

HOLD

TP: Rs 770 | ▼ 2%

ALEMBIC PHARMA

Pharmaceuticals

02 May 2022

Mixed quarter; cut to HOLD amid rising margin pressure

- Q4 revenue growth at 11% YoY led by broad-based domestic uptick and 17% growth in the US; ROW declined 19% YoY
- Review of R&D assets of now wholly-owned subsidiary Aleor resulted in additional charge of Rs 1.9bn, impacting margins
- We cut FY23-FY24 EBITDA 14-17% amid margin headwinds; downgrade from BUY to HOLD with reduced TP of Rs 770 (vs. Rs 905)

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Broad-based domestic growth; expect sluggish FY23 off high base: ALPM reported 11% YoY growth in Q4FY22 revenue led by domestic (+25% YoY) and US business (+17%), partially offset by a decline in ROW revenue (-19%). India business growth was broad-based, wherein the acute portfolio rose 51% YoY and the specialty portfolio was up 17%. Considering the high base of FY22, we expect FY23 growth to be sluggish.

One-off opportunities boost US sales: US revenue grossed US\$ 75mn in Q4 (core sales of US\$ 55mn), surprising positively because of one-time opportunities, market share gains in a few products and stock adjustments. ALPM launched its first inhalation product in Q4 and expects to file 15+ products in FY23.

Sequentially stable gross margin; one-time charge impacts EBITDA margin: ALPM reported a 72.7% gross margin (flat QoQ, -270bps YoY), but a review of R&D assets at Aleor led to an additional charge of Rs 1.9bn during the quarter (Rs 650mn in amortisation expense and the balance under various heads of R&D expense, i.e. employee benefits, material cost and other expenses). EBITDA margin for the quarter thus contracted 15ppt to 11.3%. We expect ALPM to post EBITDA margins in the range of 17-21% over FY23-FY24.

Downgrade to HOLD: The stock is trading at 15.5x/11.x FY23E/FY24E EV/EBITDA (24.5x/17x P/E). We cut our FY23-FY24 EBITDA estimates by 14-17% and downgrade the stock from BUY to HOLD considering margin pressures amid pricing issues in the US, rising costs as well as additional integration costs for Aleor. Our TP stands revised to Rs 770 (vs. Rs 905), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 17x). Our target multiple is at 15% discount to peers such as ALKEM and AJP.

Key changes

Target	Rating
▼	▼

Ticker/Price	ALPM IN/Rs 787
Market cap	US\$ 2.0bn
Free float	31%
3M ADV	US\$ 2.6mn
52wk high/low	Rs 1,035/Rs 678
Promoter/FPI/DII	69%/6%/11%

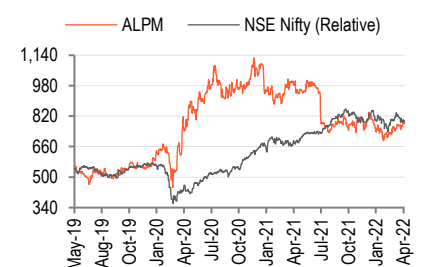
Source: NSE | Price as of 2 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	53,067	57,362	63,832
EBITDA (Rs mn)	8,751	10,178	13,831
Adj. net profit (Rs mn)	5,413	6,299	9,027
Adj. EPS (Rs)	27.8	32.0	45.9
Consensus EPS (Rs)	34.5	39.8	48.4
Adj. ROAE (%)	10.6	11.5	15.0
Adj. P/E (x)	28.3	24.5	17.1
EV/EBITDA (x)	18.7	15.6	11.6
Adj. EPS growth (%)	(56.5)	15.2	43.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	14,157	12,804	10.6	12,717	11.3	53,058	53,928	(1.6)
EBITDA	1,601	3,417	(53.1)	2,557	(37.4)	9,089	15,587	(41.7)
Depreciation	1,231	512	140.3	559	120.0	2,868	1,835	
EBIT	370	2,905	(87.3)	1,997	(81.5)	6,222	13,752	(54.8)
Interest	67	26	-	43	-	177	160	-
Other Income	103	40	-	13	-	157	100	-
PBT	406	2,919	(86.1)	1,967	(79.4)	6,201	13,692	(54.7)
Less: Taxation	(17)	545	-	325	-	1,045	2,533	-
Less: Minority Interest	69	(133)	-	(122)	-	(300)	(631)	-
Recurring PAT	355	2,507	(85.9)	1,764	(79.9)	5,457	11,790	(53.7)
Exceptional items	0	0		0		0	0	
Reported PAT	355	2,507	(85.9)	1,764	(79.9)	5,457	11,790	(53.7)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	72.7	75.4	(268)	73.1	(30)	72.7	76.7	(395)
EBITDA Margin	11.3	26.7	(1,538)	20.1	(880)	17.1	28.9	(1,177)
Tax / PBT	(4.3)	18.7	-	16.5	-	16.8	18.5	-
NPM	2.5	19.6	-	13.9	(1,137)	10.3	21.9	-
EPS	1.8	12.8	(86)	9.0	(79.9)	27.8	60.0	(53.7)

Source: Company, BOBCAPS Research

Fig 2 – Segmental mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Formulations	11,940	10,660	12.0	10,740	11.2	43,690	44,380	(1.6)
India	4,490	3,580	25.4	4,880	(8.0)	19,270	14,970	28.7
US	5,570	4,750	17.3	3,930	41.7	16,670	21,650	(23.0)
ROW	1,880	2,330	(19.3)	1,930	(2.6)	7,750	7,760	(0.1)
API	2,220	2,140	3.7	1,980	12.1	9,380	9,550	(1.8)
Net Sales	14,160	12,800	10.6	12,720	11.3	53,070	53,930	(1.6)
USDINR	74	73	1.6	74	0.0	74	74	0.4
US revenue (US\$ mn)	75	65	15.4	53	41.7	225	294	(23.3)

Source: Company, BOBCAPS Research

Earnings call highlights

- **Domestic business:** ALPM witnessed broad-based growth in the domestic market in Q4FY22 with its acute portfolio up 51% YoY and specialty portfolio rising 17%.
- **US business:** The company delivered a positive surprise from one-time opportunities in the US as well as from stock adjustment, taking sales to US\$ 75mn in Q4.
- **Aleor-related one-time expense:** Due to prevailing market conditions in the US, Aleor has reviewed its intangible assets (R&D development expenses) and expensed out an additional Rs 1.9bn in the current quarter (Rs 650mn in amortisation expense and the balance under various heads of R&D expense, i.e. employee benefits, material cost and other expenses). Without this expense, ALPM's PAT would have been higher by Rs 1.45bn.
- **Filings and launches:** ALPM filed 11 ANDAs during the quarter and received 8 approvals, including 3 tentative approvals. Cumulatively, the company has 160 ANDA approvals, including 22 tentative approvals. It launched 1 product in the US during the quarter and 13 during the full year, and plans to launch ~15 products next financial year.
- **Capex:** Capital expenditure for FY23 is pegged at Rs 4.5bn.
- **R&D:** The company spent Rs 6.4bn on R&D in FY22 and expects to incur ~Rs 7bn in FY23.
- **FDA inspections:** ALPM is working to address observations issued by the USFDA at its F3 injectable facility located at Karkhadi.

Valuation methodology

The stock is trading at 15.5x/11.x FY23E/FY24E EV/EBITDA (24.5x/17x P/E). We cut our FY23-FY24 EBITDA estimates by 14-17% and downgrade the stock from BUY to HOLD considering margin pressures amid pricing issues in the US, rising costs as well as additional integration costs for Aleor. Our TP stands revised to Rs 770 (vs. Rs 905), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 17x) which is at 15% discount to peers such as ALKEM and AJP.

Fig 3 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	57.4	63.8	55.8	61.7	2.7	3.5
EBITDA	10.2	13.8	12.3	16.2	(17.3)	(14.5)
EBITDA Margin (%)	17.7	21.7	22.1	26.2	(431bps)	(457bps)
EPS (Rs)	32.0	45.9	40.3	52.5	(20.5)	(12.5)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
India	19.3	20.9	22.5
US	16.7	18.1	21.2
ROW	7.8	8.5	9.4
API	9.4	9.9	10.8

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (x)		ROE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
Ajanta Pharma	AJP IN	BUY	2,655	8.5	13.1	11.6	21.0	20.4	17.0
Alkem Labs	ALKEM IN	BUY	4,000	5.7	15.5	13.7	22.8	21.7	17.0
Alembic Pharma	ALPM IN	HOLD	770	3.2	10.5	9.2	11.5	15.0	11.0

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected resolution of USFDA observations at the F-3 injectable plant at Karkhadi,
- prudent cost control measures to improve margins, and
- traction in US revenue with new launches

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,803	2,655	BUY
Alembic Pharma	ALPM IN	2.0	787	770	HOLD
Alkem Labs	ALKEM IN	5.1	3,273	4,000	BUY
Aurobindo Pharma	ARBP IN	4.9	643	850	BUY
Cipla	CIPLA IN	10.3	977	1,200	BUY
Divi's Labs	DIVI IN	15.6	4,510	5,250	BUY
Dr Reddy's Labs	DRRD IN	8.9	4,124	4,700	HOLD
Eris Lifesciences	ERIS IN	1.2	676	890	BUY
Laurus Labs	LAURUS IN	4.2	593	645	HOLD
Lupin	LPC IN	4.4	742	800	HOLD
Sun Pharma	SUNP IN	29.0	923	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 2 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	46,060	53,940	53,067	57,362	63,832
EBITDA	12,233	15,584	8,751	10,178	13,831
Depreciation	1,573	1,835	2,868	2,553	2,933
EBIT	10,660	13,750	5,883	7,624	10,898
Net interest inc./(exp.)	(271)	(160)	(177)	(143)	(129)
Other inc./(exp.)	49	873	505	200	239
Exceptional items	0	0	0	0	0
EBT	10,439	14,462	6,211	7,681	11,008
Income taxes	1,992	2,533	1,045	1,383	1,981
Extraordinary items	(437)	0	0	0	0
Min. int./Inc. from assoc.	(281)	(316)	(248)	0	0
Reported net profit	8,291	12,245	5,413	6,299	9,027
Adjustments	(437)	0	0	0	0
Adjusted net profit	8,728	12,245	5,413	6,299	9,027

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	6,259	6,688	7,064	7,858	8,744
Other current liabilities	3,125	6,314	3,015	2,868	3,192
Provisions	1,126	1,375	1,595	1,724	1,918
Debt funds	17,474	1,999	7,171	6,454	5,809
Other liabilities	0	0	0	0	0
Equity capital	377	393	393	393	393
Reserves & surplus	31,519	50,319	51,982	56,315	63,377
Shareholders' fund	31,896	50,712	52,375	56,708	63,770
Total liab. and equities	59,880	67,087	71,220	75,612	83,432
Cash and cash eq.	808	1,058	694	2,151	4,598
Accounts receivables	8,647	3,486	8,071	7,858	8,744
Inventories	11,875	14,862	16,097	15,716	17,488
Other current assets	4,401	5,612	4,153	5,736	6,383
Investments	172	2,363	1,184	1,184	1,184
Net fixed assets	15,249	17,037	17,423	19,370	21,437
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	67,090	71,220	75,612	83,432

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	4,623	19,388	1,447	8,782	10,187
Capital expenditures	(5,703)	(3,466)	(6,000)	(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)	(4,821)	(4,500)	(5,000)
Equities issued/Others	0	16	0	0	0
Debt raised/repaid	6,190	(15,475)	5,172	(717)	(645)
Interest expenses	(271)	(160)	(177)	(143)	(129)
Dividends paid	(1,131)	(1,376)	(1,572)	(1,966)	(1,966)
Other financing cash flows	(5,267)	3,512	(409)	0	0
Cash flow from financing	(479)	(13,483)	3,013	(2,826)	(2,740)
Chg in cash & cash eq.	(1,248)	248	(361)	1,456	2,448
Closing cash & cash eq.	808	1,056	697	2,150	4,598

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	42.2	63.9	27.8	32.0	45.9
Adjusted EPS	44.4	63.9	27.8	32.0	45.9
Dividend per share	6.0	7.0	8.0	10.0	10.0
Book value per share	162.3	258.0	266.5	288.5	324.4

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.5	3.1	3.1	2.8	2.5
EV/EBITDA	13.3	10.8	18.7	15.6	11.6
Adjusted P/E	17.7	12.3	28.3	24.5	17.1
P/BV	4.8	3.0	3.0	2.7	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	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	100.7	101.0
EBIT margin (EBIT/Revenue)	23.1	25.5	11.1	13.3	17.1
Asset turnover (Rev./Avg TA)	26.2	26.4	23.6	23.4	24.0
Leverage (Avg TA/Avg Equity)	1.5	1.2	1.1	1.1	1.1
Adjusted ROAE	29.4	30.4	10.6	11.5	15.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	17.1	17.1	(1.6)	8.1	11.3
EBITDA	40.0	27.4	(43.8)	16.3	35.9
Adjusted EPS	49.3	43.9	(56.5)	15.2	43.3
Profitability & Return ratios (%)					
EBITDA margin	26.6	28.9	16.5	17.7	21.7
EBIT margin	23.1	25.5	11.1	13.3	17.1
Adjusted profit margin	18.9	22.7	10.2	11.0	14.1
Adjusted ROAE	29.4	30.4	10.6	11.5	15.0
ROCE	24.3	28.6	11.4	12.8	16.8
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	1.8	1.7	1.6
Current ratio	2.4	1.7	2.5	2.5	2.7
Net interest coverage ratio	39.3	85.8	33.2	53.3	84.6
Adjusted debt/equity	0.5	0.0	0.1	0.1	0.0

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

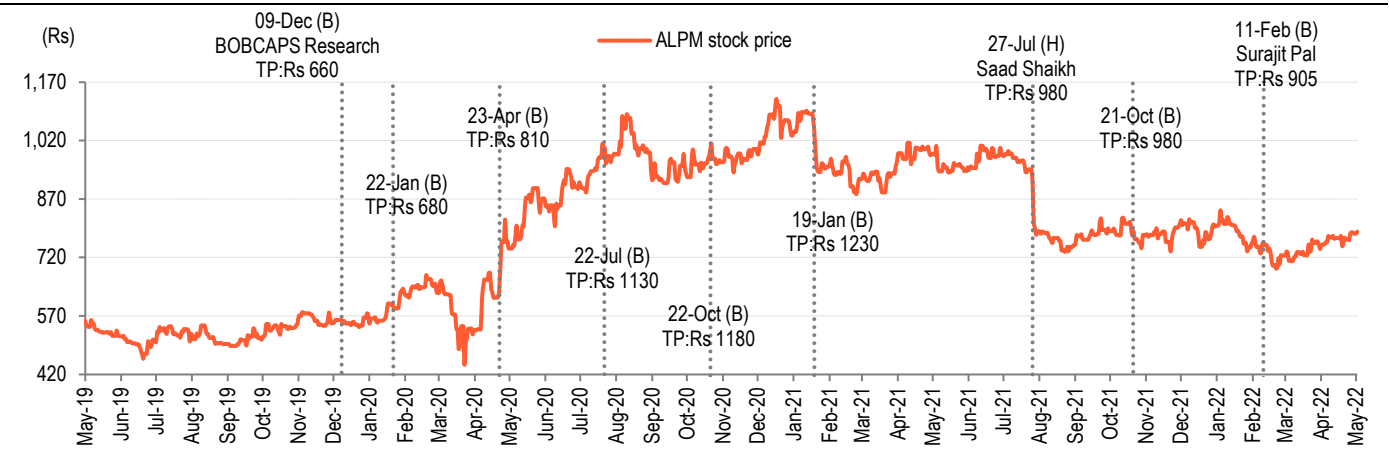
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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