

BUY

TP: Rs 1,032 | ▲ 19%

ALEMBIC PHARMA

Pharmaceuticals

12 February 2025

Earnings recovery on normalised Azithromycin base

- US and ROW sales grew above our estimates of 5% and 13% respectively, reporting growth of 10% each
- EBITDA margin for Q3FY25 was 15.4% and we expect EBITDA margin to grow to 18.4% by FY27
- We maintain BUY and value the stock at 28x Dec'26 EPS due to healthy sales on normalised Azithromycin base for TP of Rs 1,032

Foram Parekh

research@bobcaps.in

Results below expectations due to decline in API sales: ALPM sales grew by 3.8% YoY (1.5% below our estimate), while EBITDA declined by 2.3% (8% below our estimate) and PAT by 24% (21% below our estimate) primarily due to higher tax rate. The decline in earnings was due to (1) lower API sales of 10% (23% lower than our estimate) due to price erosion, and (2) lower domestic sales of 3% (-1.5% below our estimate) due to higher Azithromycin base which offset 10% YoY growth in US and ROW markets.

Domestic sales to grow on normalised Azithromycin sales: India region sales was affected by higher base of Azithromycin sales reported during the Covid period and slower-than-expected recovery in the Cold and Cough segment resulting in 11% decline in the Acute therapy, offsetting 6% YoY and 22% YoY growth in the Specialty and Animal Health segments respectively. We expect the India region to grow by ~9% driven by (1) normalised base of Azithromycin in FY26E in the acute segment, (2) higher medical representative productivity, (3) uptick in well-diversified specialty and (4) continuous traction in the Animal Health segment.

US growth to continue driven by new product launches: During Q3, US grew by 10% YoY driven by easing price erosion pressure. During the period, ALPM launched two new products and expects to launch five new ones in Q4FY25. The company is focusing on injectables, peptides and complex therapies like Oncology and Ophthalmology within the new product segment. The company is shifting its products to F4 from F1 and expects new facility products to drive growth in coming quarters.

Valuations: As earnings were 20% lower than we estimated for Q3FY25, we cut our EPS estimates for FY25 by 17% to Rs 28.3, for FY26 by 20% to Rs 34.1 and for FY27 by 18% to Rs 45. However, due to normalized base of Azithromycin, healthy traction in the Animal Health and Specialised businesses, and strong non-oral solid portfolio in the US region we maintain our BUY rating and value the stock at 28x Dec'26 EPS to yield a TP of Rs 1,032 (Rs 1,412 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALPM IN/Rs 868
Market cap	US\$ 2.0bn
Free float	31%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 1,304/Rs 823
Promoter/FPI/DII	70%/5%/13%

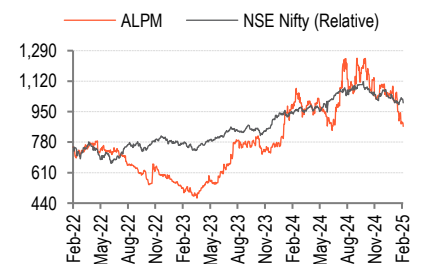
Source: NSE | Price as of 11 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	62,290	65,616	72,954
EBITDA (Rs mn)	9,337	9,867	11,825
Adj. net profit (Rs mn)	6,172	5,565	6,698
Adj. EPS (Rs)	31.4	28.3	34.1
Consensus EPS (Rs)	31.4	36.7	44.6
Adj. ROAE (%)	13.9	11.5	12.8
Adj. P/E (x)	27.7	30.7	25.5
EV/EBITDA (x)	19.0	17.8	14.6
Adj. EPS growth (%)	80.2	(9.7)	20.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Financial Highlight

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Net Sales	16,927	16,306	3.8	16,480	2.7	49,025	47,118	4.0	62,290	65,616	72,954	80,336
Total Expenses	14,325	13,642	5.0	14,087	1.7	41,661	40,383	3.2	52,953	55,750	61,129	65,556
(%) of net sales	85	84		85		85	86		85	85	84	82
Raw material consumed	4,395	4,608	(4.6)	4,291	2.4	12,628	13,357	(5.5)	17,151	18,373	19,698	21,289
(%) of net sales	26	28		26		26	28		28	28	27	27
Staff cost	3,975	3,493	13.8	3,915	1.5	11,688	10,444	11.9	14,463	15,909	17,818	19,066
(%) of net sales	23	21		24		24	22		23	24	24	24
SG&A	4,600	4,397	4.6	4,563	0.8	13,581	12,369	9.8	16,539	16,468	17,613	19,201
(%) of net sales	27	27		28		28	26		27	25	24	24
EBITDA	2,602	2,664	(2.3)	2,393	8.8	7,363	6,734	9.3	9,337	9,867	11,825	14,780
Depreciation	700	695	0.8	705	(0.7)	2,096	2,032		2,727	3,270	3,680	3,974
EBIT	1,902	1,969	(3.4)	1,688	12.7	5,267	4,702	12.0	6,611	6,597	8,146	10,806
Interest	223	152		188		543	453		562	450	428	406
Other Income	95	29		167		283	247		283	400	450	450
PBT	1,774	1,846	(3.9)	1,667	6.4	5,008	4,497	11.4	6,332	6,547	8,168	10,850
Less: Taxation	401	41		273		899	114		160	982	1,470	1,953
Less: Minority Interest	(4)	1		(9)		(11)	6		10	0	0	0
Recurring PAT	1,377	1,805	(23.7)	1,403	(1.9)	4,121	4,377	(5.9)	6,162	5,565	6,698	8,897
Exceptional items	0	0		129		129	0		0	0		0
Reported PAT	1,377	1,805	(23.7)	1,532	(10.1)	4,249	4,377	(2.9)	6,162	5,565	6,698	8,897
Key Ratios (%)												
Gross Margin	74.0	71.7	229	74.0	7	74.2	71.7	259	72.5	72.0	73.0	73.5
EBITDA Margin	15.4	16.3	(96)	14.5	85	15.0	14.3	73	15.0	15.0	16.2	18.4
Tax / PBT	22.6	2.2		16.4		17.9	2.5		2.5	15.0	18.0	18.0
NPM	8.1	11.1		8.5	(38)	8.4	9.3		9.9	8.5	9.2	11.1
EPS	7.0	9.2	(23.7)	7.2	(2.4)	21.0	22.3	(5.9)	31.4	28.3	34.1	45.3

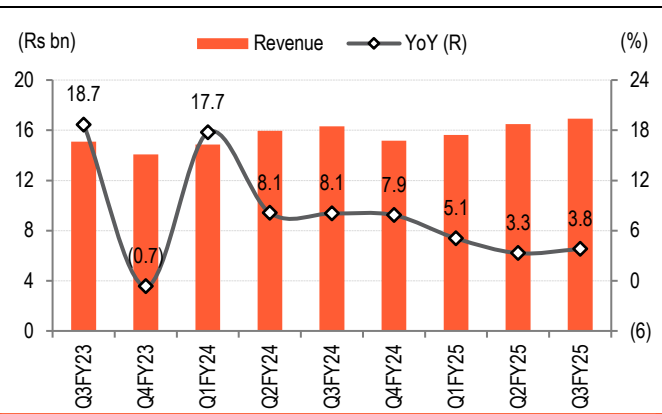
Source: Company, BOBCAPS Research

Fig 2 – Segmental revenue

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Formulations	14,340	13,420	6.9	13,740	4.4	41,120	37,950	8.4	49,825	55,021	61,299	67,516
India	6,140	5,960	3.0	6,090	0.8	17,950	16,970	5.8	22,000	24,305	26,834	29,415
US	5,210	4,740	9.9	4,670	11.6	14,490	13,080	10.8	17,300	19,138	21,151	23,189
ROW	2,990	2,720	9.9	2,980	0.3	8,680	7,900	9.9	10,525	11,578	13,314	14,912
API	2,590	2,890	(10.4)	2,740	(5.5)	7,920	9,160	(13.5)	12,465	10,595	11,655	12,820
Net Sales	16,930	16,310	3.8	16,481	2.7	49,040	47,110	4.1	62,290	65,616	72,954	80,336

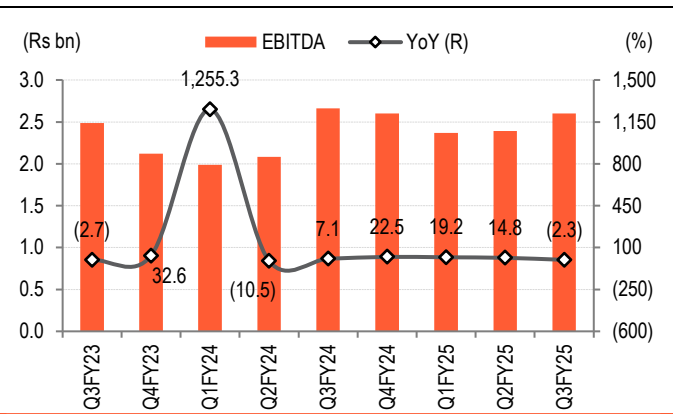
Source: Company, BOBCAPS Research

Fig 3 – Sales growth muted due to lower API sales



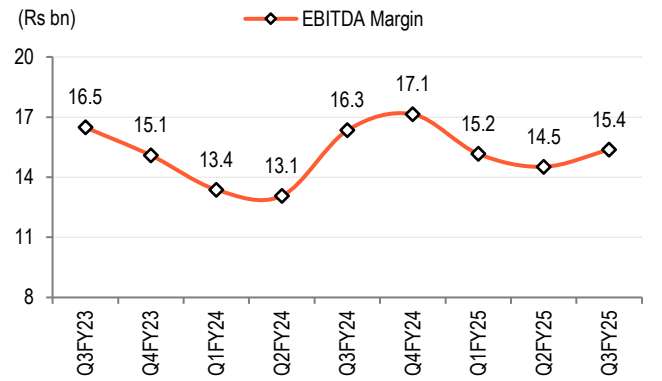
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth declined due to lower product mix



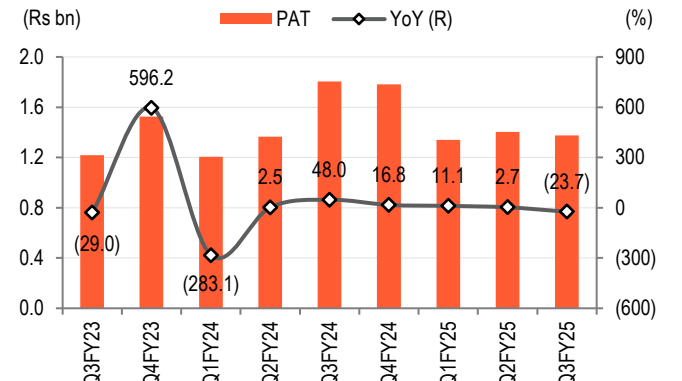
Source: Company, BOBCAPS Research

Fig 5 – EBITDA Margin increased due to better growth in specialty and animal health business



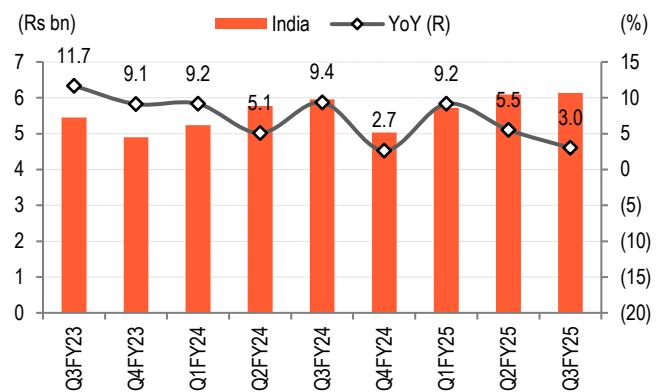
Source: Company, BOBCAPS Research

Fig 6 – PAT growth lowered due to higher ETR



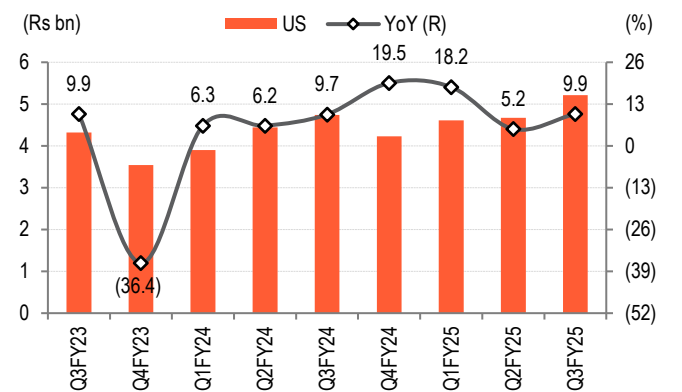
Source: Company, BOBCAPS Research

Fig 7 – Domestic growth lowered due to higher Azithromycin base



Source: Company, BOBCAPS Research

Fig 8 – US growth higher due to easing of price erosion pressure



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 continue to believe 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 Azithromycin sales have normalised followed by API sales recovery from H2FY25E. Due to recovery in domestic and API sales, we expect ALPM's sales/earnings to grow at CAGRs of 11%/26% over FY25E-27E.

As earnings were lower than our estimates by 20% in Q3FY25, we cut our EPS estimates for FY25 by 17% to Rs 28.3, for FY26 by 20% to Rs 34.1 and for FY27 by 18% to Rs 45. However, given growth in the normalised base of Azithromycin, healthy traction in the Animal Health and Specialised businesses and strong non-oral solid portfolio in the US region, we maintain our BUY rating and value the stock at 28x Dec'26 EPS to yield a TP of Rs 1,032 (Rs 1,412 earlier).

Fig 9 – Revised estimates

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	62,290	65,616	72,954	80,336	68,890	76,575	84,338	(4.8)	(4.7)	(4.7)
EBITDA	9,337	9,867	11,825	14,780	11,213	13,904	17,097	(12.0)	(14.9)	(13.6)
EBITDA margin (%)	15.0	15.0	16.2	18.4	16.3	18.2	20.3	(124bps)	(195bps)	(187bps)
EPS (Rs)	31	28	34	45	34.1	42.7	54.9	(17.0)	(20.2)	(17.6)

Source: Company, BOBCAPS Research

Fig 10 – Key assumption

(Rs mn)	FY24	FY25E	FY26E	FY27E
Revenue	62,290	65,616	72,954	80,336
EBITDA	9,337	9,867	11,825	14,780
PAT	6,172	5,565	6,698	8,897
EPS (Rs)	31.4	28.3	34.1	45.3
EBITDA Margin (%)	15.0	15.0	16.2	18.4
PAT Margin (%)	9.9	8.5	9.2	11.1

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	65,616	72,954	80,336
EBITDA	7,083	9,337	9,867	11,825	14,780
Depreciation	2,754	2,727	3,270	3,680	3,974
EBIT	4,329	6,611	6,597	8,146	10,806
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	6,547	8,168	10,850
Income taxes	126	160	982	1,470	1,953
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,729	6,172	5,565	6,698	8,897
Adjustments	0	0	0	0	0
Adjusted net profit	3,729	6,172	5,565	6,698	8,897

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,798	7,356	8,090	8,994	9,904
Other current liabilities	2,343	2,038	3,281	3,648	3,936
Provisions	1,763	1,748	1,841	2,047	2,254
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	49,495	54,031	60,766
Shareholders' fund	42,475	46,486	49,888	54,424	61,159
Total liab. and equities	60,598	62,759	67,975	73,744	81,653
Cash and cash eq.	823	1,266	5,372	4,057	3,639
Accounts receivables	10,464	10,248	10,786	14,991	23,110
Inventories	14,753	16,435	17,977	20,987	21,350
Other current assets	3,598	3,169	1,968	2,189	2,410
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	67,975	73,744	81,653

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	5,352	8,651	10,475	4,848	5,979
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	3,221	(4,792)	(2,869)	(2,834)	(2,800)
Chg in cash & cash eq.	128	443	4,106	(1,315)	(417)
Closing cash & cash eq.	823	1,266	5,372	4,057	3,639

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.4	31.4	28.3	34.1	45.3
Adjusted EPS	17.4	31.4	28.3	34.1	45.3
Dividend per share	10.0	11.0	11.0	11.0	11.0
Book value per share	216.1	236.5	253.8	276.9	311.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.1	2.8	2.7	2.4	2.1
EV/EBITDA	24.9	19.0	17.8	14.6	11.5
Adjusted P/E	49.9	27.7	30.7	25.5	19.2
P/BV	4.0	3.7	3.4	3.1	2.8

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	99.2	100.3	100.4
EBIT margin (EBIT/Revenue)	7.7	10.6	10.1	11.2	13.5
Asset turnover (Rev./Avg TA)	25.9	30.7	30.8	32.0	32.2
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	7.2	13.9	11.5	12.8	15.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.5	10.2	5.3	11.2	10.1
EBITDA	(19.0)	31.8	5.7	19.9	25.0
Adjusted EPS	(34.4)	80.2	(9.7)	20.4	32.8
Profitability & Return ratios (%)					
EBITDA margin	12.5	15.0	15.0	16.2	18.4
EBIT margin	7.7	10.6	10.1	11.2	13.5
Adjusted profit margin	6.6	9.9	8.5	9.2	11.1
Adjusted ROAE	7.2	13.9	11.5	12.8	15.4
ROCE	8.0	13.6	13.2	15.1	18.1
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	1.6	1.6	1.7
Current ratio	2.7	2.8	2.7	2.9	3.1
Net interest coverage ratio	8.6	11.8	14.7	19.0	26.6
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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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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BUY – Expected return >+15%

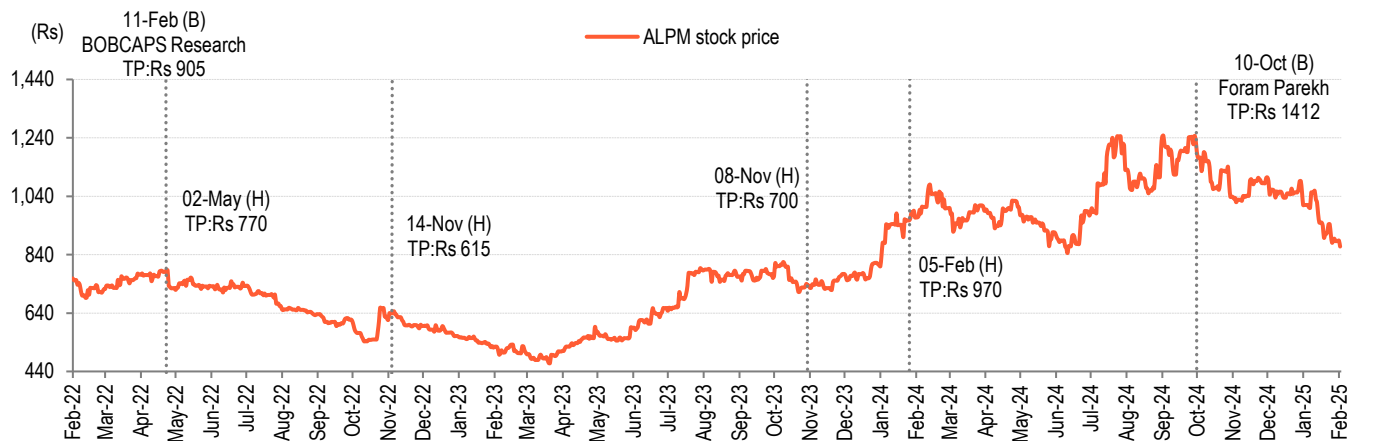
HOLD – Expected return from -6% to +15%

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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