

RESEARCH
Alembic Pharma | Target: Rs 1,230 | +19% | BUY

Q3 misses estimates but India beat looks sustainable

SUMMARY
Alembic Pharma

Alembic Pharma (ALPM) reported a 12% EBITDA miss due to weak sales. US, ROW and API sales fell short of estimates but India business delivered a strong rebound on operational efficiency. Despite healthy gross margins and lower R&D cost QoQ, EBITDA margins were lower at 27.8%. ALPM expects to retain 28-29% margins despite fewer US shortage opportunities and sartan compression, partly cushioned by deferred cost on the new plant. We raise FY21-FY23 EPS by 3% each. Maintain BUY as we roll to a Mar'22 TP of Rs 1,230 (vs. Rs 1,180).

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.08	(5bps)	14bps	(74bps)
India 10Y yield (%)	5.91	(4bps)	1bps	(73bps)
USD/INR	73.28	(0.3)	0.4	(3.1)
Brent Crude (US\$/bbl)	54.75	(0.6)	4.8	(16.0)
Dow	30,814	(0.6)	2.1	5.0
Shanghai	3,596	0.8	5.9	16.2
Sensex	48,564	(1.0)	3.4	16.9
India FII (US\$ mn)	15 Jan	MTD	CYTD	FYTD
FII-D	(55.0)	(483.6)	(483.6)	(4,577.2)
FII-E	(144.2)	2,296.1	2,296.1	32,271.9

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 1,230 | ▲ 19%

ALEMBIC PHARMA

Pharmaceuticals

19 January 2021

Q3 misses estimates but India beat looks sustainable

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India a positive surprise; US/ROW/API underperform: India sales growth rebounded to 14% YoY after nine weak quarters, backed by the gastro and anti-diabetic segments besides operational efficiency in the old portfolio. Strong India growth was offset by weakness in API sales (-19% QoQ due to fewer China disruption-led opportunities), ROW (+15% YoY, -13% QoQ), and US sales (US\$ 70mn, -12% QoQ on continued price erosion in sartans and moderation in shortage opportunities). Benefits of new launches; Tavaborole and Asenapine (launched under shared exclusivity) to reflect in Q4. We retain FY23 US sales estimate of US\$ 390mn (+20% CAGR over FY20 ex-sartan).

EBITDA miss not a red flag: EBITDA margins normalised after the strong H1 results, coming in at 27.8% in Q3 (-270bps QoQ). Gross margin was a healthy 78% (-88bps QoQ). Management believes 28% EBITDA margins can be sustained as India has returned to pre-Covid margins. Also, lower R&D spends in FY21 (<Rs 6.3bn vs. Rs 7bn guided earlier) support our 29% margin forecast.

Earnings call takeaways: (1) Expect USFDA inspection for F3 unit (general injectables) in six months. (2) Q3 PAT includes one-time income of Rs 260mn from Rhizen. (3) US sales guidance retained at US\$ 400mn for next three years. (4) Q3 India growth sustainable. (5) Stepping up investment on APIs & F3 unit.

Ticker/Price	ALPM IN/Rs 1,031
Market cap	US\$ 2.8bn
Shares o/s	197mn
3M ADV	US\$ 3.8mn
52wk high/low	Rs 1,145/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	39,350	46,050	53,845	57,311	64,511
EBITDA (Rs mn)	8,737	12,223	15,782	14,546	17,305
Adj. net profit (Rs mn)	5,938	8,718	11,376	9,514	11,709
Adj. EPS (Rs)	29.7	44.4	57.9	48.4	59.6
Adj. EPS growth (%)	32.6	49.2	30.5	(16.4)	23.1
Adj. ROAE (%)	23.4	29.4	28.0	17.8	18.8
Adj. P/E (x)	34.7	23.2	17.8	21.3	17.3
EV/EBITDA (x)	23.5	17.2	13.7	14.5	11.5

Source: Company, BOBCAPS Research



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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)

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