

HOLD

TP: Rs 700 | ▼ 5%

ALEMBIC PHARMA

Pharmaceuticals

08 November 2023

Higher opex from new facilities to keep a lid on margins

- Q2 revenue ticked up 8% YoY as healthy sales in international markets supported by modest India business
- EBITDA/PAT came in 13%/3% short of consensus as higher opex from three new facilities continued to dampen margins
- Our TP moves to Rs 700 (vs. Rs 615) as we revise estimates and raise our FY25E EV/EBITDA multiple from 11x to 12.5x; retain HOLD

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Revenue growth led by international business: ALPM reported 8% YoY revenue growth to ~Rs 16bn in Q2FY24 on the back of a strong 17% rise in ROW formulation sales (continuing the momentum of the last two quarters) and increases of 6%/5%/10% YoY in US/India/API business. The ROW demand outlook remains strong with product registrations as well as dossier extensions to new markets on track. US business grew 13% QoQ to US\$ 53mn supported by launches and market share gains in a few existing products. Upcoming launches from the three new facilities (F-II/III/IV) catering to US and ROW markets are likely to aid growth ahead.

Modest India growth; API steady: India growth was modest at 5% YoY (+10% QoQ) due to a market-wide slowdown in the acute business amid an extended summer and muted demand for antibiotics and respiratory products. The company's gynaecology and gastrointestinal segments demonstrated impressive growth vis-à-vis the market, and its API business grew at a steady 10% YoY (+6% QoQ), led by high offtake and a better product mix. The company anticipates continued growth in API business in coming quarters backed by a robust order book.

Gross margin guidance at 70%; opex to stay high: ALPM's Q2 gross margin grew 110bps YoY to 71.1% but contracted by the same degree sequentially due to a shift in product mix. Management highlighted that though US price erosion is moderating, the degree varies from product to product. EBITDA margin contracted 270bps YoY to 13.1% on higher opex, causing EBITDA/PAT to fall 13%/3% short of consensus at Rs 2.1bn/Rs 1.4bn. The company has guided for a 70% gross margin in FY24 but sees operating expenses at new facilities rising until approvals and launches kick in.

Retain HOLD: We lower our FY24/FY25 EBITDA estimates by 8%/4% as we bake in higher opex at the new units until ramp-up. At the same time, we raise our target FY25E EV/EBITDA multiple from 11x to 12.5x – a 20% discount to the 5Y average – to account for improving market conditions in the US with moderating price erosion, anticipated approvals and launches as all the new facilities have USFDA clearance, and acceleration in ROW markets. Our TP stands revised from Rs 615 to Rs 700 – given the 5% downside from the current price, we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ALPM IN/Rs 740
Market cap	US\$ 1.8bn
Free float	31%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 839/Rs 462
Promoter/FPI/DII	70%/5%/13%

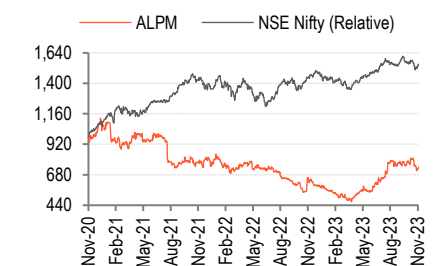
Source: NSE | Price as of 7 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	56,526	64,687	71,309
EBITDA (Rs mn)	7,083	9,674	11,392
Adj. net profit (Rs mn)	3,729	5,517	6,982
Adj. EPS (Rs)	17.4	28.1	35.5
Consensus EPS (Rs)	17.4	27.5	35.8
Adj. ROAE (%)	7.2	12.5	14.4
Adj. P/E (x)	42.5	26.4	20.8
EV/EBITDA (x)	21.1	15.7	13.3
Adj. EPS growth (%)	(34.4)	61.4	26.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Net Sales	15,950	14,750	8.1	14,862	7.3	30,812	27,372	12.6
EBITDA	2,084	2,328	(10.5)	1,987	4.9	4,070	2,474	64.5
Depreciation	676	677	(0.2)	662	2.1	1,337	1,348	-
EBIT	1,408	1,651	(14.7)	1,325	6.2	2,733	1,126	142.7
Interest	157	124	-	144	-	301	212	-
Other Income	102	3	-	117	-	218	14	-
PBT	1,353	1,530	(11.6)	1,298	4.2	2,650	928	185.5
Less: Taxation	(19)	180	-	92	-	72	165	-
Less: Minority Interest	5	17	-	0	-	5	89	-
Recurring PAT	1,367	1,334	2.5	1,206	13.3	2,573	675	281.2
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,367	1,334	2.5	1,206	13.3	2,573	675	281.2
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	71.1	70.0	111	72.2	(110)	71.6	70.0	161
EBITDA Margin	13.1	15.8	(272)	13.4	(31)	13.2	9.0	417
Tax / PBT	(1.4)	11.7	-	7.0	-	2.7	17.7	-
NPM	8.6	9.0	-	8.1	45	8.3	2.5	-
EPS (Rs)	7.0	6.8	2.5	6.1	13.9	13.2	3.4	283.1

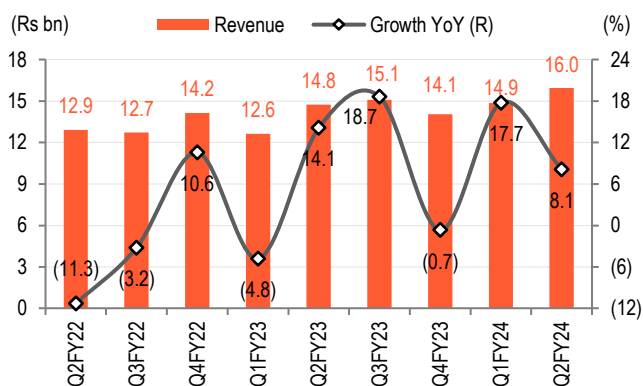
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Formulations	12,730	11,820	7.7	11,800	7.9	24,530	22,110	10.9
India	5,770	5,490	5.1	5,240	10.1	11,010	10,290	7.0
US	4,440	4,180	6.2	3,900	13.8	8,340	7,850	6.2
ROW	2,520	2,150	17.2	2,660	(5.3)	5,180	3,970	30.5
API	3,220	2,940	9.5	3,050	5.6	6,270	5,270	19.0
Net Sales	15,950	14,760	8.1	14,851	7.4	30,800	27,380	12.5
USDINR	83.0	81.0	2.5	82.2	1.0	83	80	3.3
US revenue (US\$ mn)	53	52	3.6	47	12.7	101	98	2.9

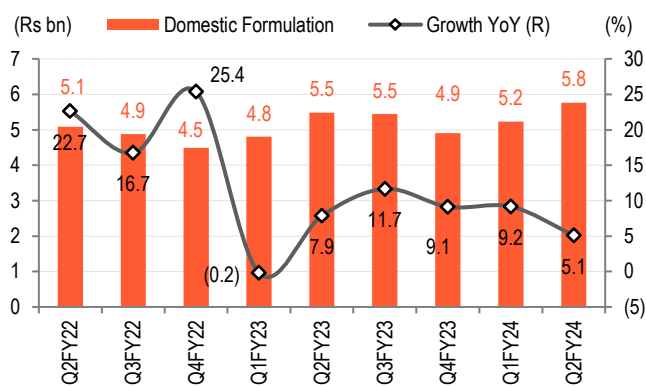
Source: Company, BOBCAPS Research

Fig 3 – Total revenue



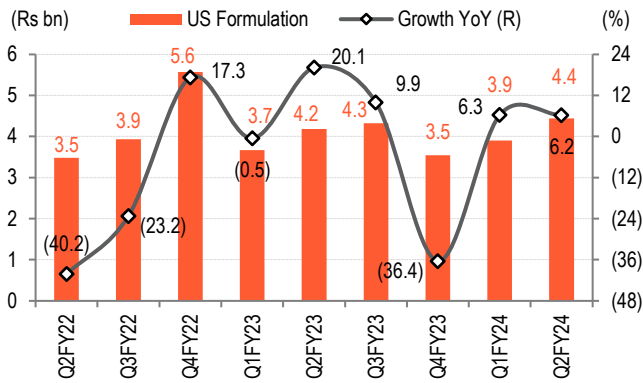
Source: Company, BOBCAPS Research

Fig 4 – Domestic formulation business



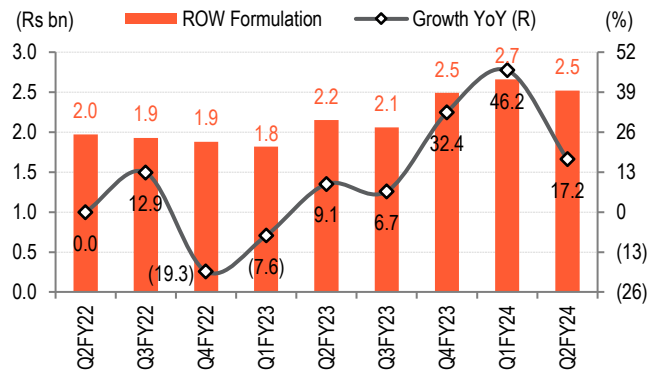
Source: Company, BOBCAPS Research

Fig 5 – US formulation business



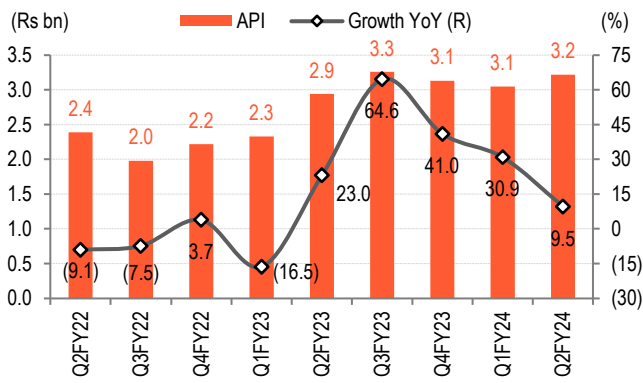
Source: Company, BOBCAPS Research

Fig 6 – ROW formulation business



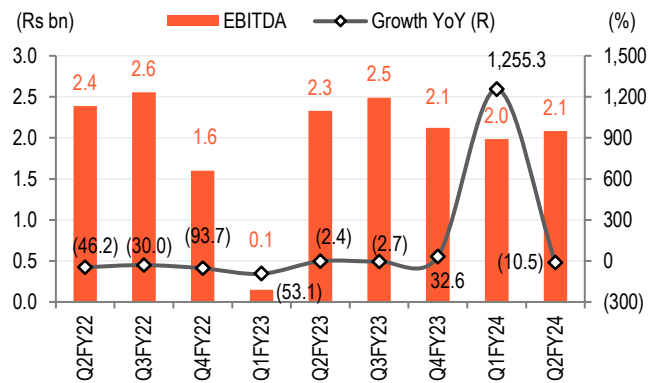
Source: Company, BOBCAPS Research

Fig 7 – API



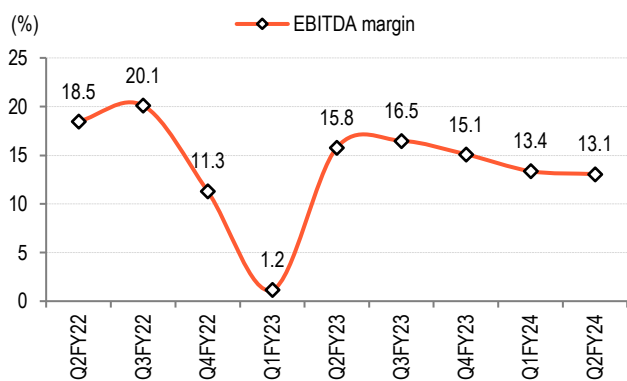
Source: Company, BOBCAPS Research

Fig 8 – EBITDA



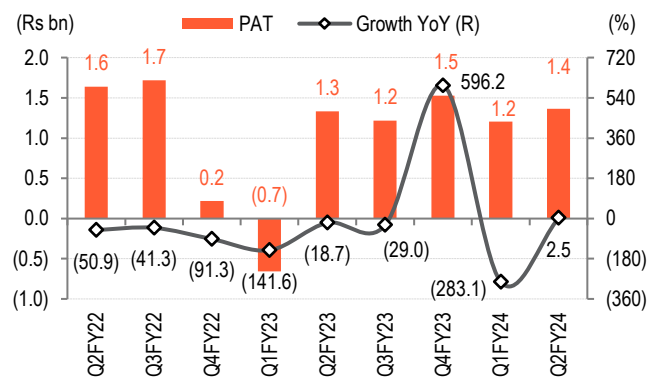
Source: Company, BOBCAPS Research

Fig 9 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 10 – PAT



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY24/FY25 revenue estimates for ALPM by 4%/3% considering an improving performance in the international business but cut our EBITDA forecasts by 8%/4% to bake in higher operating expenses at the three new facilities until ramp-up.

At the same time, we raise our target FY25E EV/EBITDA multiple from 11x to 12.5x – a 20% discount to the five-year average – to account for improving market conditions in the US with moderating price erosion, anticipated approvals and launches as all the new facilities have USFDA clearance, and acceleration in ROW markets. Our TP thus stands revised from Rs 615 to Rs 700 – given the 5% downside from the current price, we retain HOLD.

Fig 11 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	64.7	71.3	76.9	62.0	69.2	NA	4.3	3.0	NA
EBITDA	8.7	11.0	13.5	9.5	11.5	NA	(8.4)	(3.9)	NA
EBITDA margin (%)	13.5	15.5	17.5	15.4	16.6	NA	(188bps)	(112bps)	NA
EPS (Rs)	23.8	34.0	42.0	25.5	33.7	NA	(6.7)	0.7	NA

Source: BOBCAPS Research

Fig 12 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E	FY26E
India	20.6	22.7	24.4	26.3
US	15.7	17.8	20.3	21.3
ROW	8.5	10.2	11.2	12.4
API	11.7	14.0	15.4	16.9

Source: Company, 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:

- adverse action on manufacturing facilities catering to the US
- slow pace of new approvals/launches, and
- escalation in raw material prices or disruption in supply.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.8	1,827	2,070	BUY
Alembic Pharma	ALPM IN	1.8	740	700	HOLD
Alkem Labs	ALKEM IN	5.9	4,027	3,850	HOLD
Aurobindo Pharma	ARBP IN	6.4	903	880	HOLD
Cipla	CIPLA IN	11.9	1,216	1,360	BUY
Divi's Labs	DIVI IN	11.2	3,481	2,800	SELL
Dr Reddy's Labs	DRRD IN	11.0	5,404	5,500	HOLD
Eris Lifesciences	ERIS IN	1.4	869	955	BUY
Glenmark Life Sciences	GLS IN	0.9	621	620	HOLD
Laurus Labs	LAURUS IN	2.4	370	340	HOLD
Lupin	LPC IN	6.6	1,190	800	SELL
Sun Pharma	SUNP IN	34.2	1,171	1,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	53,060	56,526	64,687	71,309	76,934
EBITDA	8,744	7,083	9,674	11,392	13,413
Depreciation	2,868	2,754	3,011	3,139	3,330
EBIT	5,876	4,329	6,663	8,253	10,083
Net interest inc./(exp.)	(177)	(502)	(563)	(535)	(508)
Other inc./(exp.)	505	27	170	400	450
Exceptional items	0	0	0	0	0
EBT	6,203	3,855	6,270	8,118	10,025
Income taxes	1,045	126	752	1,137	1,804
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,159	3,729	5,517	6,982	8,220
Adjustments	0	0	0	0	0
Adjusted net profit	5,159	3,729	5,517	6,982	8,220

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,064	6,798	7,975	8,792	9,485
Other current liabilities	3,015	2,343	3,234	3,565	3,847
Provisions	1,595	1,763	2,017	2,224	2,399
Debt funds	7,171	7,220	6,859	6,516	6,190
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	51,924	42,082	45,633	50,650	56,904
Shareholders' fund	52,317	42,475	46,026	51,043	57,297
Total liab. and equities	71,162	60,598	66,112	72,140	79,219
Cash and cash eq.	694	823	1,838	5,939	5,037
Accounts receivables	8,071	10,464	10,633	11,722	17,916
Inventories	16,097	14,753	17,722	19,537	21,078
Other current assets	4,094	3,598	6,469	7,131	7,693
Investments	1,184	963	963	963	963
Net fixed assets	17,423	23,985	22,473	20,835	20,518
CWIP	23,034	6,013	6,013	6,013	6,013
Intangible assets	564	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	71,161	60,598	66,112	72,140	79,219

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	1,248	5,352	5,405	8,444	4,911
Capital expenditures	(2,344)	(8,665)	(1,500)	(1,500)	(3,014)
Change in investments	1,179	221	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,165)	(8,445)	(1,500)	(1,500)	(3,014)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,172	49	(361)	(343)	(326)
Interest expenses	(177)	(502)	(563)	(535)	(508)
Dividends paid	(1,572)	(1,966)	(1,966)	(1,966)	(1,966)
Other financing cash flows	(3,870)	5,639	0	0	0
Cash flow from financing	(447)	3,220	(2,890)	(2,843)	(2,800)
Chg in cash & cash eq.	(364)	128	1,015	4,101	(902)
Closing cash & cash eq.	694	822	1,838	5,939	5,037

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	26.5	17.4	28.1	35.5	41.8
Adjusted EPS	26.5	17.4	28.1	35.5	41.8
Dividend per share	8.0	10.0	10.0	10.0	10.0
Book value per share	266.2	216.1	234.2	259.7	291.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.9	2.6	2.3	2.1	1.9
EV/EBITDA	17.6	21.1	15.7	13.3	11.1
Adjusted P/E	27.9	42.5	26.4	20.8	17.7
P/BV	2.8	3.4	3.2	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	83.2	96.7	88.0	86.0	82.0
Interest burden (PBT/EBIT)	105.6	89.0	94.1	98.4	99.4
EBIT margin (EBIT/Revenue)	11.1	7.7	10.3	11.6	13.1
Asset turnover (Rev./Avg TA)	23.6	25.9	31.5	32.3	31.8
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.2	1.1	1.1
Adjusted ROAE	10.1	7.2	12.5	14.4	15.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	(1.6)	6.5	14.4	10.2	7.9
EBITDA	(43.9)	(19.0)	36.6	17.8	17.7
Adjusted EPS	(58.5)	(34.4)	61.4	26.5	17.7
Profitability & Return ratios (%)					
EBITDA margin	16.5	12.5	15.0	16.0	17.4
EBIT margin	11.1	7.7	10.3	11.6	13.1
Adjusted profit margin	9.7	6.6	8.5	9.8	10.7
Adjusted ROAE	10.1	7.2	12.5	14.4	15.2
ROCE	11.4	8.0	13.3	15.7	17.4
Working capital days (days)					
Receivables	56	68	60	60	85
Inventory	111	95	100	100	100
Payables	49	44	45	45	45
Ratios (x)					
Gross asset turnover	2.0	1.6	1.8	1.9	1.9
Current ratio	2.5	2.7	2.8	3.0	3.3
Net interest coverage ratio	33.1	8.6	11.8	15.4	19.8
Adjusted debt/equity	0.1	0.2	0.1	0.0	0.0

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

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BUY – Expected return >+15%

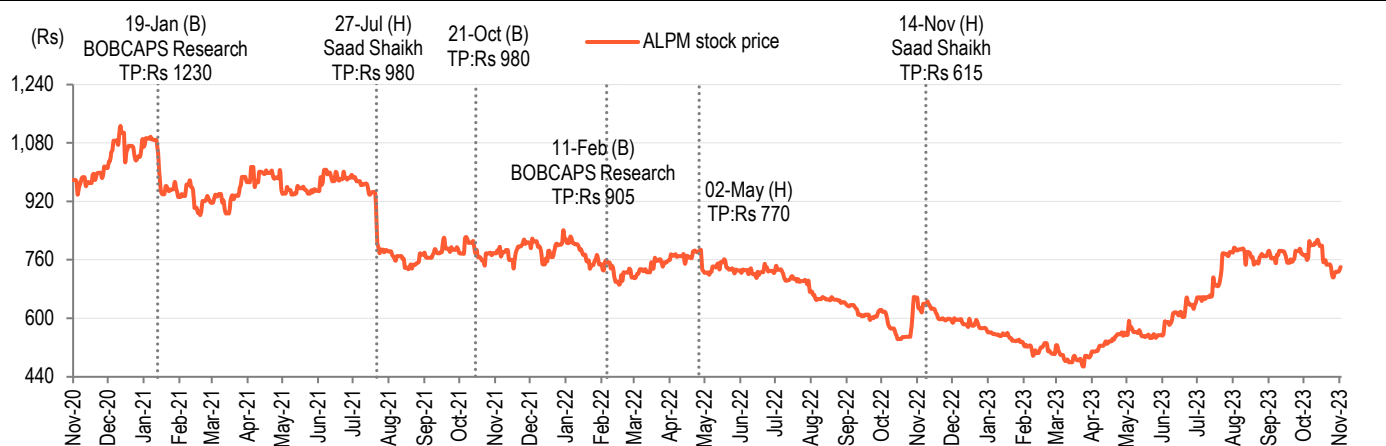
HOLD – Expected return from -6% to +15%

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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