

HOLD

TP: Rs 615 | ▲ 4%

ALEMBIC PHARMA

| Pharmaceuticals

| 08 May 2023

No respite yet

- ALPM reported in-line Q4 revenue at Rs 14bn (flat YoY), though negative tax and lower R&D expense resulted in a PAT beat
- Gross margin contracted 350bps YoY; EBITDA margin expanded optically as Q4FY22 had Aleor-related charges
- We cut FY24 EBITDA by 14% given incremental costs. On rollover to FY25, our TP remains unchanged at Rs 615; retain HOLD

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Lacklustre Q4; US recovery key for revival: As expected, ALPM reported flat Q4FY23 revenue at Rs 14bn, though PAT beat consensus estimates on account of negative tax. EBITDA growth was optically higher at 33% YoY as Q4FY22 had Aleor-related charges under various heads of R&D expense (i.e. employee benefits, material cost and other expenses). Barring the US which declined 36% YoY (25% contribution), other businesses performed well with India/ROW/API growing 9%/32%/41% YoY.

Weak product mix, negative operating leverage hurt margins: Continued low-double-digit price erosion in US generics and a change in product mix resulted in gross margin contraction of 350bps YoY to 69.3%. The company stated that freight and raw material costs have cooled sequentially but are still above pre-Covid levels.

Earnings call highlights: (1) ALPM has guided for 10-12% YoY growth in India sales and 10% YoY growth in API sales for FY24, with a ~15% EBITDA margin. (2) Overall expense of Rs 650mn (including depreciation) was charged to P&L from new injectable facilities. (3) The company impaired Rs 11.5bn of capital work in progress (CWIP) related to capitalised pre-operative expenses of three new facilities with no impact on the income statement as general reserve was transferred to P&L.

Estimates pruned: We believe meaningful approvals, revenue growth in the US as new facilities come online and expected outperformance in the domestic market could aid ALPM's margins, though commercialisation of the new units would continue to carry additional costs. We cut our FY24 EBITDA estimate by 14% (FY25 unchanged) to factor in incremental operating costs arising from the expansion and to incorporate management's cautious guidance.

Retain HOLD: Despite estimate revision, our TP remains at Rs 615 as we roll over to FY25 valuations and continue to ascribe the stock an 11x EV/EBITDA multiple, a 25% discount to the 5-year average. At our TP, the stock offers just 4% upside – retain HOLD. Faster approvals along with weaker competition and better pricing in generics represent upside risks to our estimates.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	ALPM IN/Rs 593
Market cap	US\$ 1.4bn
Free float	31%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 775/Rs 462
Promoter/FPI/DII	70%/5%/13%

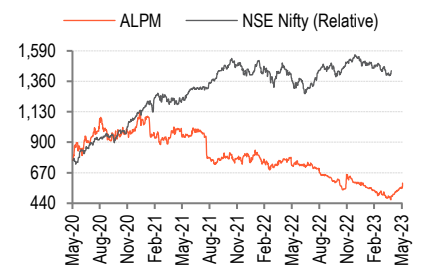
Source: NSE | Price as of 8 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	56,526	62,006	69,238
EBITDA (Rs mn)	7,083	9,528	11,495
Adj. net profit (Rs mn)	3,729	5,016	6,633
Adj. EPS (Rs)	17.4	25.5	33.7
Consensus EPS (Rs)	17.4	27.1	34.9
Adj. ROAE (%)	7.2	11.4	13.9
Adj. P/E (x)	34.1	23.2	17.6
EV/EBITDA (x)	17.0	12.9	10.6
Adj. EPS growth (%)	(34.4)	46.7	32.2

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Sales	14,065	14,157	(0.7)	15,090	(6.8)	56,526	53,058	6.5
EBITDA	2,122	1,601	32.6	2,488	(14.7)	7,084	8,881	(20.2)
Depreciation	741	1,231	(39.8)	665	11.4	2,754	2,868	-
EBIT	1,381	370	273.0	1,822	(24.2)	4,330	6,013	(28.0)
Interest	144	67	-	146	-	502	177	-
Other Income	9	103	-	4	-	27	365	-
PBT	1,246	406	207.0	1,681	(25.9)	3,855	6,201	(37.8)
Less: Taxation	(364)	67	-	326	-	126	1,094	-
Less: Minority Interest	85	119	-	136	-	309	(53)	-
Recurring PAT	1,526	219	596.2	1,219	25.2	3,420	5,160	(33.7)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,526	219	596.2	1,219	25.2	3,420	5,160	(33.7)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	69.3	72.7	(350)	69.8	(60)	69.8	72.7	(297)
EBITDA Margin	15.1	11.3	378	16.5	(140)	12.5	16.7	(421)
Tax / PBT	(29.2)	16.6	-	19.4	-	3.3	17.6	-
NPM	10.9	1.5	-	8.1	277	6.1	9.7	-
EPS	7.8	1.1	596%	6.2	25.2	17.4	26.3	(33.7)

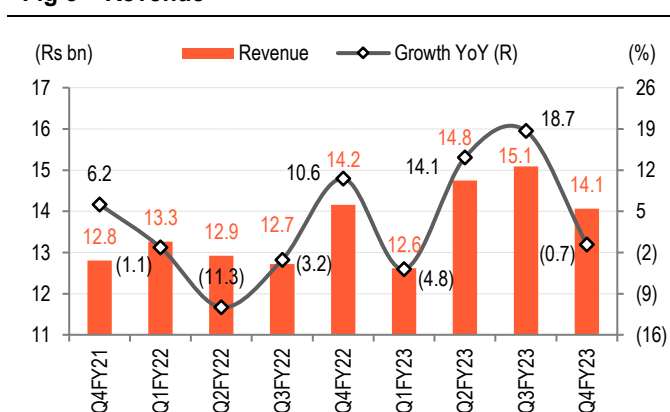
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Formulations	10,930	11,940	(8.5)	11,830	(7.6)	44,870	43,690	2.7
India	4,900	4,490	9.1	5,450	(10.1)	20,640	19,270	7.1
US	3,540	5,570	(36.4)	4,320	(18.1)	15,710	16,670	(5.8)
ROW	2,490	1,880	32.4	2,060	20.9	8,520	7,750	9.9
API	3,130	2,220	41.0	3,260	(4.0)	11,660	9,380	24.3
Net Sales	14,065	14,157	(0.7)	15,090	(6.8)	56,526	53,058	6.5
USDINR	82	76	8.4	82	0.0	81	75	8.6
US revenue (US\$ mn)	43	73	(41.4)	53	(18.1)	194	223	(13.2)

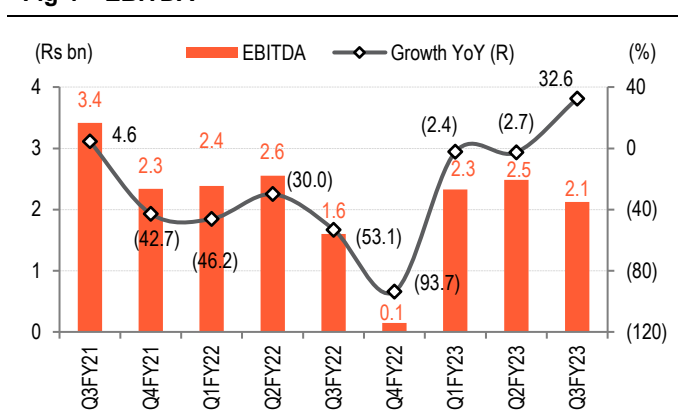
Source: Company, BOBCAPS Research

Fig 3 – Revenue



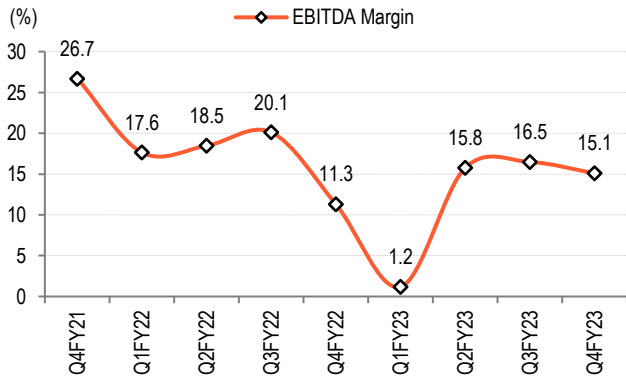
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



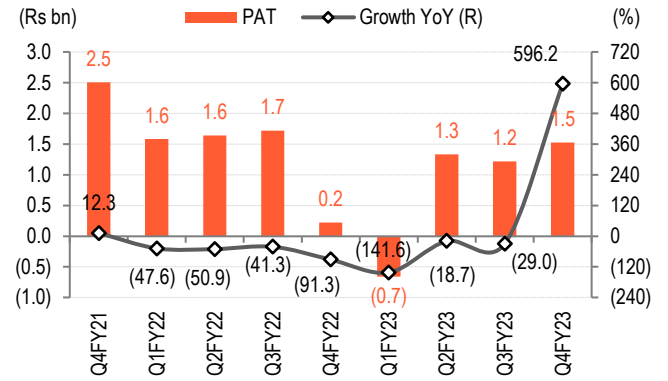
Source: Company, BOBCAPS Research

Fig 5 – EBITDA Margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Valuation methodology

We believe meaningful approvals, revenue growth in the US as new facilities come online and expected outperformance in the domestic market could aid ALPM’s margins, though commercialisation of the new units would continue to carry additional costs. Management has guided for 10-12% YoY growth in India sales and 10% YoY growth in API sales for FY24, with a ~15% EBITDA margin. We cut our FY24 EBITDA estimate by 14% (FY25 unchanged) to factor in incremental operating costs arising from the expansion and to incorporate management’s cautious guidance.

Despite estimate revision, our TP remains at Rs 615 as we roll over to FY25 valuations and continue to ascribe the stock an 11x EV/EBITDA multiple, a 25% discount to the 5-year average. At our TP, the stock offers just 4% upside – retain HOLD. Faster approvals along with weaker competition and better pricing in generics represent upside risks to our estimates

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	62.0	69.2	63.2	NA	(1.8)	-
EBITDA	9.5	11.5	11.1	NA	(14.0)	-
EBITDA margin (%)	15.4	16.6	17.5	NA	(217bps)	-
EPS (Rs)	25.5	33.7	32.6	NA	(21.6)	-

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY22A	FY24E	FY25E
India	20.6	22.7	24.4
US	15.7	16.8	20.1
ROW	8.5	9.4	10.3
APIS	11.7	13.2	14.5

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 to our estimates are:

- further delay in USFDA clearance of new facilities,
- slower 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	2.0	1,279	1,520	BUY
Alembic Pharma	ALPM IN	1.4	593	615	HOLD
Alkem Labs	ALKEM IN	5.1	3,513	3,000	SELL
Aurobindo Pharma	ARBP IN	4.4	619	635	BUY
Cipla	CIPLA IN	9.2	933	1,250	BUY
Divi's Labs	DIVI IN	10.7	3,286	3,200	HOLD
Dr Reddy's Labs	DRRD IN	10.0	4,907	4,700	HOLD
Eris Lifesciences	ERIS IN	1.0	630	810	BUY
Glenmark Life Sciences	GLS IN	0.8	541	600	BUY
Laurus Labs	LAURUS IN	2.2	330	340	HOLD
Lupin	LPC IN	4.1	733	700	HOLD
Sun Pharma	SUNP IN	28.2	962	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	53,940	53,060	56,526	62,006	69,238
EBITDA	15,584	8,744	7,083	9,528	11,495
Depreciation	1,835	2,868	2,754	3,088	3,238
EBIT	13,750	5,876	4,329	6,440	8,257
Net interest inc./(exp.)	(160)	(177)	(502)	(493)	(468)
Other inc./(exp.)	873	505	27	170	400
Exceptional items	0	0	0	0	0
EBT	14,462	6,203	3,855	6,117	8,189
Income taxes	2,533	1,045	126	1,101	1,556
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(316)	0	0	0	0
Reported net profit	12,245	5,159	3,729	5,016	6,633
Adjustments	0	0	0	0	0
Adjusted net profit	12,245	5,159	3,729	5,016	6,633

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	6,688	7,064	6,798	7,645	8,536
Other current liabilities	6,314	3,015	2,343	3,100	3,462
Provisions	1,375	1,595	1,763	1,933	2,159
Debt funds	1,999	7,171	7,220	6,859	6,516
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	50,319	51,923	42,082	45,132	49,800
Shareholders' fund	50,712	52,317	42,475	45,525	50,193
Total liab. and equities	67,087	71,162	60,598	65,063	70,866
Cash and cash eq.	1,058	694	823	2,309	5,957
Accounts receivables	3,486	8,071	10,464	10,193	11,382
Inventories	14,861	16,097	14,753	16,988	18,969
Other current assets	5,609	4,094	3,598	6,201	6,924
Investments	2,363	1,184	963	963	963
Net fixed assets	17,037	17,423	23,984	22,397	20,659
CWIP	21,817	23,034	6,013	6,013	6,013
Intangible assets	856	564	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	67,087	71,161	60,598	65,063	70,866

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	19,391	1,248	5,352	5,805	7,925
Capital expenditures	(3,466)	(2,344)	(4,120)	(1,500)	(1,500)
Change in investments	(2,191)	1,179	221	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(5,657)	(1,165)	(3,899)	(1,500)	(1,500)
Equities issued/Others	16	0	0	0	0
Debt raised/repaid	(15,475)	5,172	49	(361)	(343)
Interest expenses	(160)	(177)	(502)	(493)	(468)
Dividends paid	(1,376)	(1,572)	(1,966)	(1,966)	(1,966)
Other financing cash flows	3,512	(3,870)	1,093	0	0
Cash flow from financing	(13,483)	(447)	(1,325)	(2,819)	(2,777)
Chg in cash & cash eq.	251	(364)	128	1,486	3,648
Closing cash & cash eq.	1,059	694	822	2,309	5,957

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	63.9	26.5	17.4	25.5	33.7
Adjusted EPS	63.9	26.5	17.4	25.5	33.7
Dividend per share	7.0	8.0	10.0	10.0	10.0
Book value per share	258.0	266.2	216.1	231.6	255.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	2.4	2.4	2.1	2.0	1.8
EV/EBITDA	8.3	14.3	17.0	12.9	10.6
Adjusted P/E	9.3	22.4	34.1	23.2	17.6
P/BV	2.3	2.2	2.7	2.6	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	84.7	83.2	96.7	82.0	81.0
Interest burden (PBT/EBIT)	105.2	105.6	89.0	95.0	99.2
EBIT margin (EBIT/Revenue)	25.5	11.1	7.7	10.4	11.9
Asset turnover (Rev./Avg TA)	26.4	23.6	25.9	30.4	31.7
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.2	1.2	1.1
Adjusted ROAE	30.4	10.1	7.2	11.4	13.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	17.1	(1.6)	6.5	9.7	11.7
EBITDA	27.4	(43.9)	(19.0)	34.5	20.6
Adjusted EPS	43.9	(58.5)	(34.4)	46.7	32.2
Profitability & Return ratios (%)					
EBITDA margin	28.9	16.5	12.5	15.4	16.6
EBIT margin	25.5	11.1	7.7	10.4	11.9
Adjusted profit margin	22.7	9.7	6.6	8.1	9.6
Adjusted ROAE	30.4	10.1	7.2	11.4	13.9
ROCE	28.6	11.4	8.0	13.0	15.9
Working capital days (days)					
Receivables	24	56	68	60	60
Inventory	101	111	95	100	100
Payables	45	49	44	45	45
Ratios (x)					
Gross asset turnover	2.3	2.0	1.9	2.0	2.1
Current ratio	1.7	2.5	2.7	2.8	3.1
Net interest coverage ratio	85.8	33.1	8.6	13.1	17.6
Adjusted debt/equity	0.0	0.1	0.2	0.1	0.0

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

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BUY – Expected return >+15%

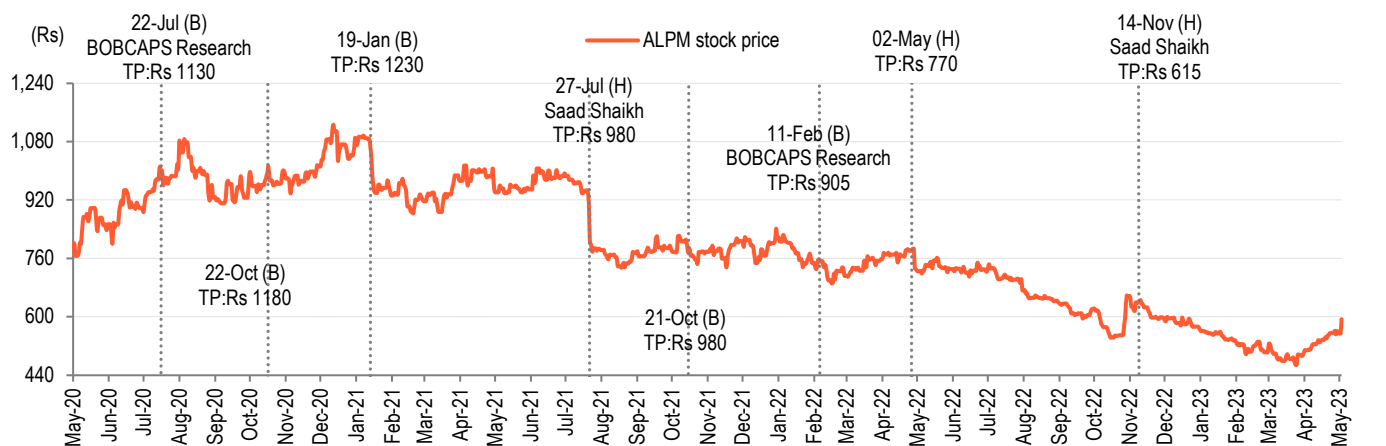
HOLD – Expected return from -6% to +15%

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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