

HOLD

TP: Rs 980 | ▲ 8%

ALEMBIC PHARMA

Pharmaceuticals

27 July 2021

US disappoints; acute-led recovery in domestic business

- ALPM reported a 42% YoY decline in Q1 EBITDA due to weak US sales led by increased competition in key molecules and launch delays
- EBITDA margin contracted 1,270bps YoY owing to a lower gross margin of 71% (74.8% in Q1FY21) and a 17% YoY rise in operating cost
- We cut FY22/FY23 earnings estimates by 18%/23%, lower our Mar'22 TP to Rs 980 (vs. Rs 1,230) and downgrade the stock from BUY to HOLD

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US a big miss: ALPM's US business faced price erosion due to increased competition, with sales declining 23% QoQ (-37% YoY) to US\$ 50mn – a substantial drop from the quarterly run-rate of US\$ 75mn-80mn. The decline stemmed from pricing rather than volumes, a lack of new launches due to USFDA inspection delays and higher competition in key products (Theophylline, Timolol). With uncertainty over US market dynamics and delays from the USFDA, we assume that the quarterly sales run-rate will remain muted at US\$ 50mn throughout FY22.

Strong domestic recovery led by acute and specialty segments: ALPM's domestic business grew 57% YoY led by 121% growth in the acute portfolio and a 29% uptick in its specialty portfolio. Key specialty therapies that did well during the quarter were dermatology (+108% YoY), ophthalmology (+68% YoY), gynaecology (+40% YoY) and gastroenterology (+36% YoY). In the acute segment, anti-infectives/cold & cough products grew 130%/90% YoY.

Lower gross margin, reversal of lockdown-led savings hit EBITDA margin: EBITDA margin contracted 1,270bps YoY/890bps QoQ to 17.8% primarily due to a weaker gross margin of 71% (vs. 74.8%/75.4% in Q1FY21/Q4FY21). An improving domestic mix notwithstanding, gross margin suffered from the double impact of price erosion in the US business and a reversal of lockdown-led savings on travelling and promotional expenses. Operating cost (including R&D) rose 17% YoY in Q1FY22. R&D spend was at 13% of sales compared to 10% in the year-ago quarter.

Management withdraws FY22 EPS guidance: With uncertainties in the US business and lack of clarity from the USFDA for pending approvals, management has withdrawn its EPS guidance of Rs 50 given earlier for FY22.

Earnings call takeaways: (1) Cumulative capex for ongoing projects under CWIP including pre-operative expense is Rs 18.9bn. (2) ALPM expects to launch 5 products in Q2 and close to 15 products each year (earlier 10+ launches). (3) The company has received 7 ANDA approvals in Q1 and filed 3 ANDAs. (4) Net borrowing stood at ~Rs 2.3bn.

Key changes

Target	Rating
▼	▼

Ticker/Price	ALPM IN/Rs 910
Market cap	US\$ 2.4bn
Free float	35%
3M ADV	US\$ 5.6mn
52wk high/low	Rs 1,145/Rs 864
Promoter/FPI/DII	70%/6%/11%

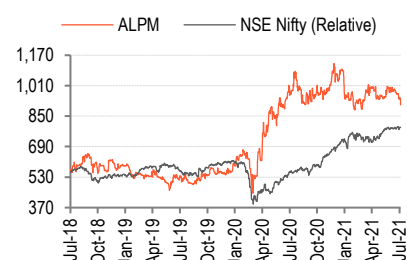
Source: NSE | Price as of 26 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	53,940	52,333	55,784
EBITDA (Rs mn)	15,584	12,654	14,410
Adj. net profit (Rs mn)	11,473	7,843	9,025
Adj. EPS (Rs)	60.0	39.9	45.9
Consensus EPS (Rs)	60.0	44.1	48.5
Adj. ROAE (%)	28.5	14.6	14.9
Adj. P/E (x)	15.2	22.8	19.8
EV/EBITDA (x)	12.3	14.8	12.4
Adj. EPS growth (%)	35.1	(33.5)	15.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	13,260	13,410	(1.1)	12,804	3.6
EBITDA	2,359	4,083	(42.2)	3,417	(31.0)
Depreciation	532	415	-	512	-
EBIT	1,828	3,668	(50.2)	2,905	(37.1)
Interest	21	66	-	26	-
Other Income	19	3	-	40	-
PBT	1,826	3,605	(49.4)	2,919	(37.5)
Less: Taxation	342	668	-	545	-
Less: Minority Interest	(162)	(83)	-	(133)	-
Recurring PAT	1,645	3,020	(45.5)	2,507	(34.4)
Exceptional items	0	0	-	0	-
Reported PAT	1,645	3,020	(45.5)	2,507	(34.4)
Key Ratios (%)					
Gross Margin	71.0	74.8	(386)	75.4	(447)
EBITDA Margin	17.8	30.4	(1,266)	26.7	(889)
Tax / PBT	18.7	18.5	-	18.7	-
NPM	12.4	22.5	(1,011)	19.6	(717)
EPS (Rs)	8.4	15.4	(46)	12.8	(34.4)

Fig 2 – Segment sales

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Formulations	10,470	10,770	(2.8)	10,660	(1.8)
India	4,810	3,060	57.2	3,580	34.4
US	3,690	5,960	(38.1)	4,750	(22.3)
RoW	1,970	1,750	12.6	2,330	(15.5)
API	2,790	2,640	5.7	2,140	30.4
Net Sales	13,260	13,410	(1.1)	12,800	3.6

Valuation methodology

ALPM is currently trading at 12.3x EV/EBITDA and 19.9x P/E for FY23E. In light of the soft US business outlook, uncertainty over USFDA inspection/clearance of pending ANDAs and guidance withdrawal by management, we lower our FY22/FY23 earnings estimates by 18-23%. Accordingly, we downgrade ALPM from BUY to HOLD with a revised Mar'22 TP of Rs 980 (Rs 1,230 earlier), based on a reduced 13x FY23E EV/EBITDA multiple (14x earlier) – this represents an implied P/E of 21x.

Fig 3 – Revised estimates

(Rs bn)	New			Old		Change (%)	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Sales	52.3	55.8	60.1	57.3	64.5	(8.7)	(13.5)
EBITDA	12.7	14.4	15.9	14.5	17.3	(13.0)	(16.7)
EBITDA Margin (%)	24.2	25.8	26.5	25.4	26.8	(120bps)	(99bps)
EPS (Rs)	40	46	50	48	60	(17.6)	(23.0)

Source: BOBCAPS Research

Fig 4 – Key sales assumptions

Business	FY21	FY22E	FY23E	FY24E
India	14,970	16,102	17,349	18,723
US	21,630	18,005	18,389	19,328
ROW	7,790	8,102	8,912	9,803
API	9,550	10,123	11,135	12,249
Net Sales	53,940	52,333	55,784	60,102

Source: Company, BOBCAPS Research

Key risks

- US execution critical:** We expect the US market to contribute meaningfully to profitability in the coming years. Any delays with respect to key launches, early generic competition in Theophylline and tardy commercialisation of new capacities across Panelav, Karakhadi and Jarod can potentially impact profit growth.
- US regulatory risk:** A majority of ALPM's US sales are dependent on the Panelav unit (~80% of existing sales). While the compliance track record with the FDA has been clean so far, plant concentration risk remains. We note that ALPM is working towards derisking its current manufacturing concentration to other newer units, but this is still two years away.
- Regulatory action and slowdown in India formulations business:** Expansion of NLEM (national list of essential medicines) coverage and the FDC (fixed dose combination) ban in 2018 hit growth across the Indian pharmaceutical market. Roughly 19% of ALPM's domestic sales are under price control vs. 17% for the IPM on average. In addition, ALPM has low price leadership in top brands and chronic therapies, which should act as a cushion against substantial risk. However, regulatory action on pricing is unpredictable and hence remains a risk. Further, any slowdown in IPM growth and delays in new launches can affect ALPM's earnings.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	46,060	53,940	52,333	55,784	60,102
EBITDA	12,233	15,584	12,654	14,410	15,941
Depreciation	1,573	1,835	2,577	2,848	3,368
EBIT	10,660	13,750	10,077	11,562	12,573
Net interest inc./(exp.)	(271)	(160)	(42)	(42)	(42)
Other inc./(exp.)	49	100	150	200	239
Exceptional items	0	0	0	0	0
EBT	10,439	13,690	10,185	11,720	12,770
Income taxes	1,992	2,533	2,343	2,696	2,937
Extraordinary items	(437)	0	0	0	0
Min. int./Inc. from assoc.	(281)	(316)	0	0	0
Reported net profit	8,291	11,473	7,843	9,025	9,833
Adjustments	(437)	0	0	0	0
Adjusted net profit	8,728	11,473	7,843	9,025	9,833

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	6,259	6,688	9,606	7,642	8,233
Other current liabilities	3,125	6,314	2,617	2,789	3,005
Provisions	1,126	1,375	1,334	1,422	1,532
Debt funds	17,474	1,999	1,999	1,999	1,999
Other liabilities	0	0	0	0	0
Equity capital	377	393	393	393	393
Reserves & surplus	31,519	50,319	56,589	63,648	71,516
Shareholders' fund	31,896	50,712	56,982	64,041	71,909
Total liab. and equities	59,880	67,087	72,538	77,893	86,678
Cash and cash eq.	808	1,058	2,254	5,061	8,508
Accounts receivables	8,647	3,486	10,036	7,642	8,233
Inventories	11,875	14,861	14,338	15,283	16,466
Other current assets	4,401	5,612	5,233	5,578	6,010
Investments	172	2,363	2,363	2,363	2,363
Net fixed assets	15,249	17,035	23,141	26,793	29,925
CWIP	18,460	21,817	14,317	14,317	14,317
Intangible assets	269	856	856	856	856
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	59,880	67,087	72,538	77,893	86,678

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	4,623	18,615	3,994	11,314	11,954
Capital expenditures	(5,703)	(3,466)	(8,683)	(6,500)	(6,500)
Change in investments	311	(2,191)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(5,392)	(5,657)	(8,683)	(6,500)	(6,500)
Equities issued/Others	0	16	0	0	0
Debt raised/repaid	6,190	(15,475)	0	0	0
Interest expenses	(271)	(160)	(42)	(42)	(42)
Dividends paid	(1,131)	(1,376)	(1,572)	(1,966)	(1,966)
Other financing cash flows	(5,267)	4,287	7,500	0	0
Cash flow from financing	(479)	(12,708)	5,886	(2,007)	(2,007)
Chg in cash & cash eq.	(1,248)	251	1,196	2,807	3,447
Closing cash & cash eq.	808	1,058	2,254	5,061	8,508

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	42.2	60.0	39.9	45.9	50.0
Adjusted EPS	44.4	60.0	39.9	45.9	50.0
Dividend per share	6.0	7.0	8.0	10.0	10.0
Book value per share	162.3	258.0	289.9	325.8	365.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.0	3.6	3.6	3.2	2.9
EV/EBITDA	15.2	12.3	14.8	12.4	11.1
Adjusted P/E	20.5	15.2	22.8	19.8	18.2
P/BV	5.6	3.5	3.1	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	83.6	83.8	77.0	77.0	77.0
Interest burden (PBT/EBIT)	97.9	99.6	101.1	101.4	101.6
EBIT margin (EBIT/Revenue)	23.1	25.5	19.3	20.7	20.9
Asset turnover (Rev./Avg TA)	26.2	26.4	23.4	22.3	21.5
Leverage (Avg TA/Avg Equity)	1.5	1.2	1.0	1.0	1.0
Adjusted ROAE	29.4	28.5	14.6	14.9	14.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	17.1	17.1	(3.0)	6.6	7.7
EBITDA	40.0	27.4	(18.8)	13.9	10.6
Adjusted EPS	49.3	35.1	(33.5)	15.1	9.0
Profitability & Return ratios (%)					
EBITDA margin	26.6	28.9	24.2	25.8	26.5
EBIT margin	23.1	25.5	19.3	20.7	20.9
Adjusted profit margin	18.9	21.3	15.0	16.2	16.4
Adjusted ROAE	29.4	28.5	14.6	14.9	14.5
ROCE	24.3	27.1	18.3	18.8	18.3
Working capital days (days)					
Receivables	69	24	70	50	50
Inventory	94	101	100	100	100
Payables	50	45	67	50	50
Ratios (x)					
Gross asset turnover	2.3	2.3	1.6	1.4	1.3
Current ratio	2.4	1.7	2.4	2.8	3.1
Net interest coverage ratio	39.3	85.8	240.1	275.4	299.5
Adjusted debt/equity	0.5	0.0	0.0	0.0	(0.1)

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

Disclaimer

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

BUY – Expected return >+15%

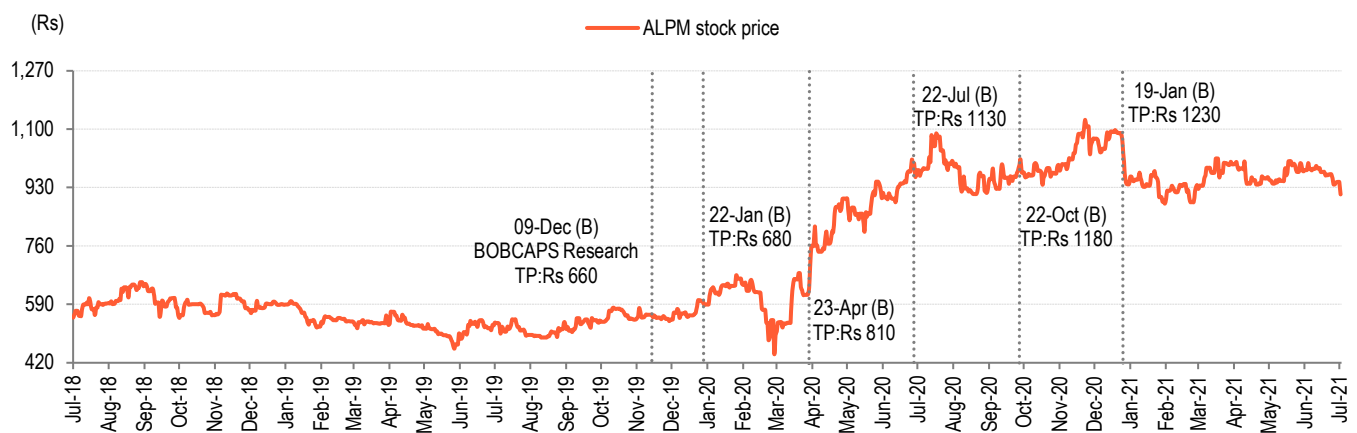
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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