue with new launches and stabilisation of pricing pressure.

Key downside risks are:

- further delay in USFDA clearance of new facilities,
- slower pace of new approvals/launches, and
- escalation/disruption in raw material prices/supply.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,262	1,470	HOLD
Alembic Pharma	ALPM IN	1.5	640	615	HOLD
Alkem Labs	ALKEM IN	4.6	3,146	2,700	SELL
Aurobindo Pharma	ARBP IN	3.5	487	695	BUY
Cipla	CIPLA IN	11.2	1,130	1,320	BUY
Divi's Labs	DIVI IN	10.7	3,276	3,450	HOLD
Dr Reddy's Labs	DRRD IN	8.9	4,364	4,700	HOLD
Eris Lifesciences	ERIS IN	1.2	706	970	BUY
Glenmark Life Sciences	GLS IN	0.6	424	535	BUY
Laurus Labs	LAURUS IN	3.1	469	540	HOLD
Lupin	LPC IN	4.2	760	700	HOLD
Sun Pharma	SUNP IN	30.0	1,017	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 14 Nov 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	46,060	53,940	53,060	57,135	63,172
EBITDA	12,233	15,584	8,744	7,594	11,077
Depreciation	1,573	1,835	2,868	2,826	3,301
EBIT	10,660	13,750	5,876	4,768	7,776
Net interest inc./(exp.)	(271)	(160)	(177)	(175)	(139)
Other inc./(exp.)	49	873	505	150	170
Exceptional items	0	0	0	0	0
EBT	10,439	14,462	6,203	4,744	7,806
Income taxes	1,992	2,533	1,045	854	1,405
Extraordinary items	(437)	0	0	0	0
Min. int./Inc. from assoc.	(281)	(316)	(248)	0	0
Reported net profit	8,291	12,245	5,406	3,890	6,401
Adjustments	(437)	0	0	0	0
Adjusted net profit	8,728	12,245	5,406	3,890	6,401

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	6,259	6,688	7,064	7,827	8,654
Other current liabilities	3,125	6,314	3,015	2,857	3,159
Provisions	1,126	1,375	1,595	1,717	1,898
Debt funds	17,474	1,999	7,171	6,813	6,472
Other liabilities	0	0	0	0	0
Equity capital	377	393	393	393	393
Reserves & surplus	31,519	50,319	51,982	53,907	58,342
Shareholders' fund	31,896	50,712	52,375	54,300	58,735
Total liab. and equities	59,880	67,087	71,220	73,513	78,918
Cash and cash eq.	808	1,058	694	440	1,062
Accounts receivables	8,647	3,486	8,071	7,827	8,654
Inventories	11,875	14,861	16,097	15,653	17,307
Other current assets	4,401	5,609	4,153	5,713	6,317
Investments	172	2,363	1,184	1,184	1,184
Net fixed assets	15,249	17,037	17,423	19,097	20,796
CWIP	18,460	21,817	23,034	23,034	23,034
Intangible assets	269	856	564	564	564
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	59,880	67,087	71,220	73,513	78,918

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	4,623	19,391	1,437	6,745	8,067
Capital expenditures	(5,703)	(3,466)	(2,344)	(4,500)	(5,000)
Change in investments	311	(2,191)	1,179	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(5,392)	(5,657)	(1,165)	(4,500)	(5,000)
Equities issued/Others	0	16	0	0	0
Debt raised/repaid	6,190	(15,475)	5,172	(359)	(341)
Interest expenses	(271)	(160)	(177)	(175)	(139)
Dividends paid	(1,131)	(1,376)	(1,572)	(1,966)	(1,966)
Other financing cash flows	(5,267)	3,512	(4,058)	0	0
Cash flow from financing	(479)	(13,483)	(636)	(2,499)	(2,446)
Chg in cash & cash eq.	(1,248)	251	(364)	(254)	621
Closing cash & cash eq.	808	1,059	694	440	1,062

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	42.2	63.9	27.8	19.8	32.6
Adjusted EPS	44.4	63.9	27.8	19.8	32.6
Dividend per share	6.0	7.0	8.0	10.0	10.0
Book value per share	162.3	258.0	266.5	276.3	298.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	2.9	2.6	2.5	2.3	2.1
EV/EBITDA	10.9	8.9	15.4	17.1	11.9
Adjusted P/E	14.4	10.0	23.0	32.3	19.7
P/BV	3.9	2.5	2.4	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	83.6	84.7	87.2	82.0	82.0
Interest burden (PBT/EBIT)	97.9	105.2	105.6	99.5	100.4
EBIT margin (EBIT/Revenue)	23.1	25.5	11.1	8.3	12.3
Asset turnover (Rev./Avg TA)	26.2	26.4	23.6	23.7	25.0
Leverage (Avg TA/Avg Equity)	1.5	1.2	1.1	1.1	1.1
Adjusted ROAE	29.4	30.4	10.6	7.3	11.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	17.1	17.1	(1.6)	7.7	10.6
EBITDA	40.0	27.4	(43.9)	(13.1)	45.9
Adjusted EPS	49.3	43.9	(56.5)	(28.7)	64.6
Profitability & Return ratios (%)					
EBITDA margin	26.6	28.9	16.5	13.3	17.5
EBIT margin	23.1	25.5	11.1	8.3	12.3
Adjusted profit margin	18.9	22.7	10.2	6.8	10.1
Adjusted ROAE	29.4	30.4	10.6	7.3	11.3
ROCE	24.3	28.6	11.4	8.2	12.6
Working capital days (days)					
Receivables	69	24	56	50	50
Inventory	94	101	111	100	100
Payables	50	45	49	50	50
Ratios (x)					
Gross asset turnover	2.3	2.3	2.0	1.9	1.8
Current ratio	2.4	1.7	2.5	2.4	2.4
Net interest coverage ratio	39.3	85.8	33.1	27.3	55.7
Adjusted debt/equity	0.5	0.0	0.1	0.1	0.1

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

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BUY – Expected return >+15%

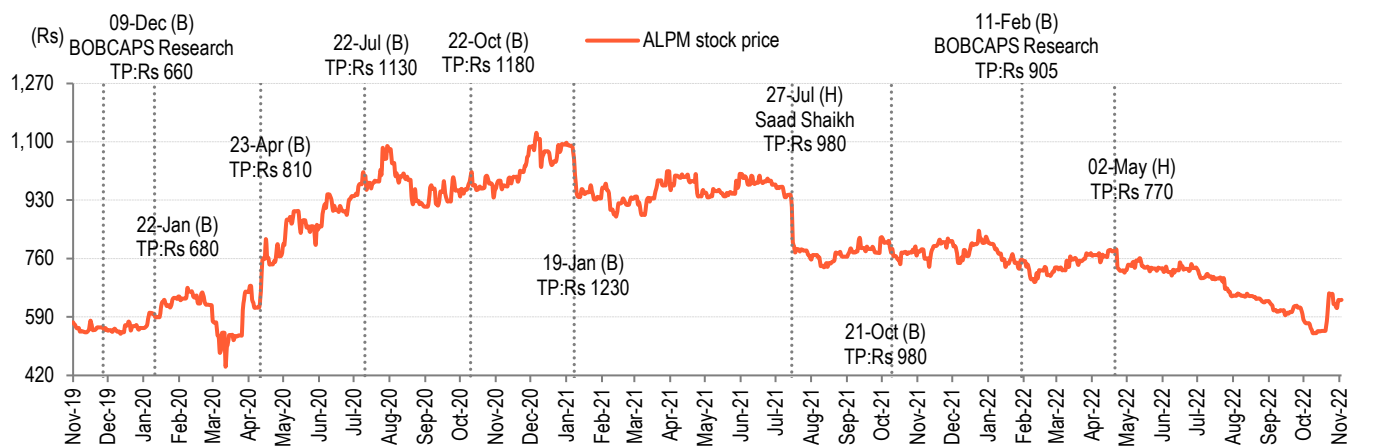
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ALEMBIC PHARMA (ALPM IN)



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

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