

BUY

TP: Rs 905 | ▲ 19%

ALEMBIC PHARMA

Pharmaceuticals

11 February 2022

US business weak but showing signs of stabilising

- Q3 revenue dipped 3% YoY on a steep decline in US (-23%) and API (-8%) business, despite growth in India (+17%) and ROW (+13%)
- US revenue grew QoQ to US\$ 53mn but plunged YoY due to the absence of one-offs. Higher freight and RM cost weighed on margins
- We cut FY22-FY24 EBITDA by 4-10% and roll over to a new TP of Rs 905 (vs. Rs 980) based on 11x FY24E EV/EBITDA (vs. 13x); retain BUY

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Strong growth in India and ROW muted by drop in US and API sales: US business dropped 23% YoY in Q3FY22, prompting a 3% YoY revenue decline for ALPM despite strong India (+17%) and ROW growth (+13%) off a high base. API business declined 8% YoY during the quarter due to an unfavourable base.

US business showing signs of stabilising: US revenue rose 13% QoQ to US\$ 53mn, indicating signs of stability in the business which saw a sharp YoY contraction due to the absence of one-off opportunities and increased competition that led to price erosion in a few large products.

New launches to combat price erosion: ALPM plans to launch some complex products in the US market over the next six months, including one inhalation product (Formoterol Fumarate) and complex oral solid dosages on the first-day launch of generics. During the quarter, the company launched six products and plans to introduce an additional five in Q4FY22. Management expects new products to compensate for the revenue loss in its existing US portfolio due to price erosion.

Near-term EBITDA margin guided at 20-21%: ALPM's gross/EBITDA margin contracted 465bps/770bps YoY to 73.1%/20.1% in Q3 on account of higher raw material and freight cost coupled with supply chain disruptions. Management expects freight charges to remain elevated in Q4. With a focus on cost rationalisation, new launches and market share gains in existing products, ALPM expects to maintain a 20-21% EBITDA margin in the near term.

Maintain BUY: The stock is currently trading at 12.1x/9.2x FY23E/FY24E EV/EBITDA (18.8x/14.4x P/E). We cut our FY22-FY24 EBITDA estimates by 4-10% to factor in margin pressures amid pricing issues in the US and rising costs. On rollover to FY24 valuations, we arrive at a revised TP of Rs 905 (Rs 980) set at a reduced EV/EBITDA multiple of 11x (implied P/E of 17x) vs. 13x earlier. Our target multiple is at 35% discount to peers such as ALKEM and AJP. Given the attractive valuations, we retain our BUY rating on the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALPM IN/Rs 758
Market cap	US\$ 2.0bn
Free float	31%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 1,038/Rs 714
Promoter/FPI/DII	69%/6%/11%

Source: NSE | Price as of 10 Feb 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	53,940	51,566	55,581
EBITDA (Rs mn)	15,584	10,163	12,323
Adj. net profit (Rs mn)	11,473	6,609	7,926
Adj. EPS (Rs)	60.0	33.6	40.3
Consensus EPS (Rs)	60.0	34.5	39.8
Adj. ROAE (%)	28.5	12.4	13.5
Adj. P/E (x)	12.6	22.6	18.8
EV/EBITDA (x)	10.4	15.5	12.1
Adj. EPS growth (%)	35.1	(43.9)	19.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Net Sales	12,717	13,143	(3.2)	12,923	(1.6)	38,901	41,124	(5.4)
EBITDA	2,557	3,651	(30.0)	2,572	(0.6)	7,488	12,170	(38.5)
Depreciation	559	470	-	546	-	1,637	1,323	-
EBIT	1,997	3,181	(37.2)	2,026	(1.4)	5,851	10,847	(46.1)
Interest	43	23	-	46	-	110	134	-
Other Income	13	25	-	22	--	54	60	-
PBT	1,967	3,183	(38.2)	2,003	(1.8)	5,795	10,773	(46.2)
Less: Taxation	325	591	-	395	-	1,062	1,989	-
Less: Minority Interest	(122)	(334)	-	(86)		(369)	(498)	-
Recurring PAT	1,764	2,926	(39.7)	1,693	4.2	5,102	9,283	(45.0)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,764	2,926	(39.7)	1,693	4.2	5,102	9,283	(45.0)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	73.1	77.7	(466)	74.2	(119)	72.7	77.1	(434)
EBITDA Margin	20.1	27.8	(767)	19.9	20	19.2	29.6	(1,034)
Tax / PBT	16.5	18.6	-	19.7	-	18.3	18.5	-
NPM	13.9	22.3	-	13.1	77	13.1	22.6	-
EPS	9.0	14.9	(40)	8.7	3.7	26.1	47.2	(44.8)

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Formulations	10,740	11,010	(2.5)	10,540	1.9	31,750	33,720	(5.8)
India	4,880	4,180	16.7	5,090	(4.1)	14,780	11,390	29.8
US	3,930	5,120	(23.2)	3,480	12.9	11,100	16,900	(34.3)
ROW	1,930	1,710	12.9	1,970	(2.0)	5,870	5,430	8.1
API	1,980	2,140	(7.5)	2,390	(17.2)	7,160	7,410	(3.4)
Net Sales	12,720	13,150	(3.3)	12,930	(1.6)	38,910	41,130	(5.4)
USDINR	74	74	0.8	74	0.0	74	74	0
US revenue (US\$ mn)	53	70	(23.9)	47	12.9	150	228	(34.3)

Source: Company, BOBCAPS Research

Earnings call highlights

- **US launches:** ALPM plans to launch a few complex products in the US market over the next six months, including one inhalation product (Formoterol Fumarate) and complex OSDs on the first-day launch of generics. The rollout of Formoterol has been delayed (approved in Nov'21) due to regulatory issues with CMO partners. Five ANDAs are to be launched in Q4FY22. The US pipeline comprises only of para-IV applications, mainly in oncology OSDs. Of these, 20% of para-IV applications are FTF (first to file).
- **US generics:** After reporting US market revenue of US\$ 53mn in Q3FY22, management has guided for a quarterly run-rate of US\$ 45mn-50mn in the near term, as new launches are likely to compensate for the revenue loss in the existing portfolio due to price erosion. The company is assuming mid-to-low single-digit price erosion in its existing portfolio. The base effect of high Sartan sales will be absent and should benefit ALPM in FY23.
- **USFDA regulatory developments:** The Karkhadi plant has not yet received the establishment inspection report (EIR) from the USFDA. Management expects to hear from the regulator within six months.
- **India formulations:** Management has guided for 5-6% additional growth over and above the Indian pharma market in segments relevant to its formulations portfolio. The company believes the professional appearance, reach and variety of its products should help it outperform the domestic market.
- **Margin guidance:** Management has guided for EBITDA margin in the range of 21-23% in the near term with R&D costs at 12% of sales. [20-21% on pg1]
- **Net debt:** Net debt has risen to Rs 5.1bn as of Q3 from Rs 4.9bn in the year-ago quarter, with net D/E at 0.1x.

Valuation methodology

ALPM is currently trading at 12.1x/9.2x FY23E/FY24E EV/EBITDA (18.8x/14.4x P/E). We cut our FY22/FY23/FY24 EBITDA estimates by 10%/5%/4% to factor in margin pressures amid pricing issues in the US and rising costs. On rollover to FY24 valuations, we arrive at a revised TP of Rs 905 (Rs 980) set at a reduced EV/EBITDA multiple of 11x (implied P/E of 17x) vs. 13x earlier. Our target multiple is at 35% discount to peers such as ALKEM and AJP. Given the attractive valuations, we retain our BUY rating on the stock.

Fig 3 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sales	51.6	55.6	61.6	52.3	57.5	63.7	(1.5)	(3.3)	(3.3)
EBITDA	10.2	12.3	16.2	11.3	12.9	16.9	(9.7)	(4.7)	(3.9)
EBITDA margin (%)	19.7	22.2	26.3	21.5	22.5	26.5	(180bps)	(33bps)	(17bps)
EPS (Rs)	33.6	40.3	52.7	36.3	42.8	55.3	(7.3)	(5.8)	(4.6)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY21	FY22E	FY23E	FY24E
India	15.0	17.4	18.9	20.3
US	21.6	16.5	17.7	20.4
ROW	7.8	8.1	8.9	9.8
API	9.6	9.6	10.1	11.1

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EV/EBITDA (x)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Ajanta Pharma	AJP IN	BUY	2,655	9.7	15.0	13.5	22.1	21.0	17.0
Alkem Labs	ALKEM IN	HOLD	4,000	6.5	16.4	14.3	23.4	22.4	17.0
Alembic Pharma	ALPM	BUY	905	2.2	9.7	8.5	13.5	15.7	11.0

Source: 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 the company 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. That said, the company 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 threat. Further, any slowdown in pharma market growth and delays in new launches can affect ALPM's earnings.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.4	2,059	2,655	BUY
Alembic Pharma	ALPM IN	2.0	758	905	BUY
Alkem Labs	ALKEM IN	5.6	3,501	4,000	HOLD
Aurobindo Pharma	ARBP IN	5.4	684	850	BUY
Cipla	CIPLA IN	10.5	975	1,160	BUY
Divi's Labs	DIVI IN	15.3	4,314	5,540	HOLD
Dr Reddy's Labs	DRRD IN	9.7	4,371	4,700	HOLD
Eris Lifesciences	ERIS IN	1.3	699	890	BUY
Laurus Labs	LAURUS IN	3.9	540	570	HOLD
Sun Pharma	SUNP IN	28.6	894	1,045	BUY

Source: BOBCAPS Research, NSE | Price as of 10 Feb 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	46,060	53,940	51,566	55,581	61,647
EBITDA	12,233	15,584	10,163	12,323	16,234
Depreciation	1,573	1,835	2,213	2,573	2,973
EBIT	10,660	13,750	7,950	9,750	13,261
Net interest inc./(exp.)	(271)	(160)	(40)	(42)	(42)
Other inc./(exp.)	49	100	150	200	239
Exceptional items	0	0	0	0	0
EBT	10,439	13,690	8,060	9,908	13,458
Income taxes	1,992	2,533	1,451	1,982	3,095
Extraordinary items	(437)	0	0	0	0
Min. int./Inc. from assoc.	(281)	(316)	0	0	0
Reported net profit	8,291	11,473	6,609	7,926	10,363
Adjustments	(437)	0	0	0	0
Adjusted net profit	8,728	11,473	6,609	7,926	10,363

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	6,259	6,688	9,466	7,614	8,445
Other current liabilities	3,125	6,314	2,578	2,779	3,082
Provisions	1,126	1,375	1,315	1,417	1,572
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	55,356	61,316	69,713
Shareholders' fund	31,896	50,712	55,749	61,709	70,107
Total liab. and equities	59,880	67,087	71,106	75,518	85,204
Cash and cash eq.	808	1,058	3,576	6,335	10,895
Accounts receivables	8,647	3,486	9,889	7,614	8,445
Inventories	11,875	14,861	14,128	15,228	16,890
Other current assets	4,401	5,612	5,157	5,558	6,165
Investments	172	2,363	2,363	2,363	2,363
Net fixed assets	15,249	17,035	20,821	23,248	25,275
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	71,106	75,518	85,204

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	4,623	18,615	2,630	9,767	11,567
Capital expenditures	(5,703)	(3,466)	(6,000)	(5,000)	(5,000)
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)	(6,000)	(5,000)	(5,000)
Equities issued/Others	0	16	0	0	0
Debt raised/repaid	6,190	(15,475)	0	0	0
Interest expenses	(271)	(160)	(40)	(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)	5,888	(2,007)	(2,007)
Chg in cash & cash eq.	(1,248)	251	2,517	2,760	4,560
Closing cash & cash eq.	808	1,058	3,576	6,335	10,895

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	42.2	60.0	33.6	40.3	52.7
Adjusted EPS	44.4	60.0	33.6	40.3	52.7
Dividend per share	6.0	7.0	8.0	10.0	10.0
Book value per share	162.3	258.0	283.6	314.0	356.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	3.4	3.0	3.1	2.7	2.4
EV/EBITDA	12.8	10.4	15.5	12.1	9.0
Adjusted P/E	17.1	12.6	22.6	18.8	14.4
P/BV	4.7	2.9	2.7	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	83.6	83.8	82.0	80.0	77.0
Interest burden (PBT/EBIT)	97.9	99.6	101.4	101.6	101.5
EBIT margin (EBIT/Revenue)	23.1	25.5	15.4	17.5	21.5
Asset turnover (Rev./Avg TA)	26.2	26.4	23.3	22.9	22.7
Leverage (Avg TA/Avg Equity)	1.5	1.2	1.0	1.0	1.0
Adjusted ROAE	29.4	28.5	12.4	13.5	15.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	17.1	17.1	(4.4)	7.8	10.9
EBITDA	40.0	27.4	(34.8)	21.2	31.7
Adjusted EPS	49.3	35.1	(43.9)	19.9	30.7
Profitability & Return ratios (%)					
EBITDA margin	26.6	28.9	19.7	22.2	26.3
EBIT margin	23.1	25.5	15.4	17.5	21.5
Adjusted profit margin	18.9	21.3	12.8	14.3	16.8
Adjusted ROAE	29.4	28.5	12.4	13.5	15.7
ROCE	24.3	27.1	14.7	16.4	19.9
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	1.7	1.6	1.6
Current ratio	2.4	1.7	2.5	2.9	3.2
Net interest coverage ratio	39.3	85.8	198.9	232.3	315.9
Adjusted debt/equity	0.5	0.0	0.0	(0.1)	(0.1)

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

Disclaimer

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

BUY – Expected return >+15%

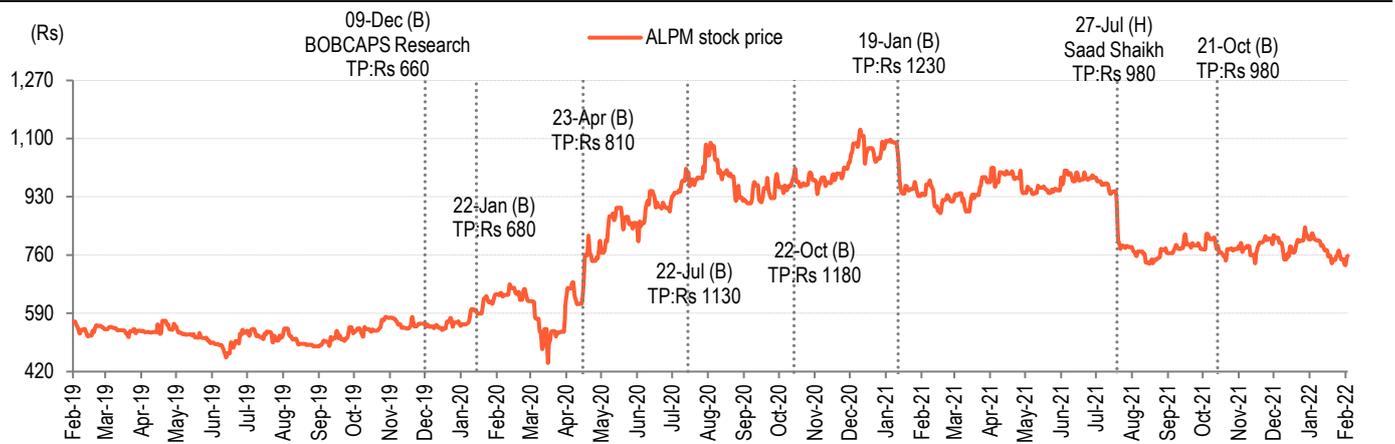
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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