

BUY

TP: Rs 810 | ▲ 16%

ALEMBIC PHARMA

Pharmaceuticals

23 April 2020

Consecutive beat – we raise FY21/FY22 EPS by 11-17%

Alembic Pharma (ALPM) reported a 31% EBITDA beat in Q4. Key positives were (1) solid US sales and India growth recovery, (2) resilient EBITDA margins at 27% despite R&D cost increase of 27% QoQ, and (3) optimistic FY21 outlook with no material business impact from Covid-19. US quarterly base sales guidance has been revised up to US\$ 70mn (from \$50mn), led by improved visibility in the sartan franchise. We raise FY21/FY22 EPS estimates by 11-17% on a strong Q4 and steady outlook. Retain BUY; TP revised to Rs 810 (from Rs 680).

Vivek Kumar
research@bobcaps.in

Best-ever US sales, India growth recovery to continue: US sales came in 23% ahead of our estimate at US\$ 81mn (+12% QoQ), led by improved pricing and contribution from the sartan franchise (15 products). Opportunities in sartans should continue for 3-6 months at least; ALPM expects 20 launches in FY21 (25 in FY20). We expect US sales of US\$ 390mn by FY23 (+20% CAGR over FY20 ex-sartans). In our view, ALPM is best placed to participate in the US\$ 20bn worth of loss of exclusivity (LOE) in the next five years (refer our Dec'19 [Initiation](#)). India growth was at 13% YoY in Q4 and saw negligible Covid-19 impact. ALPM expects double-digit growth in the next three years.

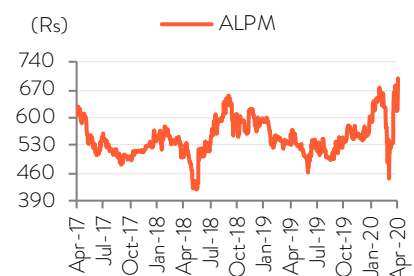
Key earnings call takeaways: (1) No demand disruption market-wide from Covid-19. (2) Early single-digit price erosion on US portfolio. (3) FY21 guidance: R&D expense Rs 7bn, net debt increase <Rs 2bn, capex Rs 7bn (incl. Rs 3bn routine capex), 15% growth in API business (off FY20 decline).

TP raised to Rs 810; retain BUY: We see +20% EPS growth coupled with strong FCF and ROIC visibility over FY21-FY25, backed by a healthy US pipeline and capex productivity. The Covid-19 disruption lends further support to US generics (shortages & better pricing), where ALPM is a key beneficiary in our view. This can drive earnings upgrades and a stock re-rating in coming years.

Ticker/Price	ALPM IN/Rs 699
Market cap	US\$ 1.7bn
Shares o/s	189mn
3M ADV	US\$ 2.4mn
52wk high/low	Rs 710/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	31,310	39,350	46,169	49,818	54,277
EBITDA (Rs mn)	6,711	8,737	12,238	11,373	12,317
Adj. net profit (Rs mn)	4,489	5,928	8,463	7,314	7,987
Adj. EPS (Rs)	23.4	31.0	44.9	38.8	42.4
Adj. EPS growth (%)	11.0	32.4	45.0	(13.6)	9.2
Adj. ROAE (%)	21.0	23.4	28.5	21.0	19.4
Adj. P/E (x)	29.9	22.6	15.6	18.0	16.5
EV/EBITDA (x)	19.3	15.4	11.4	12.6	11.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Q4FY20E	Var. (%)	FY20P	FY19
Net Sales	12,068	9,269	30.2	12,090	(0.2)	11,198	7.8	46,047	39,346
EBITDA	3,276	1,781	83.9	3,252	0.8	2,501	31.0	12,226	8,737
Depreciation	441	299	-	418	-	410	-	1,572	1,152
EBIT	2,835	1,482	91.3	2,834	0.0	2,091	-	10,654	7,585
Interest	77	51	-	74	-	70	-	270	184
Other Income	9	33	-	4	-	33	-	49	93
PBT	2,767	1,464	89.0	2,764	0.1	2,054	34.7	10,433	7,494
Less: Taxation	620	150	-	485	-	411	-	1,989	1,568
Less: Minority Interest	(211)	75	-	(69)	-	40	-	(197)	87
Recurring PAT	2,358	1,239	90.2	2,348	0.4	1,603	47.1	8,640	5,839
Exceptional items	(118)	0	-	0	-	0	-	(445)	0
Reported PAT	2,240	1,239	80.7	2,348	(4.6)	1,603	39.7	8,195	5,839
Key Ratios (%)									
Gross Margin	78.1	76.6	-	75.3	-	75.0	-	77.4	74.8
EBITDA Margin	27.1	19.2	-	26.9	-	22.3	-	26.6	22.2
Tax / PBT	22.4	10.2	-	17.5	-	20.0	-	19.1	20.9
NPM	19.5	13.4	-	19.4	-	14.3	-	18.8	14.8
EPS (Rs)	12.5	6.6	-	12.5	-	8.5	-	45.8	31.0

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT SALES

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Q4FY20E	Var. (%)
Formulations	10,510	6,970	50.8	10,320	1.8	9,251	13.6
India	3,420	3,020	13.2	3,680	(7.1)	3,171	7.9
US	5,770	3,130	84.3	5,150	12.0	4,680	23.3
RoW	1,320	820	61.0	1,490	(11.4)	1,400	(5.7)
API	1,550	2,300	(32.6)	1,770	(12.4)	1,947	(20.4)
Net Sales	12,060	9,270	30.1	12,090	(0.2)	11,198	7.7

Source: Company, BOBCAPS Research

FIG 3 – REGULATORY/COMMERCIALISATION UPDATE ON KEY FACILITIES

Formulation	Dosage form	Audit/Filing Status
Panelav F1	Oral solid	Mar'20*
Panelav F2	Oncology oral solid	June'19*
Panelav F2	Oncology injectable	H2FY21#
Karkhadi F3	Injectable & Ophthalmic	Jan'20#
Jarod F4	Oral solid	H1FY21#
Karkhadi Aleor JV	Dermatology	Jan'20*
API		
Panelav API 1 & 2		Dec'18*
Karkhadi API 3		Jan'20*

Source: Company | #Expected filings, *Last USFDA inspection

Valuation methodology

At CMP, the stock is trading at 11x FY22E EV/EBITDA which we believe is reasonable ahead of stronger earnings growth, FCF generations and stable 25-30% ROIC vs. a 15% average for large and mid-sized generic-focused companies. Following the Q4FY20 beat steered by the US business, we raise FY21-FY22 EPS estimates by 11-17%.

We retain BUY and raise our Mar'21 target price to Rs 810 (from Rs 680), based on a 13.5x (earlier 12x) EV/EBITDA multiple on Mar'22E – this represents an implied P/E of 21x. Our target valuation multiple is 15% higher than the midpoint of the eight-year historical band (8-18x). The increase in multiple is to factor in (1) a resilient business model (relatively lower impact from Covid-19), and (2) a supportive global generic environment amidst the virus-led disruption which is creating multiple drug shortages and hence opportunities for Indian players. Pricing pressure should ease in the medium term.

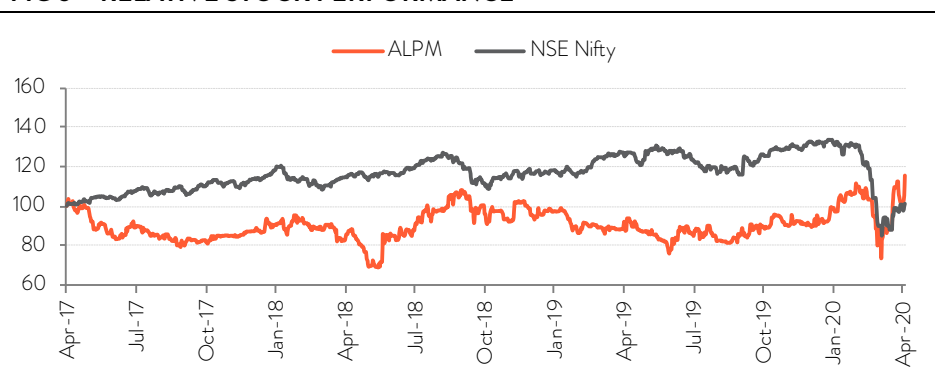
We believe the market's concerns of high US capital allocation and weak margin dynamics are unwarranted, and this could drive a large earnings surprise, fuelling a rerating in the stock over the next two years.

FIG 4 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Sales	46.2	49.8	54.3	43.5	47.3	52.8	6.0	5.3	2.8
EBITDA	12.2	11.4	12.3	10.3	10.0	11.4	18.7	14.3	8.1
EBITDA margin (%)	26.5	22.8	22.7	23.7	21.0	21.6	283bps	180bps	111bps
EPS (Rs)	45	39	42	36	33	38	23.2	17.1	10.6

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)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	31,310	39,350	46,169	49,818	54,277
EBITDA	6,711	8,737	12,238	11,373	12,317
Depreciation	1,055	1,152	1,570	1,757	2,163
EBIT	5,656	7,585	10,668	9,617	10,154
Net interest income/(expenses)	(34)	(184)	(270)	(437)	(437)
Other income/(expenses)	70	94	180	443	793
Exceptional items	0	0	0	0	0
EBT	5,692	7,495	10,578	9,623	10,510
Income taxes	1,203	1,567	2,116	2,310	2,522
Extraordinary items	(278)	0	(445)	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	4,211	5,928	8,018	7,314	7,987
Adjustments	(278)	0	(445)	0	0
Adjusted net profit	4,489	5,928	8,463	7,314	7,987

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	7,593	7,022	7,589	9,554	10,409
Other current liabilities	1,427	1,221	2,308	2,491	2,714
Provisions	751	843	1,126	1,215	1,324
Debt funds	7,077	11,284	17,474	17,474	17,474
Other liabilities	0	0	0	0	0
Equity capital	377	377	377	377	377
Reserves & surplus	22,177	27,021	31,531	37,525	44,004
Shareholders' fund	22,554	27,398	31,908	37,902	44,381
Total liabilities and equities	39,402	47,768	60,406	68,636	76,302
Cash and cash eq.	898	2,055	3,946	10,836	15,597
Accounts receivables	5,263	4,888	8,647	10,919	13,383
Inventories	7,339	9,672	11,870	10,919	11,896
Other current assets	5,005	3,426	4,092	4,982	5,428
Investments	416	483	483	483	483
Net fixed assets	9,270	10,984	12,639	16,768	18,286
CWIP	10,550	15,660	18,460	13,460	10,960
Intangible assets	661	600	269	269	269
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	39,402	47,768	60,406	68,636	76,302

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,185	6,986	9,588	9,070	10,150
Interest expenses	34	184	270	437	437
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,308)	(1,064)	(4,685)	25	(2,701)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,911	6,106	5,172	9,532	7,886
Capital expenditures	(2,226)	(2,771)	(3,225)	(5,886)	(3,680)
Change in investments	82	(67)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,144)	(2,838)	(3,225)	(5,886)	(3,680)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,192	4,207	6,190	0	0
Interest expenses	(34)	(184)	(270)	(437)	(437)
Dividends paid	(907)	(907)	(1,131)	(1,320)	(1,508)
Other financing cash flows	(6,715)	(5,227)	(4,846)	5,000	2,500
Cash flow from financing	(1,464)	(2,112)	(57)	3,244	555
Changes in cash and cash eq.	(697)	1,157	1,891	6,890	4,761
Closing cash and cash eq.	898	2,055	3,946	10,836	15,597

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	21.9	31.0	42.5	38.8	42.4
Adjusted EPS	23.4	31.0	44.9	38.8	42.4
Dividend per share	4.0	5.5	6.0	7.0	8.0
Book value per share	119.6	145.3	169.3	201.1	235.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	4.1	3.4	3.0	2.9	2.6
EV/EBITDA	19.3	15.4	11.4	12.6	11.5
Adjusted P/E	29.9	22.6	15.6	18.0	16.5
P/BV	5.8	4.8	4.1	3.5	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	78.9	79.1	80.0	76.0	76.0
Interest burden (PBT/EBIT)	100.6	98.8	99.2	100.1	103.5
EBIT margin (EBIT/Revenue)	18.1	19.3	23.1	19.3	18.7
Asset turnover (Revenue/Avg TA)	31.4	28.8	26.2	23.8	23.1
Leverage (Avg TA/Avg Equity)	1.2	1.4	1.5	1.5	1.4
Adjusted ROAE	21.0	23.4	28.5	21.0	19.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	(0.1)	25.7	17.3	7.9	9.0
EBITDA	10.1	30.2	40.1	(7.1)	8.3
Adjusted EPS	11.0	32.4	45.0	(13.6)	9.2
Profitability & Return ratios (%)					
EBITDA margin	21.4	22.2	26.5	22.8	22.7
EBIT margin	18.1	19.3	23.1	19.3	18.7
Adjusted profit margin	14.3	15.1	18.3	14.7	14.7
Adjusted ROAE	21.0	23.4	28.5	21.0	19.4
ROCE	22.9	22.5	24.6	19.2	18.7
Working capital days (days)					
Receivables	61	45	68	80	90
Inventory	86	90	94	80	80
Payables	89	65	60	70	70
Ratios (x)					
Gross asset turnover	2.7	2.7	2.6	2.1	2.0
Current ratio	1.9	2.2	2.6	2.8	3.2
Net interest coverage ratio	166.4	41.2	39.5	22.0	23.2
Adjusted debt/equity	0.3	0.3	0.4	0.2	0.0

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)

HISTORICAL RATINGS AND TARGET PRICE: ALEMBIC PHARMA (ALPM IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 March 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 20 have ADD ratings, 7 are rated REDUCE, 9 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.