

BUY

TP: Rs 1,180 | ▲ 17%

ALEMBIC PHARMA

Pharmaceuticals

22 October 2020

Good beat (ex-US) fuels earnings upgrade

Alembic Pharma (ALPM) reported a 12% EBITDA beat, with strong growth in ROW, API and India while US sales were in line. Despite high gross margins QoQ, EBITDA margin at 30% delivered a limited beat as spends returned to pre-Covid levels. ALPM expects a healthy H2 despite pricing pressure in sartans, and is guiding for FY21/FY22 EPS of Rs 60/Rs 50 (which bakes in a hit of Rs 22/sh from new plant commissioning). We raise FY21-FY23 EPS by 11-30% and maintain BUY with a new Sep'21 TP of Rs 1,180 (vs. Rs 1,130).

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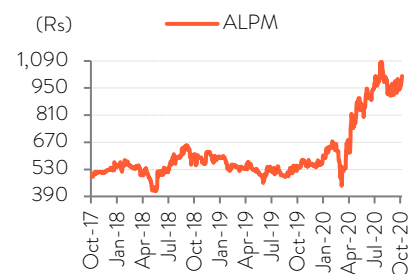
Extrapolating guidance, FY21-FY23 core EPS to grow 20%: FY21 guided EPS of Rs 60 includes several one-time benefits, in our view, totaling Rs 12/sh (Covid-related Rs 5, Sartans Rs 4, Azithromycin Rs 3). FY22 EPS of Rs 50 includes a one-time cost hit of Rs 22 (Rs 4.5bn) on three new units. We believe all of this cost should not reflect in FY22 – thus, core EPS can be ~Rs 55 after assuming a ~75% cost hit, implying 15% growth over FY21. Operating leverage from new units should kick in from FY23, driving a 20% EPS CAGR over FY21-FY23.

Ticker/Price	ALPM IN/Rs 1,012
Market cap	US\$ 2.7bn
Shares o/s	197mn
3M ADV	US\$ 6.7mn
52wk high/low	Rs 1,129/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

India beat; ROW/API pickup continue to surprise: India business posted 6% YoY growth led by strong antibiotic and gastro sales. ROW sales surged 84% YoY (73% in H1) led by market share gains. The China disruption-related opportunity aided API sales (+29% YoY) led by Azithromycin (+40% in H1). While ALPM expects this momentum to sustain in H2, we see growth challenges in FY22 over a high base. US sales grew by a muted US\$ 79mn QoQ as sartans saw pricing headwinds post new entrants. Given the large sartans franchise and several niche launches planned, we do not see material risk to sales.

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) India sales: confident to retain Azithral share gains. (2) US sales guidance retained at US\$ 400mn-500mn in three years. (3) API capacity expansion underway. (4) Net debt at Rs 2.7bn (vs. Rs 12bn in Q1).

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	15,436	14,166	16,877
Adj. net profit (Rs mn)	5,938	8,718	11,085	9,205	11,355
Adj. EPS (Rs)	31.0	46.3	58.8	48.8	60.2
Adj. EPS growth (%)	32.6	49.2	27.1	(17.0)	23.4
Adj. ROAE (%)	23.4	29.4	27.5	17.5	18.6
Adj. P/E (x)	32.6	21.9	17.2	20.7	16.8
EV/EBITDA (x)	23.1	16.9	13.7	14.7	11.7

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var (%)	H1FY21	H1FY20
Net Sales	14,571	12,408	17.4	13,410	8.7	13,611	7.1	27,981	21,897
EBITDA	4,436	3,456	28.3	4,083	8.6	3,946	12.4	8,519	5,706
Depreciation	438	359	-	415	-	423	-	853	713
EBIT	3,998	3,097	29.1	3,668	9.0	3,523	-	7,666	4,993
Interest	45	70	-	66	-	90	-	111	120
Other Income	32	4	-	3	-	10	-	35	37
PBT	3,985	3,031	31.5	3,605	10.5	3,443	15.7	7,590	4,910
Less: Taxation	730	525	-	668	-	826	-	1,398	884
Less: Minority Interest	(81)	41	-	(83)	-	0	-	(164)	83
Recurring PAT	3,337	2,465	35.4	3,020	10.5	2,617	27.5	6,357	3,943
Exceptional items	0	0	-	0	-	0	-	0	(327)
Reported PAT	3,337	2,465	35.4	3,020	10.5	2,617	27.5	6,357	3,616
Key Ratios (%)									
Gross Margin	78.6	78.0	-	74.8	-	75.5	-	76.8	78.2
EBITDA Margin	30.4	27.9	-	30.4	-	29.0	-	30.4	26.1
Tax / PBT	18.3	17.3	-	18.5	-	24.0	-	18.4	18.0
NPM	22.9	19.9	-	22.5	-	19.2	-	22.7	18.0
EPS (Rs)	17.7	13.1	-	16.0	-	13.9	-	33.7	20.9

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT SALES

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var (%)	H1FY21	H1FY20
Formulations	11,940	10,370	15.1	10,770	10.9	11,367	5.0	22,710	18,140
India	4,150	3,910	6.1	3,060	35.6	3,733	11.2	7,210	7,150
US	5,820	5,390	8.0	5,960	(2.3)	5,920	(1.7)	11,780	8,840
RoW	1,970	1,070	84.1	1,750	12.6	1,714	15.0	3,720	2,150
API	2,630	2,040	28.9	2,640	(0.4)	2,244	17.2	5,270	3,760
Net Sales	14,570	12,410	17.4	13,410	8.7	13,611	7.0	27,980	21,900

Source: Company, BOBCAPS Research

FIG 3 – REGULATORY/COMMERCIALISATION UPDATE ON KEY FACILITIES

Formulation	Dosage form	Audit/Filing Status
Panelav F1	Oral solid	Mar'20*
Panelav F2	Oncology oral solid	June'19*
Panelav F2	Oncology injectable	H2FY21#
Karkhadi F3	Injectable & Ophthalmic	Jan'20#
Jarod F4	Oral solid	June'20#
Karkhadi Aleor JV	Dermatology	Jan'20*
API		
Panelav API 1 & 2		Dec'18*
Karkhadi API 3		Jan'20*

Source: Company | #Expected filings, *Last USFDA inspection

Valuation methodology

We continue to believe that the deep US pipeline opportunity, best US margin (ex-R&D) track record of ~60% vs. Indian peers, and nimble supply chain would ensure healthy ROCE on the fresh US allocation for ALPM in the long run.

At CMP, the stock is trading at 12x FY23E EBITDA which we believe is reasonable ahead of stronger earnings growth (+20% expected), high FCF generation and stable 25-30% ROIC vs. an 18% average for large and mid-sized generic-focused companies. Following the Q2FY21 beat led ROW markets and the API business, we raise FY21/FY22/FY23 EPS estimates by 29%/11%/11%.

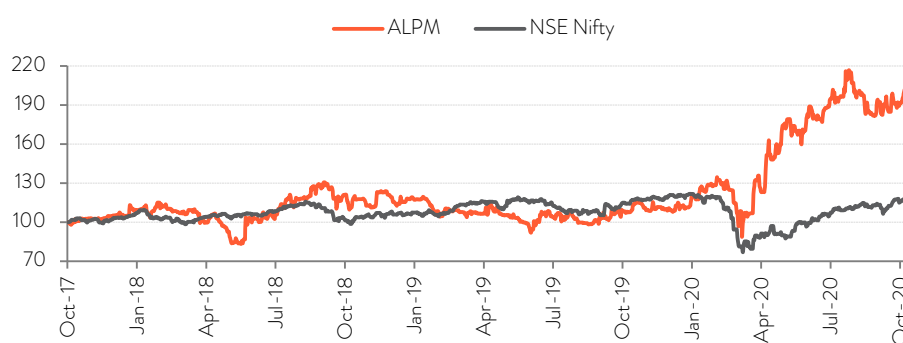
We retain BUY with a revised Sep'21 target price of Rs 1,180 (from Rs 1,130), based on an unchanged 15x EV/EBITDA multiple on Sep'22E – this represents an implied P/E of 25x. Our target valuation multiple is higher than the midpoint of the eight-year historical band (8-18x) and factors in (1) a resilient business model, and (2) a supportive global generic environment amidst the virus-led disruption which is creating multiple drug shortages and hence opportunities for Indian players.

FIG 4 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	53.8	57.3	64.5	51.7	56.1	63.2	4.1	2.2	2.1
EBITDA	15.4	14.2	16.9	12.8	13.5	16.1	20.5	5.1	5.0
EBITDA margin (%)	28.7	24.7	26.2	24.8	24.0	25.5	390bps	69bps	71bps
EPS (Rs)	56	47	58	44	42	52	29.4	10.8	11.4

Source: Company, BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

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 (~12% of FY21E EPS) and tardy commercialisation of the 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 15% 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 adversely affect ALPM's earnings.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	39,350	46,050	53,845	57,311	64,511
EBITDA	8,737	12,223	15,436	14,166	16,877
Depreciation	1,152	1,573	1,760	2,345	2,477
EBIT	7,585	10,650	13,676	11,821	14,400
Net interest income/(expenses)	(184)	(271)	(262)	(157)	(157)
Other income/(expenses)	94	49	105	291	504
Exceptional items	0	0	0	0	0
EBT	7,495	10,429	13,519	11,955	14,747
Income taxes	1,567	1,992	2,433	2,750	3,392
Extraordinary items	0	(437)	0	0	0
Min. int./Inc. from associates	(10)	(281)	0	0	0
Reported net profit	5,938	8,281	11,085	9,205	11,355
Adjustments	0	(437)	0	0	0
Adjusted net profit	5,938	8,718	11,085	9,205	11,355

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	7,022	6,259	10,326	10,991	12,372
Other current liabilities	1,221	3,125	2,692	2,866	3,226
Provisions	843	1,126	1,317	1,401	1,577
Debt funds	11,284	17,474	7,474	7,474	7,474
Other liabilities	0	0	0	0	0
Equity capital	377	377	393	393	393
Reserves & surplus	27,021	31,519	48,413	56,045	65,435
Shareholders' fund	27,398	31,896	48,806	56,438	65,828
Total liabilities and equities	47,768	59,880	70,615	79,170	90,477
Cash and cash eq.	2,055	808	6,162	13,218	20,369
Accounts receivables	4,888	8,647	11,802	13,346	15,023
Inventories	9,672	11,875	13,867	14,759	16,614
Other current assets	3,426	4,401	5,384	5,731	6,451
Investments	483	172	172	172	172
Net fixed assets	10,984	15,249	14,499	20,714	20,619
CWIP	15,660	18,460	18,460	10,960	10,960
Intangible assets	600	269	269	269	269
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	47,768	59,880	70,615	79,170	90,477

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	6,996	9,855	12,845	11,550	13,832
Interest expenses	184	271	262	157	157
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,064)	(5,513)	(2,305)	(1,861)	(2,334)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	6,116	4,613	10,803	9,846	11,654
Capital expenditures	(2,771)	(5,703)	(1,010)	(8,561)	(2,382)
Change in investments	(67)	311	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,838)	(5,392)	(1,010)	(8,561)	(2,382)
Equities issued/Others	0	0	16	0	0
Debt raised/repaid	4,207	6,190	(10,000)	0	0
Interest expenses	(184)	(271)	(262)	(157)	(157)
Dividends paid	(907)	(1,131)	(1,376)	(1,572)	(1,966)
Other financing cash flows	(5,237)	(5,257)	7,184	7,500	0
Cash flow from financing	(2,122)	(469)	(4,438)	5,771	(2,122)
Changes in cash and cash eq.	1,157	(1,248)	5,355	7,056	7,150
Closing cash and cash eq.	2,055	808	6,162	13,218	20,369

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	31.0	43.9	58.8	48.8	60.2
Adjusted EPS	31.0	46.3	58.8	48.8	60.2
Dividend per share	5.5	6.0	7.0	8.0	10.0
Book value per share	139.4	162.3	248.3	287.1	334.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	5.1	4.5	3.9	3.6	3.0
EV/EBITDA	23.1	16.9	13.7	14.7	11.7
Adjusted P/E	32.6	21.9	17.2	20.7	16.8
P/BV	7.3	6.2	4.1	3.5	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	79.2	83.6	82.0	77.0	77.0
Interest burden (PBT/EBIT)	98.8	97.9	98.8	101.1	102.4
EBIT margin (EBIT/Revenue)	19.3	23.1	25.4	20.6	22.3
Asset turnover (Revenue/Avg TA)	28.8	26.1	25.5	23.8	23.5
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.3	1.1	1.1
Adjusted ROAE	23.4	29.4	27.5	17.5	18.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.7	17.0	16.9	6.4	12.6
EBITDA	30.2	39.9	26.3	(8.2)	19.1
Adjusted EPS	32.6	49.2	27.1	(17.0)	23.4
Profitability & Return ratios (%)					
EBITDA margin	22.2	26.5	28.7	24.7	26.2
EBIT margin	19.3	23.1	25.4	20.6	22.3
Adjusted profit margin	15.1	18.9	20.6	16.1	17.6
Adjusted ROAE	23.4	29.4	27.5	17.5	18.6
ROCE	22.5	24.3	26.1	20.2	21.7
Working capital days (days)					
Receivables	45	69	80	85	85
Inventory	90	94	94	94	94
Payables	65	50	70	70	70
Ratios (x)					
Gross asset turnover	2.7	2.3	2.5	1.9	2.0
Current ratio	2.2	2.4	2.6	3.1	3.4
Net interest coverage ratio	41.2	39.3	52.2	75.3	91.7
Adjusted debt/equity	0.3	0.5	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ALEMBIC PHARMA (ALPM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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