

HOLD

TP: Rs 970 | ▲ 1%

ALEMBIC PHARMA

Pharmaceuticals

05 February 2024

Healthy quarter; PAT beat on low tax rate

- Q3 EBITDA ahead of consensus by 4% on healthy margins but strong PAT beat of 22% came from lower tax rate
- Formulations business fared well across geographies, whereas API sales declined; R&D spend curtailment on track
- TP raised to Rs 970 (vs. Rs 700) on revised estimates and higher target EV/EBITDA multiple of 14x (vs. 12.5x); maintain HOLD

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Strong growth in formulation business; API decline likely transitory: ALPM reported 8% YoY revenue growth in Q3FY24 to Rs 16.3bn, in line with Bloomberg consensus, led by a strong performance in ROW markets (+32% YoY) and healthy growth in India (+9%) and US (+10%) businesses. API revenue, however, declined 11% YoY due to lower offtake from a few customers. The company expects API growth to recover in a couple of quarters.

Healthy India growth...: Domestic formulation sales grew 9% YoY and performed better than the market, even in the antibiotic and respiratory segments which are seeing an industry-wide slowdown on a high base. Therapies such as gynaecology, gastrointestinal, anti-diabetic and ophthalmology outpaced market growth.

...and continued US launch momentum: US revenue grew 7% QoQ CC to US\$ 57mn led by 11 new launches in Q3 and market share gains in newly commercialised products. ALPM expects to roll out five more products in Q4FY24 which, along with products from new facilities, would likely buoy growth ahead. Management expects launch momentum to continue into FY25 and has a pipeline of 10-15 new introductions. In ROW, growth was led by robust demand across markets, new product registrations as well as dossier extensions to new geographies.

Healthy margins while lower tax rate drives PAT beat: Gross margin expanded 190bps YoY (70bps QoQ) and EBITDA margin was flattish YoY but rose 330bps QoQ to 16.3% due to sequentially lower overheads and R&D cost. EBITDA, thus, came in 4% ahead of consensus. PAT grew 48% YoY to Rs 1.8bn and was ahead of consensus estimates by 22% due to a lower tax rate of 2.2% in Q3 (vs. 19.4% LY).

Retain HOLD: We raise our FY25/FY26 EBITDA estimates by 2%/5% to reflect ALPM's stabilising margins, expectations of better operating leverage and strong momentum in US and ROW businesses. We also roll valuations over to FY26E and raise our target EV/EBITDA multiple to 14x (from 12.5x) – a 10% discount to the stock's 5Y average. These changes give us a revised TP of Rs 970 (from Rs 700), which carries just 1% upside. Given the full valuations, we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ALPM IN/Rs 965
Market cap	US\$ 2.3bn
Free float	31%
3M ADV	US\$ 4.0mn
52wk high/low	Rs 1,038/Rs 462
Promoter/FPI/DII	70%/5%/13%

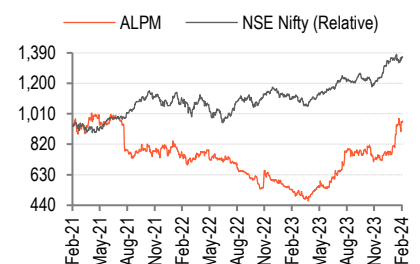
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	56,526	64,530	71,136
EBITDA (Rs mn)	7,083	9,699	11,640
Adj. net profit (Rs mn)	3,729	6,084	7,291
Adj. EPS (Rs)	17.4	31.0	37.1
Consensus EPS (Rs)	17.4	28.0	37.5
Adj. ROAE (%)	7.2	13.7	14.8
Adj. P/E (x)	55.5	31.2	26.0
EV/EBITDA (x)	27.6	20.2	16.8
Adj. EPS growth (%)	(34.4)	77.9	19.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	16,306	15,090	8.1	15,950	2.2	47,118	42,462	11.0
EBITDA	2,664	2,488	7.1	2,084	27.8	6,734	4,962	35.7
Depreciation	695	665	4.4	676	2.8	2,032	2,013	-
EBIT	1,969	1,822	8.1	1,408	39.9	4,702	2,949	59.5
Interest	152	146	-	157	-	453	358	-
Other Income	29	4	-	102	-	247	19	-
PBT	1,846	1,681	9.9	1,353	36.5	4,497	2,609	72.4
Less: Taxation	41	326	-	(19)	-	114	490	-
Less: Minority Interest	1	136	-	5	-	6	225	-
Recurring PAT	1,805	1,219	48.0	1,367	32.1	4,377	1,894	131.1
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,805	1,219	48.0	1,367	32.1	4,377	1,894	131.1
Key Ratios (%)								
Gross Margin	71.7	69.8	190bps	71.1	67bps	71.7	69.9	171bps
EBITDA Margin	16.3	16.5	(15bps)	13.1	327bps	14.3	11.7	261bps
Tax / PBT	2.2	19.4	-	(1.4)	-	2.5	18.8	-
NPM	11.1	8.1	-	8.6	250	9.3	4.5	-
EPS (Rs)	9.2	6.2	48.0	7.0	31.4	22.3	9.6	131.1

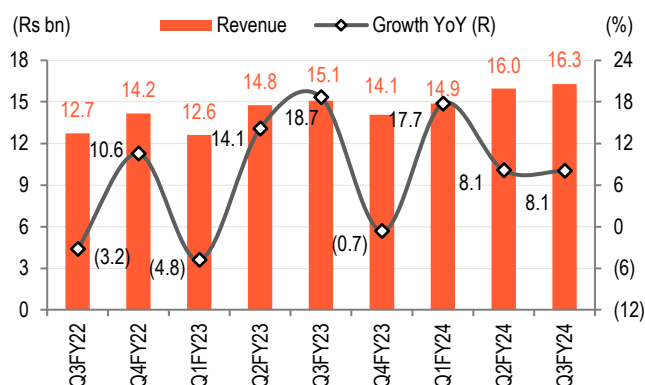
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Formulations	13,420	11,830	13.4	12,730	5.4	37,950	33,940	11.8
India	5,960	5,450	9.4	5,770	3.3	16,970	15,740	7.8
US	4,740	4,320	9.7	4,440	6.8	13,080	12,170	7.5
ROW	2,720	2,060	32.0	2,520	7.9	7,900	6,030	31.0
API	2,890	3,260	(11.3)	3,220	(10.2)	9,160	8,530	7.4
Net Sales	16,306	15,090	8.1	15,950	2.3	47,118	42,462	10.9
USDINR	83.3	82.2	1.3	83.0	0.3	83	81	2.6
US revenue (US\$ mn)	57	53	8.3	53	6.5	158	151	4.8

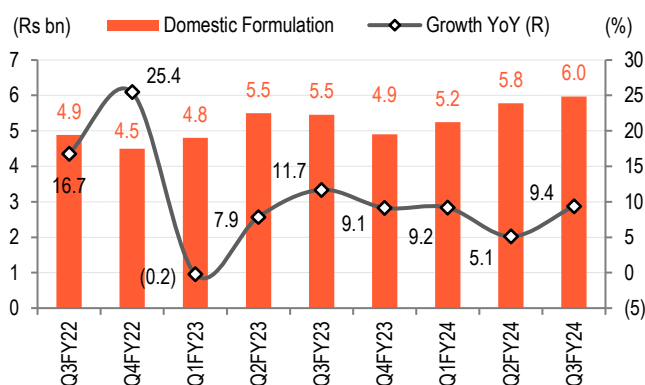
Source: Company, BOBCAPS Research

Fig 3 – Revenue



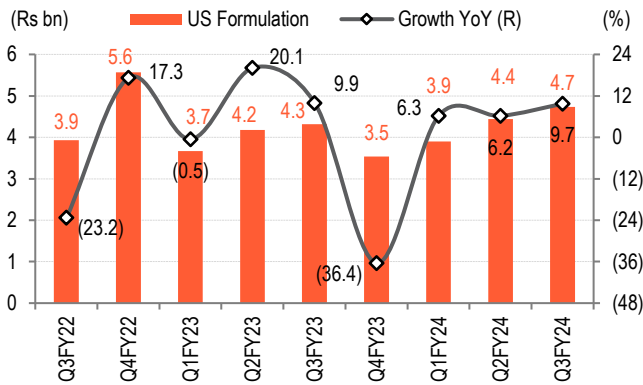
Source: Company, BOBCAPS Research

Fig 4 – Domestic formulation



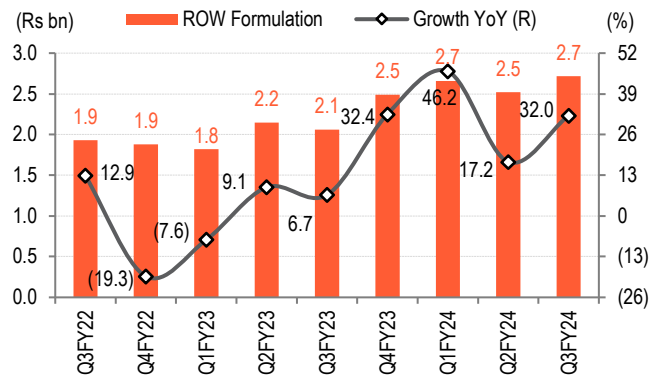
Source: Company, BOBCAPS Research

Fig 5 – US formulation



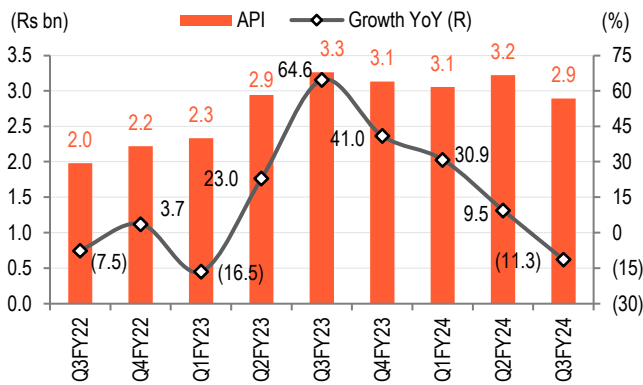
Source: Company, BOBCAPS Research

Fig 6 – ROW formulation



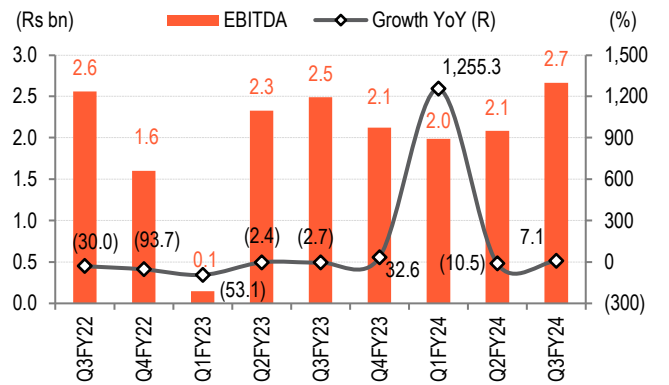
Source: Company, BOBCAPS Research

Fig 7 – API



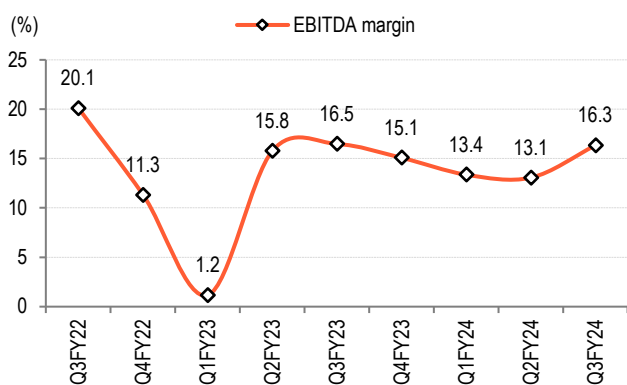
Source: Company, BOBCAPS Research

Fig 8 – EBITDA



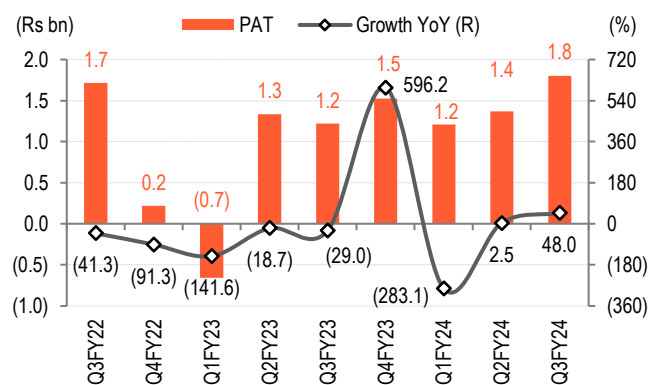
Source: Company, BOBCAPS Research

Fig 9 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 10 – Adj. PAT



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY25/FY26 EBITDA estimates by 2%/5% to reflect ALPM's stabilising margins, expectations of better operating leverage and strong momentum in US and ROW businesses. We also roll valuations over to FY26E and raise our target EV/EBITDA multiple to 14x (from 12.5x) – a 10% discount to the stock's five-year average. These changes give us a revised TP of Rs 970 (from Rs 700), which carries just 1% upside. Given the full valuations, we retain our HOLD rating.

Fig 11 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	64.5	71.1	76.7	64.7	71.3	76.9	(0.2)	(0.2)	(0.2)
EBITDA	9.7	11.6	14.1	9.7	11.4	13.4	0.3	2.2	5.0
EBITDA margin (%)	15.0	16.4	18.4	15.0	16.0	17.4	8bps	39bps	92bps
EPS (Rs)	31.0	37.1	44.6	28.1	35.5	41.8	10.3	4.4	6.7

Source: BOBCAPS Research

Fig 12 – Key assumptions

Revenue (Rs bn)	FY23	FY24E	FY25E	FY26E
India	20.6	22.7	24.4	26.3
US	15.7	17.8	20.3	21.3
ROW	8.5	10.7	11.7	12.9
API	11.7	13.4	14.7	16.2

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- prudent cost control measures to improve margins, and
- traction in US revenue with new launches and stabilisation of pricing pressure.

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)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	53,060	56,526	64,530	71,136	76,744
EBITDA	8,744	7,083	9,699	11,640	14,085
Depreciation	2,868	2,754	2,834	3,028	3,330
EBIT	5,876	4,329	6,865	8,613	10,754
Net interest inc./(exp.)	(177)	(502)	(563)	(535)	(508)
Other inc./(exp.)	505	27	170	400	450
Exceptional items	0	0	0	0	0
EBT	6,203	3,855	6,472	8,478	10,696
Income taxes	1,045	126	388	1,187	1,925
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,159	3,729	6,084	7,291	8,771
Adjustments	0	0	0	0	0
Adjusted net profit	5,159	3,729	6,084	7,291	8,771

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,064	6,798	7,956	8,770	9,462
Other current liabilities	3,015	2,343	3,226	3,557	3,837
Provisions	1,595	1,763	2,012	2,218	2,393
Debt funds	7,171	7,220	6,859	6,516	6,190
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	51,924	42,082	46,200	51,525	58,331
Shareholders' fund	52,317	42,475	46,593	51,918	58,724
Total liab. and equities	71,162	60,598	66,647	72,980	80,606
Cash and cash eq.	694	823	2,280	6,584	6,251
Accounts receivables	8,071	10,464	10,608	11,694	17,872
Inventories	16,097	14,753	17,679	19,489	21,026
Other current assets	4,094	3,598	6,453	7,114	7,674
Investments	1,184	963	963	963	963
Net fixed assets	17,415	23,985	22,651	21,123	20,806
CWIP	23,042	6,013	6,013	6,013	6,013
Intangible assets	564	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	71,162	60,598	66,647	72,980	80,606

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,085	5,352	5,847	8,648	5,481
Capital expenditures	(2,344)	(8,665)	(1,500)	(1,500)	(3,014)
Change in investments	1,179	221	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,165)	(8,445)	(1,500)	(1,500)	(3,014)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,335	49	(361)	(343)	(326)
Interest expenses	(177)	(502)	(563)	(535)	(508)
Dividends paid	(1,572)	(1,966)	(1,966)	(1,966)	(1,966)
Other financing cash flows	(3,870)	5,639	0	0	0
Cash flow from financing	(4,284)	3,220	(2,890)	(2,843)	(2,800)
Chg in cash & cash eq.	(364)	128	1,457	4,304	(333)
Closing cash & cash eq.	694	823	2,280	6,584	6,251

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	26.5	17.4	31.0	37.1	44.6
Adjusted EPS	26.5	17.4	31.0	37.1	44.6
Dividend per share	8.0	10.0	10.0	10.0	10.0
Book value per share	266.2	216.1	237.1	264.1	298.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.5	3.0	2.7	2.5
EV/EBITDA	22.9	27.6	20.2	16.8	13.6
Adjusted P/E	36.4	55.5	31.2	26.0	21.6
P/BV	3.6	4.5	4.1	3.7	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	83.2	96.7	94.0	86.0	82.0
Interest burden (PBT/EBIT)	105.6	89.0	94.3	98.4	99.5
EBIT margin (EBIT/Revenue)	11.1	7.7	10.6	12.1	14.0
Asset turnover (Rev./Avg TA)	22.9	25.9	31.3	31.8	31.1
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.2	1.1	1.1
Adjusted ROAE	10.1	7.2	13.7	14.8	15.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	(1.6)	6.5	14.2	10.2	7.9
EBITDA	(40.9)	(19.0)	36.9	20.0	21.0
Adjusted EPS	(54.5)	(34.4)	77.9	19.8	20.3
Profitability & Return ratios (%)					
EBITDA margin	16.5	12.5	15.0	16.4	18.4
EBIT margin	11.1	7.7	10.6	12.1	14.0
Adjusted profit margin	9.7	6.6	9.4	10.2	11.4
Adjusted ROAE	10.1	7.2	13.7	14.8	15.9
ROCE	11.0	8.0	13.6	16.1	18.2
Working capital days (days)					
Receivables	56	68	60	60	85
Inventory	111	95	100	100	100
Payables	49	44	45	45	45
Ratios (x)					
Gross asset turnover	2.0	1.6	1.8	1.9	1.9
Current ratio	2.5	2.7	2.8	3.1	3.4
Net interest coverage ratio	33.1	8.6	12.2	16.1	21.2
Adjusted debt/equity	0.1	0.2	0.1	0.0	0.0

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

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BUY – Expected return >+15%

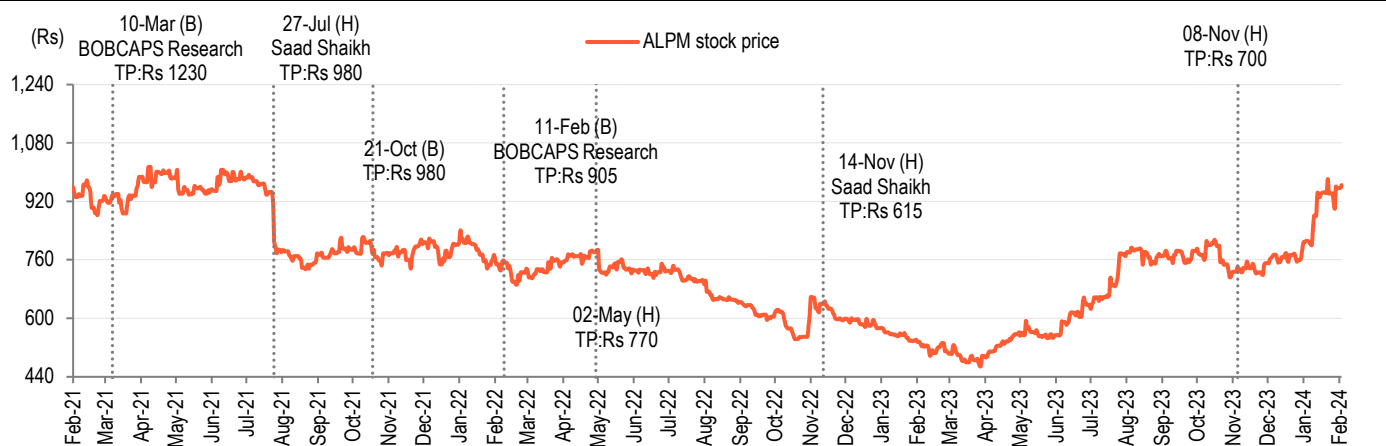
HOLD – Expected return from -6% to +15%

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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