RESULT REVIEW

BUY
TP: Rs 1,412 | ⮝ 31%

ALEMBIC PHARMA | Pharmaceuticals | 07 November 2024

The worst is over; H2FY25 to be better than H1FY25

- **Q2FY25 results were below our estimates on all fronts; however, ALPM expects H2 to be better than H1FY25 driven by healthy product mix**
- **US reported 25% volume growth amidst price erosion pressure. ALPM expects to launch 20 new products in FY25 (50% to be non-oral solids)**
- **We maintain BUY and continue to value the stock at 30x Sep'26 EPS, a 40% premium to its five-year mean of 21x, with a TP of Rs 1,412**

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Results below expectations due to decline in API sales: ALPM sales grew by 3% YoY (4% below our estimates), EBITDA by 15% (7% below our estimates) and APAT by 3% (7% below our estimates). The reason for the decline in earnings is (1) lower API sales of 15% (18% lower than our estimate) due to price erosion, (2) loss of a few accounts and lower domestic sales of 5% (2% below our estimate) due to lower acute sales industry-wide and (3) higher opex cost.

Domestic sales growth to be driven by normalised base: India region sales was affected by the decline in Anti Infective therapy and higher base of Azithromycin in the acute segment. We expect the India region to grow by ~9% driven by (1) normalised base of Azithromycin in H2 in the acute segment, (2) higher MR productivity, (3) uptick in well-diversified specialty and animal health segment.

US growth to be driven by new product launches: During Q2, US grew by 5% YoY affected by price erosion pressure. During the period, ALPM launched eight new products and expects to launch ten new ones in H2FY25. Of ~20 new product launches, 50% is in oral solids and the remaining 50% is in injectables, peptides and therapies like Oncology and Ophthalmology. Management expects new products to scale up and increase market share and, hence, guided for a healthy H2FY25.

ROW markets expected to recover in H2: The company faced supply issues in Q1FY25, which continued into Q2FY25. However, with the supply issues being resolved, we expect H2 to be better than H1.

EBITDA margin expected to reach 20% by FY27E: ALPM's EBITDA margin is at 15% currently and we expect it to increase closer to 20% driven by (1) higher productivity in India, (2) new product launches in US and (3) recovery in US sales.

Maintain BUY: We value ALPM at 30x Sep'26 EPS, a 40% premium to its five-year mean of 21x, to maintain a TP of Rs 1,412. We believe the premium valuation will sustain due to (1) aggressive new product launches in the US, (2) higher productivity in domestic region, and (3) recovery in the high-margin API business.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ALPM IN/Rs 1,080
Market cap	US$ 2.5bn
Free float	31%
3M ADV	US$ 4.1mn
52wk high/low	Rs 1,304/Rs 710
Promoter/FPI/DII	70%/5%/13%

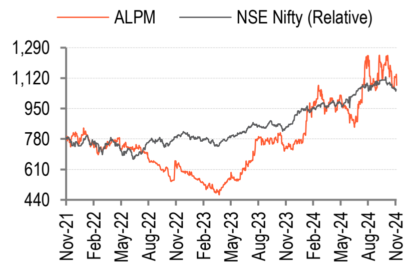
Source: NSE | Price as of 7 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	62,290	68,890	76,575
EBITDA (Rs mn)	9,337	11,213	13,904
Adj. net profit (Rs mn)	6,172	6,709	8,402
Adj. EPS (Rs)	31.4	34.1	42.7
Consensus EPS (Rs)	31.4	36.7	44.6
Adj. ROAE (%)	13.9	13.8	15.5
Adj. P/E (x)	34.4	31.6	25.3
EV/EBITDA (x)	23.4	19.4	15.4
Adj. EPS growth (%)	80.2	8.9	25.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Earnings call highlights

India business

- Specialty therapies: Gynaecology grew 8% vs IPM's 7%, Gastrointestinal grew 7% vs IPM's 13%, Anti-Diabetic grew 18% vs 13%, Cardiology grew 11% vs 15%, and Ophthalmology grew 13% vs IPM's -1%.
- Acute segment was affected by an industry-wide slowdown.
- The animal health business recorded 20% YoY growth with strong brands driving outperformance.
- ALPM launched three products during the quarter. New launches continue to do well along with promising future launches across key segments.
- Expect Azithromycin base to normalise. The India business is expected to grow in high single digit.

US business

- The US business witnessed 25% volume growth amid intense price erosion pressure of high single digit to low double digits.
- Eight new launches contributed to growth. Cumulatively, 157 products were launched in the US market.
- Nine ANDA approvals were received during the quarter, 214 cumulative ANDA approvals as on Sep'24.
- Management expects to launch 10 new products in H2FY25.
- Products from new facilities to drive growth in coming quarters.
- Capacity expansion in oral solids is underway to meet immediate demand in US and ex-US market.
- Management expects H2FY25 to be better than H1FY25 driven by new product launches which would offset price erosion pressure.

ROW business

- The ex-US business grew by 18% YoY to Rs 2.9bn in Q2FY25.
- The company witnessed supply issues in Q1FY25 which continued into Q2FY25.
- Partnerships in key markets (Europe, Canada, Australia, Brazil and South Africa) contributed to growth.
- ALPM expanded sales operations in Chile and future growth in the ex-US business is expected from new launches and territory expansions.

API business

- The API business is expected to decline 15% YoY on account of pricing headwinds and loss of accounts from existing customers.
- One US Drug Master File (DMF) filed in Q2FY25. 134 cumulative DMF filings with the USFDA.
- Persistent focus on cost efficiency to improve ALPM's position in the competitive market.
- Management expects API sales to recover in FY26, which is a high-margin business for the company.

R&D

- In Q2FY25, R&D comprised 8% of sales.
- Management guided for Rs 5bn-5.5bn worth of R&D spend for FY25.
- Of the total R&D spend, 70% is towards formulations and 30% to API.

GLP-1 opportunity

- The company will participate in the GLP-1 opportunity by manufacturing both API and formulations internally.
- It will participate in Semaglutide, but will not participate in the first wave of opportunity.
- It will not participate in the Liraglutide opportunity.

Fig 1 – Financial highlights

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	16,480	15,950	3.3	15,617	5.5
Other Related Income					
Total Income					
Total Expenses	**14,087**	**13,867**	**1.6**	**13,249**	**6.3**
(%) of net sales	85	87		85	
Raw material consumed	4,291	4,614	(7.0)	3,941	8.9
(%) of net sales	26	29		25	
Staff cost	3,915	3,470	12.8	3,798	3.1
(%) of net sales	24	22		24	
R&D cost	1,318	1,210	9.0	1,093	20.6
(%) of net sales	8	8		7	
SG&A	4,563	4,573	(0.2)	4,417	3.3
(%) of net sales	28	29		28	
EBITDA	**2,393**	**2,084**	**14.8**	**2,368**	**1.0**
Depreciation	705	676	4.4	690	2.1
EBIT	1,688	1,408	19.9	1,678	0.6
Interest	188	157		132	
Other Income	167	102		21	
PBT	1,667	1,353	23.2	1,567	6.4
Less: Taxation	273	(19)		225	
Less: Minority Interest	(9)	5		2	
Recurring PAT	1,403	1,367	2.7	1,341	4.7
Exceptional items	129	0		0	
Reported PAT	**1,532**	**1,367**	**12.1**	**1,341**	**14.3**
Key Ratios (%)					
Gross Margin	74.0	71.1	289	74.8	(80)
EBITDA Margin	14.5	13.1	146	15.2	(65)
Tax / PBT	16.4	(1.4)		14.4	
NPM	8.5	8.6		8.6	(7)
EPS	7.1	7.0	2.7	6.9	4.1

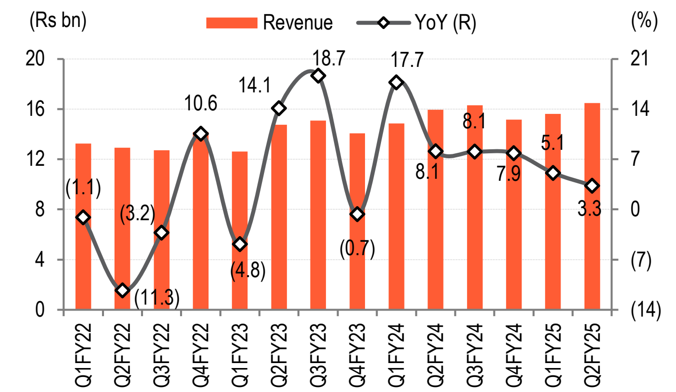
Source: Company, BOBCAPS Research

Fig 2 – Segmental revenues

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Formulations	13,740	12,730	7.9	13,040	5.4
India	6,090	5,770	5.5	5,720	6.5
US	4,670	4,440	5.2	4,610	1.3
ROW	2,980	2,520	18.3	2,710	10.0
API	2,740	3,220	(14.9)	2,590	5.8
Net Sales	16,480	15,950	3.3	15,631	5.4

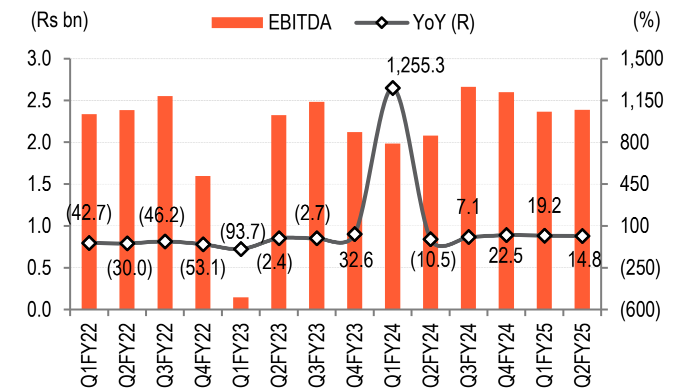
Source: Company, BOBCAPS Research

Fig 3 – Sales growth fell primarily due to decline in API sales



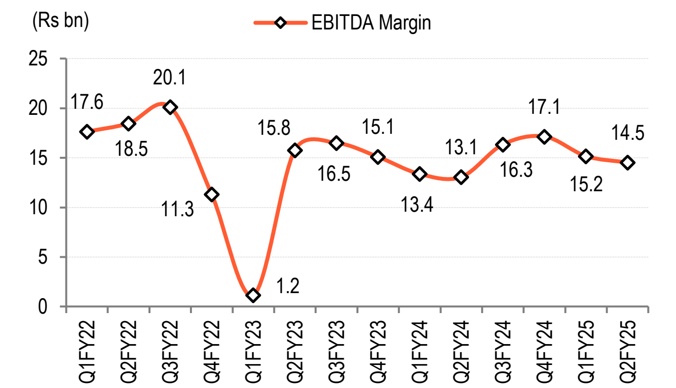
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth declined due to higher SG&A cost



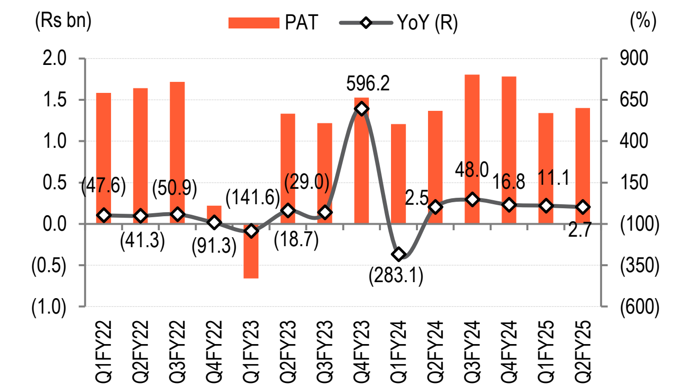
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin dropped due to lower US and India sales



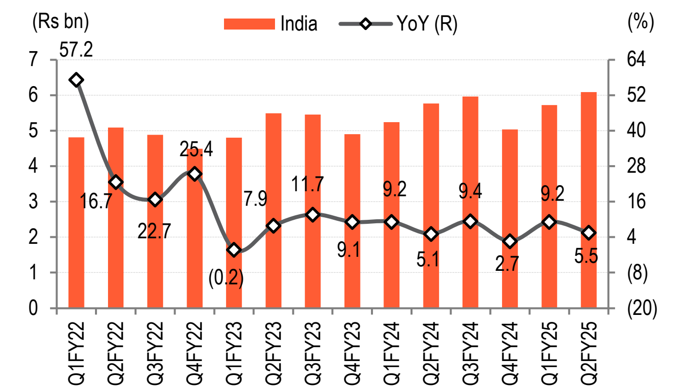
Source: Company, BOBCAPS Research

Fig 6 – Adjusted PAT grew on cost rationalisation



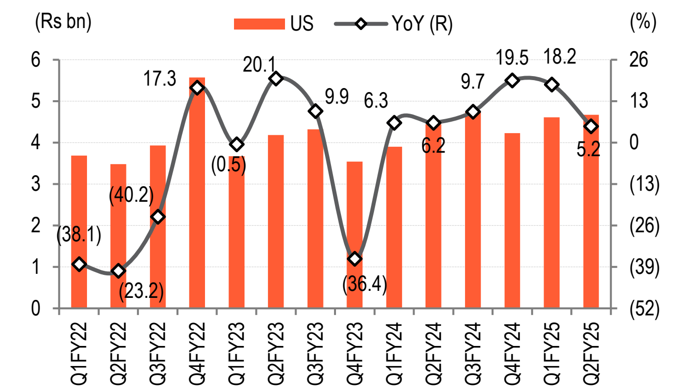
Source: Company, BOBCAPS Research

Fig 7 – Domestic sales growth was driven by animal health segment



Source: Company, BOBCAPS Research

Fig 8 – US growth driven by new product launches



Source: Company, BOBCAPS Research

Valuation methodology

ALPM's numbers were below our estimates due to India sales being affected by lower acute sales industry-wide and higher base of Azithromycin, followed by lower US and API sales affected by price erosion pressure. We expect the worst is over for the company as new product launches in the US will likely offset price erosion pressure (only 50% of new products are in oral solids), while India sales are expected to bounce back as acute sales recover, and API sales recover from H2FY25E. Due to all-round segmental growth, we expect ALPM's sales/earnings to grow at CAGRs of 11%/21% over FY24E-27E.

We maintain our BUY rating and value the stock at 30x Sep'26 EPS, which is at a 40% premium to its five-year mean of 21x, to yield a TP of Rs 1,412. We believe the premium valuation will sustain due to (1) aggressive new product launches in the US, (2) higher productivity in the domestic region and (3) recovery in the high-margin API business.

Fig 9 – Key assumptions

(Rs mn)	FY24	FY25	FY26E	FY27E
Revenue	62,290	68,890	76,575	84,338
EBITDA	9,337	11,213	13,904	17,097
PAT	6,172	6,709	8,402	10,797
EPS (Rs)	31.4	34.1	42.7	54.9
EBITDA Margin (%)	15.0	16.3	18.2	20.3
PAT Margin (%)	9.9	9.7	11.0	12.8

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**56,526**	**62,290**	**68,890**	**76,575**	**84,338**
EBITDA	7,083	9,337	11,213	13,904	17,097
Depreciation	2,754	2,727	3,270	3,680	3,974
EBIT	4,329	6,611	7,943	10,224	13,123
Net interest inc./(exp.)	(502)	(562)	(450)	(428)	(406)
Other inc./(exp.)	27	283	400	450	450
Exceptional items	0	0	0	0	0
EBT	3,855	6,332	7,893	10,246	13,167
Income taxes	126	160	1,184	1,844	2,370
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**3,729**	**6,172**	**6,709**	**8,402**	**10,797**
Adjustments	0	0	0	0	0
Adjusted net profit	**3,729**	**6,172**	**6,709**	**8,402**	**10,797**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,798	7,356	8,493	9,441	10,398
Other current liabilities	2,343	2,038	3,444	3,829	4,133
Provisions	1,763	1,748	1,933	2,148	2,366
Debt funds	7,220	5,132	4,875	4,631	4,400
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	42,082	46,093	50,640	56,880	65,514
Shareholders' fund	42,475	46,486	51,033	57,273	65,907
Total liab. and equities	**60,598**	**62,759**	**69,778**	**77,322**	**87,204**
Cash and cash eq.	823	1,266	5,642	5,740	6,855
Accounts receivables	10,464	10,248	11,324	15,735	24,262
Inventories	14,753	16,435	18,874	22,028	22,413
Other current assets	3,598	3,169	2,067	2,297	2,530
Investments	963	930	930	930	930
Net fixed assets	23,985	25,467	25,697	25,348	24,970
CWIP	6,013	5,244	5,244	5,244	5,244
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**60,598**	**62,759**	**69,778**	**77,322**	**87,204**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**5,352**	**8,651**	**10,745**	**6,262**	**7,511**
Capital expenditures	(8,665)	(3,450)	(3,500)	(3,330)	(3,596)
Change in investments	221	33	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(8,445)**	**(3,417)**	**(3,500)**	**(3,330)**	**(3,596)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	49	(2,089)	(257)	(244)	(232)
Interest expenses	(502)	(562)	(450)	(428)	(406)
Dividends paid	(1,966)	(2,162)	(2,162)	(2,162)	(2,162)
Other financing cash flows	5,639	21	0	0	0
Cash flow from financing	**3,220**	**(4,792)**	**(2,869)**	**(2,834)**	**(2,800)**
Chg in cash & cash eq.	**128**	**443**	**4,377**	**98**	**1,115**
Closing cash & cash eq.	**823**	**1,266**	**5,642**	**5,740**	**6,855**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.4	31.4	34.1	42.7	54.9
Adjusted EPS	17.4	31.4	34.1	42.7	54.9
Dividend per share	10.0	11.0	11.0	11.0	11.0
Book value per share	216.1	236.5	259.6	291.4	335.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.9	3.5	3.2	2.8	2.5
EV/EBITDA	30.8	23.4	19.4	15.4	12.4
Adjusted P/E	62.1	34.4	31.6	25.3	19.7
P/BV	5.0	4.6	4.2	3.7	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	96.7	97.5	85.0	82.0	82.0
Interest burden (PBT/EBIT)	89.0	95.8	99.4	100.2	100.3
EBIT margin (EBIT/Revenue)	7.7	10.6	11.5	13.4	15.6
Asset turnover (Rev./Avg TA)	25.9	30.7	32.0	32.5	31.9
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	7.2	13.9	13.8	15.5	17.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.5	10.2	10.6	11.2	10.1
EBITDA	(19.0)	31.8	20.1	24.0	23.0
Adjusted EPS	(34.4)	80.2	8.9	25.2	28.5
Profitability & Return ratios (%)					
EBITDA margin	12.5	15.0	16.3	18.2	20.3
EBIT margin	7.7	10.6	11.5	13.4	15.6
Adjusted profit margin	6.6	9.9	9.7	11.0	12.8
Adjusted ROAE	7.2	13.9	13.8	15.5	17.5
ROCE	8.0	13.6	15.5	18.1	20.5
Working capital days (days)					
Receivables	68	60	60	75	105
Inventory	95	96	100	105	97
Payables	44	43	45	45	45
Ratios (x)					
Gross asset turnover	1.6	1.6	1.7	1.7	1.7
Current ratio	2.7	2.8	2.7	3.0	3.3
Net interest coverage ratio	8.6	11.8	17.6	23.9	32.3
Adjusted debt/equity	0.2	0.1	0.0	0.0	0.0

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

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BUY – Expected return >+15%

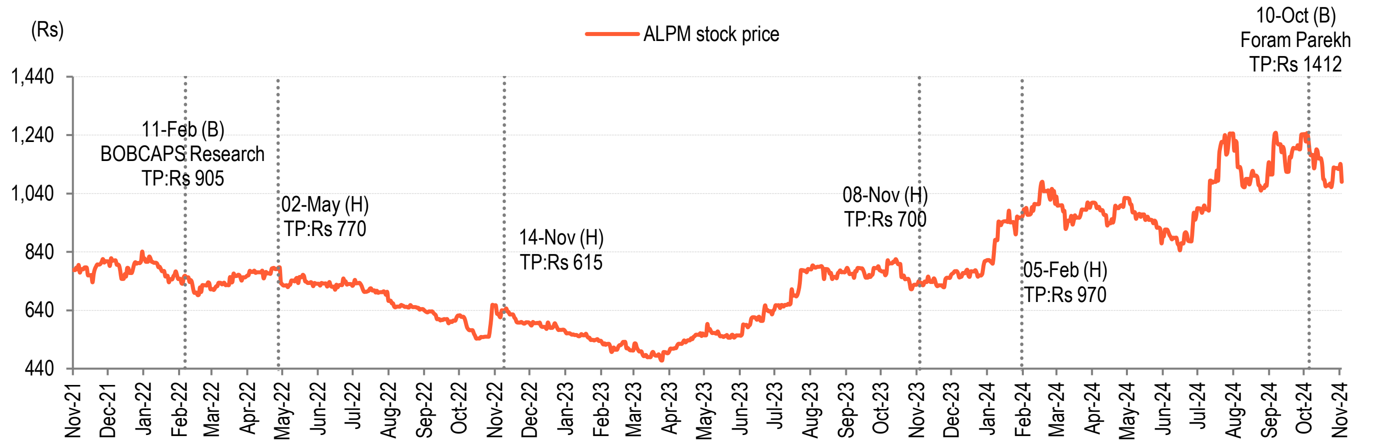
HOLD – Expected return from -6% to +15%

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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