

**BUY**

TP: Rs 1,230 | ▲ 19%

**ALEMBIC PHARMA**

Pharmaceuticals

19 January 2021

### Q3 misses estimates but India beat looks sustainable

**Alembic Pharma (ALPM) reported a 12% EBITDA miss due to weak sales. US, ROW and API sales fell short of estimates but India business delivered a strong rebound on operational efficiency. Despite healthy gross margins and lower R&D cost QoQ, EBITDA margins were lower at 27.8%. ALPM expects to retain 28-29% margins despite fewer US shortage opportunities and sartan compression, partly cushioned by deferred cost on the new plant. We raise FY21-FY23 EPS by 3% each. Maintain BUY as we roll to a Mar'22 TP of Rs 1,230 (vs. Rs 1,180).**

Vivek Kumar | Saad Shaikh

research@bobcaps.in

**India a positive surprise; US/ROW/API underperform:** India sales growth rebounded to 14% YoY after nine weak quarters, backed by the gastro and anti-diabetic segments besides operational efficiency in the old portfolio. Strong India growth was offset by weakness in API sales (-19% QoQ due to fewer China disruption-led opportunities), ROW (+15% YoY, -13% QoQ), and US sales (US\$ 70mn, -12% QoQ on continued price erosion in sartans and moderation in shortage opportunities). Benefits of new launches; Tavaborole and Asenapine (launched under shared exclusivity) to reflect in Q4. We retain FY23 US sales estimate of US\$ 390mn (+20% CAGR over FY20 ex-sartan).

**EBITDA miss not a red flag:** EBITDA margins normalised after the strong H1 results, coming in at 27.8% in Q3 (-270bps QoQ). Gross margin was a healthy 78% (-88bps QoQ). Management believes 28% EBITDA margins can be sustained as India has returned to pre-Covid margins. Also, lower R&D spends in FY21 (<Rs 6.3bn vs. Rs 7bn guided earlier) support our 29% margin forecast.

**Earnings call takeaways:** (1) Expect USFDA inspection for F3 unit (general injectables) in six months. (2) Q3 PAT includes one-time income of Rs 260mn from Rhizen. (3) US sales guidance retained at US\$ 400mn for next three years. (4) Q3 India growth sustainable. (5) Stepping up investment on APIs & F3 unit.

Ticker/Price	ALPM IN/Rs 1,031
Market cap	US\$ 2.8bn
Shares o/s	197mn
3M ADV	US\$ 3.8mn
52wk high/low	Rs 1,145/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

### STOCK PERFORMANCE



Source: NSE

### 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	15,782	14,546	17,305
Adj. net profit (Rs mn)	5,938	8,718	11,376	9,514	11,709
Adj. EPS (Rs)	29.7	44.4	57.9	48.4	59.6
Adj. EPS growth (%)	32.6	49.2	30.5	(16.4)	23.1
Adj. ROAE (%)	23.4	29.4	28.0	17.8	18.8
Adj. P/E (x)	34.7	23.2	17.8	21.3	17.3
EV/EBITDA (x)	23.5	17.2	13.7	14.5	11.5

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var (%)	9MFY21	9MFY20
<b>Net Sales</b>	<b>13,143</b>	<b>12,090</b>	<b>9</b>	<b>14,571</b>	<b>(10)</b>	<b>14,112</b>	<b>(6.9)</b>	<b>41,124</b>	<b>33,987</b>
<b>EBITDA</b>	<b>3,651</b>	<b>3,252</b>	<b>12.3</b>	<b>4,436</b>	<b>(17.7)</b>	<b>4,143</b>	<b>(11.9)</b>	<b>12,170</b>	<b>8,958</b>
Depreciation	470	418	-	438	-	438	-	1,323	1,131
<b>EBIT</b>	<b>3,181</b>	<b>2,834</b>	<b>12.3</b>	<b>3,998</b>	<b>(20.4)</b>	<b>3,705</b>	<b>-</b>	<b>10,847</b>	<b>7,827</b>
Interest	23	74	-	45	-	45	-	134	193
Other Income	25	4	-	32	-	10	-	60	41
<b>PBT</b>	<b>3,183</b>	<b>2,764</b>	<b>15.2</b>	<b>3,985</b>	<b>(20.1)</b>	<b>3,670</b>	<b>(13.3)</b>	<b>10,773</b>	<b>7,674</b>
Less: Taxation	591	485	-	730	-	844	-	1,989	1,369
Less: Minority Interest	(334)	(69)	-	(81)	-	0	-	(498)	14
<b>Recurring PAT</b>	<b>2,926</b>	<b>2,348</b>	<b>24.6</b>	<b>3,337</b>	<b>(12.3)</b>	<b>2,826</b>	<b>3.5</b>	<b>9,283</b>	<b>6,291</b>
Exceptional items	0	0	-	0	-	0	-	0	(327)
<b>Reported PAT</b>	<b>2,926</b>	<b>2,348</b>	<b>24.6</b>	<b>3,337</b>	<b>(12.3)</b>	<b>2,826</b>	<b>3.5</b>	<b>9,283</b>	<b>5,964</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>				
Gross Margin	77.7	75.3	239	78.6	(88)	77.0	-	77.1	77.2
EBITDA Margin	27.8	26.9	88	30.4	(267)	29.4	-	29.6	26.4
Tax / PBT	18.6	17.5	-	18.3	-	23.0	-	18.5	17.8
NPM	22.3	19.4	-	22.9	-	20.0	-	22.6	18.5
<b>EPS (Rs)</b>	<b>14.9</b>	<b>11.9</b>	<b>-</b>	<b>17.0</b>	<b>-</b>	<b>15.0</b>	<b>-</b>	<b>47.2</b>	<b>32.0</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENT SALES**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var (%)	9MFY21	9MFY20
<b>Formulations</b>	<b>11,010</b>	<b>10,320</b>	<b>6.7</b>	<b>11,940</b>	<b>(7.8)</b>	<b>11,723</b>	<b>(6.1)</b>	<b>33,720</b>	<b>28,460</b>
India	4,180	3,680	13.6	4,150	0.7	4,029	3.7	11,390	10,830
US	5,120	5,150	(0.6)	5,820	(12.0)	5,846	(12.4)	16,900	13,990
RoW	1,710	1,490	14.8	1,970	(13.2)	1,848	(7.4)	5,430	3,640
<b>API</b>	<b>2,140</b>	<b>1,770</b>	<b>20.9</b>	<b>2,630</b>	<b>(18.6)</b>	<b>2,390</b>	<b>(10.4)</b>	<b>7,410</b>	<b>5,530</b>
<b>Net Sales</b>	<b>13,150</b>	<b>12,090</b>	<b>8.8</b>	<b>14,570</b>	<b>(9.7)</b>	<b>14,112</b>	<b>(6.8)</b>	<b>41,130</b>	<b>33,990</b>

Source: Company, BOBCAPS Research

**FIG 3 – REGULATORY/COMMERCIALISATION UPDATE ON KEY FACILITIES**

Particulars	Dosage form	Audit/Filing Status
<b>Formulation</b>		
Panelav F1	Oral solids	Mar'20*
Panelav F2	Oncology oral solids	Jun'19*
Panelav F2	Oncology injectable	H2FY21#
Karkhadi F3	Injectable & Ophthalmic	Jan'20#
Jarod F4	Oral solids	Jun'20#
Karkhadi Aleor JV	Dermatology	Jan'20*
<b>API</b>		
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% over next two years), FCF generation and stable 25-30% ROIC vs. an 18% average for large and mid-sized generic-focused companies. We marginally raise FY21-FY23 EPS estimates by 3% each to factor in lower R&D cost and delayed onboarding of the operation cost on new plants due to delays in USFDA plant inspection/commercialisation.

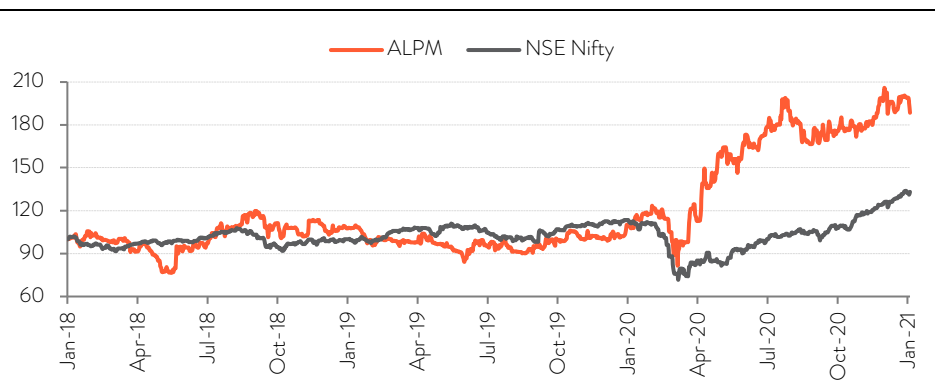
We retain BUY with a revised Mar'22 target price of Rs 1,230 (from Rs 1,180), based on a 14x EV/EBITDA multiple on Mar'23E – this represents an implied P/E of 21x. Our target valuation multiple is higher than the midpoint of the eight-year historical band (8-18x) and factors in (1) a resilient business 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	53.8	57.3	64.5	0.0	0.0	0.0
EBITDA	15.8	14.5	17.3	15.4	14.2	16.9	2.2	2.7	2.5
EBITDA margin (%)	29.3	25.4	26.8	28.7	24.7	26.2	64bps	66bps	66bps
EPS (Rs)	58	48	60	56	47	58	2.6	3.4	3.1

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
<b>Total revenue</b>	<b>39,350</b>	<b>46,050</b>	<b>53,845</b>	<b>57,311</b>	<b>64,511</b>
EBITDA	8,737	12,223	15,782	14,546	17,305
Depreciation	1,152	1,573	1,760	2,345	2,477
EBIT	7,585	10,650	14,022	12,201	14,829
Net interest income/(expenses)	(184)	(271)	(262)	(157)	(157)
Other income/(expenses)	94	49	113	312	535
Exceptional items	0	0	0	0	0
EBT	7,495	10,429	13,873	12,356	15,206
Income taxes	1,567	1,992	2,497	2,842	3,497
Extraordinary items	0	(437)	260	0	0
Min. int./Inc. from associates	(10)	(281)	0	0	0
<b>Reported net profit</b>	<b>5,938</b>	<b>8,281</b>	<b>11,636</b>	<b>9,514</b>	<b>11,709</b>
Adjustments	0	(437)	260	0	0
<b>Adjusted net profit</b>	<b>5,938</b>	<b>8,718</b>	<b>11,376</b>	<b>9,514</b>	<b>11,709</b>

### 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	48,963	56,905	66,648
Shareholders' fund	27,398	31,896	49,356	57,298	67,041
<b>Total liabilities and equities</b>	<b>47,768</b>	<b>59,880</b>	<b>71,166</b>	<b>80,030</b>	<b>91,690</b>
Cash and cash eq.	2,055	808	6,713	14,078	21,582
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
<b>Total assets</b>	<b>47,768</b>	<b>59,880</b>	<b>71,166</b>	<b>80,030</b>	<b>91,690</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	6,996	9,855	13,396	11,859	14,186
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
<b>Cash flow from operations</b>	<b>6,117</b>	<b>4,613</b>	<b>11,353</b>	<b>10,155</b>	<b>12,008</b>
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
<b>Cash flow from investing</b>	<b>(2,838)</b>	<b>(5,392)</b>	<b>(1,010)</b>	<b>(8,561)</b>	<b>(2,382)</b>
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
<b>Cash flow from financing</b>	<b>(2,122)</b>	<b>(469)</b>	<b>(4,438)</b>	<b>5,771</b>	<b>(2,122)</b>
<b>Changes in cash and cash eq.</b>	<b>1,157</b>	<b>(1,248)</b>	<b>5,905</b>	<b>7,365</b>	<b>7,504</b>
<b>Closing cash and cash eq.</b>	<b>2,055</b>	<b>808</b>	<b>6,713</b>	<b>14,078</b>	<b>21,582</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	29.7	42.1	59.2	48.4	59.6
Adjusted EPS	29.7	44.4	57.9	48.4	59.6
Dividend per share	5.5	6.0	7.0	8.0	10.0
Book value per share	139.4	162.3	251.1	291.5	341.1

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	5.2	4.6	4.0	3.7	3.1
EV/EBITDA	23.5	17.2	13.7	14.5	11.5
Adjusted P/E	34.7	23.2	17.8	21.3	17.3
P/BV	7.4	6.4	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	98.9	101.3	102.5
EBIT margin (EBIT/Revenue)	19.3	23.1	26.0	21.3	23.0
Asset turnover (Revenue/Avg TA)	28.8	26.1	25.4	23.6	23.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.3	1.1	1.1
Adjusted ROAE	23.4	29.4	28.0	17.8	18.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	25.7	17.0	16.9	6.4	12.6
EBITDA	30.2	39.9	29.1	(7.8)	19.0
Adjusted EPS	32.6	49.2	30.5	(16.4)	23.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.2	26.5	29.3	25.4	26.8
EBIT margin	19.3	23.1	26.0	21.3	23.0
Adjusted profit margin	15.1	18.9	21.1	16.6	18.2
Adjusted ROAE	23.4	29.4	28.0	17.8	18.8
ROCE	22.5	24.3	26.6	20.6	22.1
<b>Working capital days (days)</b>					
Receivables	45	69	80	85	85
Inventory	90	94	94	94	94
Payables	65	50	70	70	70
<b>Ratios (x)</b>					
Gross asset turnover	2.7	2.3	2.5	1.9	2.0
Current ratio	2.2	2.4	2.6	3.1	3.5
Net interest coverage ratio	41.2	39.3	53.5	77.7	94.5
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%

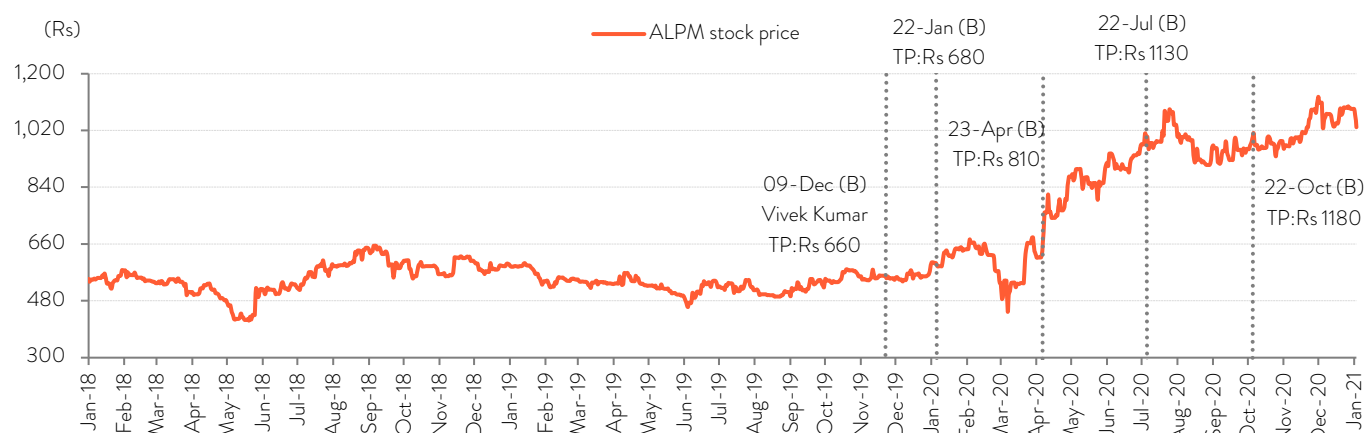
**ADD** – Expected return from >+5% to +15%

**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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