

HOLD

TP: Rs 970 | ▼ 3%

ALEMBIC PHARMA

| Pharmaceuticals

| 09 May 2024

Strong margins; positives priced in

- ALPM reported strong margin gains in Q4 on account of better utilisation of new facilities and traction in the US business
- Domestic business remained muted; management expects growth from new launches in coming quarters
- Our estimates remain largely unchanged. Retain HOLD rating and TP of Rs 970 given rich valuations

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Margin gains make up for lower revenues: ALPM's Q4 revenue grew 9% YoY to Rs 15.2bn but missed Bloomberg consensus estimates by 5%. However, the shortfall in revenues was made up by strong margin gain at the gross and EBITDA margin levels, resulting in EBITDA/PAT beat of 3%/19% to Rs 2.6bn/1.8bn, growing at 23%/17% YoY, respectively. PAT beat stemmed from a lower tax rate as well as lower interest expense.

Growth driven by US business: Growth in the US of 18% YoY to US\$ 51mn (-11% QoQ) was the main revenue driver for the quarter and contributed more than half of the incremental revenue. This growth was led by 7 new launches in the quarter and market share gain in the recently commercialised products. ALPM launched 27 products in FY24 and expects to launch another 25 in FY25 which, along with new facilities, will drive further growth.

India remained muted: Slowdown in the Indian Pharmaceuticals Market (IPM) due to a high base, especially on the acute side, took a toll on ALPM as it reported a mere 3% YoY growth in Q4 (-16% QoQ). Therapies in Gynecology, Gastrointestinal, Anti-Diabetic and Ophthalmology though outpaced IPM growth. Relative performance in the Antibiotic and Respiratory segments remained strong. The Animal Health business recorded 34% YoY growth with strong brands driving outperformance.

Hopeful of reaching 20% margin with full utilisation of new facilities: The strong gross margin gain of 570bps/320bps YoY/QoQ in Q4 was attributed to enhancing sales, optimising R&D costs, and other efficiencies. Management expects to reach 20% EBITDA margin level with the full utilisation of new facilities.

Retain HOLD: With stabilising margins, expectations of better operating leverage and strong momentum in the US and Rest of the World businesses, we remain optimistic of ALPM's future potential. But given the full valuations, we retain our HOLD rating with unchanged TP of Rs 970 based on an unchanged FY26E EV/EBITDA of 14x.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	ALPM IN/Rs 1,001
Market cap	US\$ 2.4bn
Free float	31%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 1,094/Rs 542
Promoter/FPI/DII	70%/5%/13%

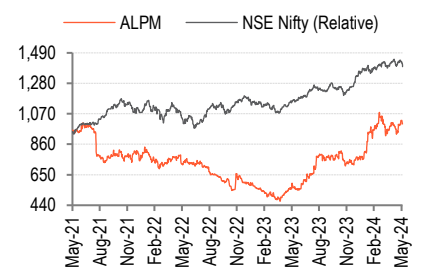
Source: NSE | Price as of 9 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	62,290	70,103	76,252
EBITDA (Rs mn)	9,337	11,897	13,719
Adj. net profit (Rs mn)	6,172	7,291	8,250
Adj. EPS (Rs)	31.4	37.1	42.0
Consensus EPS (Rs)	31.4	36.7	44.6
Adj. ROAE (%)	13.9	14.9	15.1
Adj. P/E (x)	31.9	27.0	23.9
EV/EBITDA (x)	21.8	17.0	14.5
Adj. EPS growth (%)	80.2	18.3	13.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	15,170	14,065	7.9	16,306	(7.0)	62,286	56,526	10.2
EBITDA	2,601	2,122	22.5	2,664	(2.4)	9,334	7,084	31.8
Depreciation	695	741	(6.3)	695	0.0	2,727	2,754	-
EBIT	1,906	1,381	38.0	1,969	(3.2)	6,607	4,330	52.6
Interest	109	144	-	152	-	562	502	-
Other Income	36	9	-	29	-	283	27	-
PBT	1,832	1,246	47.0	1,846	(0.8)	6,328	3,855	64.1
Less: Taxation	47	(364)	-	41	-	160	126	-
Less: Minority Interest	4	85	-	1	-	10	309	-
Recurring PAT	1,782	1,526	16.8	1,805	(1.3)	6,158	3,420	80.1
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	1,782	1,526	16.8	1,805	(1.3)	6,158	3,420	80.1
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	75.0	69.3	574	71.7	325	72.5	69.8	269
EBITDA Margin	17.1	15.1	205	16.3	81	15.0	12.5	245
Tax / PBT	2.5	(29.2)	-	2.2	-	2.5	3.3	-
NPM	11.7	10.9	-	11.1	68	9.9	6.1	-
EPS	9.1	7.8	16.8	9.2	(1.8)	31.3	17.4	80.1

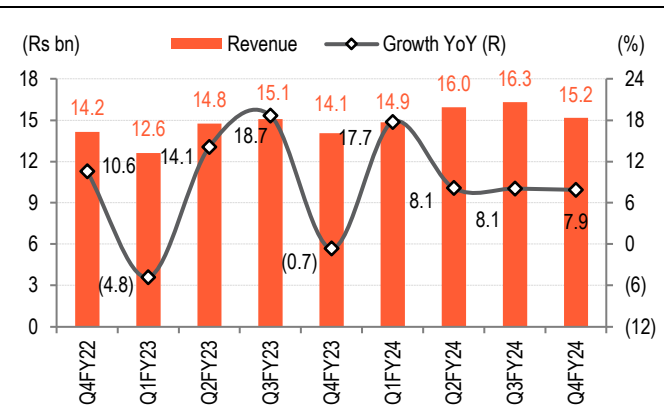
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Formulations	11,880	10,930	8.7	13,420	(11.5)	49,830	44,870	11.1
India	5,030	4,900	2.7	5,960	(15.6)	22,000	20,640	6.6
US	4,230	3,540	19.5	4,740	(10.8)	17,310	15,710	10.2
ROW	2,620	2,490	5.2	2,720	(3.7)	10,520	8,520	23.5
API	3,300	3,130	5.4	2,890	14.2	12,460	11,660	6.9
Net Sales	15,180	14,060	8.0	16,311	(6.9)	62,290	56,530	10.2
INR/US\$	83.4	82.6	0.9	83.3	0.1	81.3	74.7	8.9
US in \$ terms (mn)	51	43	18.4	57	(10.9)	213	210	1.2

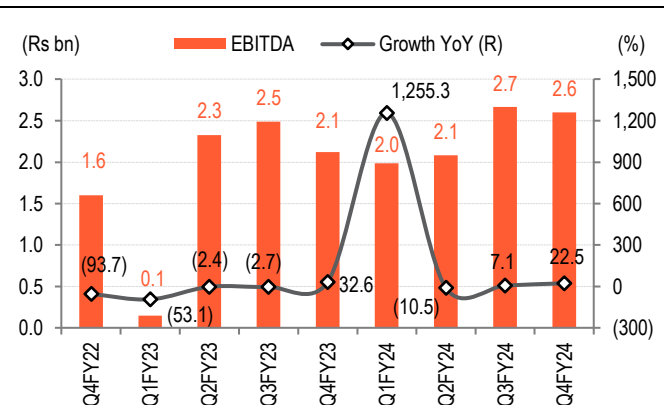
Source: Company, BOBCAPS Research

Fig 3 – Revenue



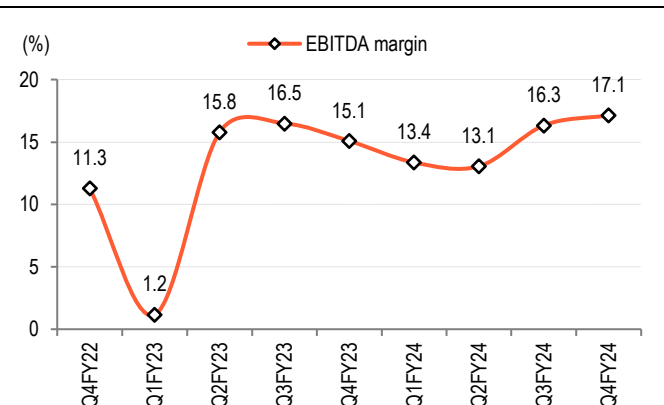
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



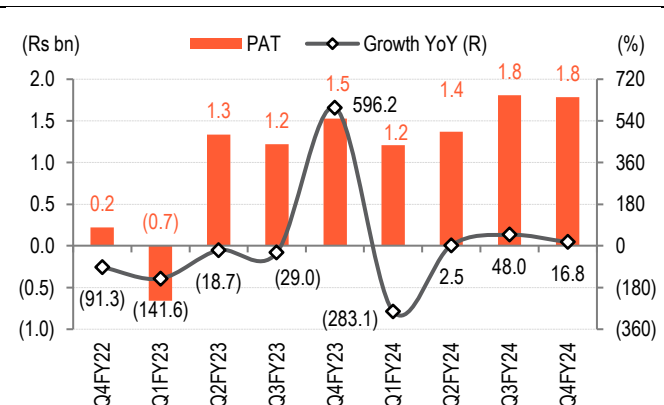
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Earnings call highlights

India business

- Therapies in Gynecology, Gastrointestinal, Anti-Diabetic and Ophthalmology outpaced market growth.
- Relative performance in the Antibiotic and Respiratory segments remained strong.
- The Animal Health business recorded 34% YoY growth with strong brands driving outperformance.
- A new division was established in the Animal Health business.
- Key products across all therapies are expected to continue to outperform.

US business

- Seven new launches contributed to growth, along with market share gains in recently commercialised products.

- The company filed three abbreviated new drug applications (ANDA) during the quarter and launched 27 products in FY24.
- Management expects growth from new facilities in upcoming quarters.
- No large capex is anticipated in the near term for the US business.
- Alembic has 132 cumulative Drug Master Files (DMF) filings and filed one US DMF in FY24.
- The company prioritises higher value over volume and seeks short-term opportunities.
- Focused therapies include oral solids, injectables, ophthalmic and oncology.

Rest of the world

- The ex-US business grew by 5% YoY to Rs 2.6bn in Q4FY24.
- The strong momentum in FY24 was driven by robust demand across regions.
- Partnerships in key markets (Europe, Canada, Australia, Brazil and South Africa) contributed to growth.
- Alembic expanded sales operations in Chile, established an office in Mexico, and initiated product registration in UAE.
- Future growth in the ex-US business is expected from new launches and territory expansions.

API business

- API business grew by 5% YoY to Rs 3.3bn, led by high off-take and better product mix.
- API demand outlook in FY25 remains strong.
- Future capacity expansion for the Active Pharmaceutical Ingredients (API) business is on track.

Guidance

- The new quarterly base for the US business is expected to be +US\$ 50mn.
- The company expects to launch 25 products in the US during FY25.
- The tax rate is expected to remain at 17% for FY25 and will continue to be under the MAT (Minimum Alternate Tax).
- Capex of Rs 3.0bn for FY25 is allocated towards maintenance and debottlenecking.
- R&D cost is expected to be in the range of Rs 5.5bn-6.0bn in FY25.
- The company aims to maintain a 70%+ gross margin in FY25. Expects EBITDA margin of over 20% post-traction from all facilities.

Other highlights

- Capex incurred in FY24 was Rs 3.45bn.
- Net cash as of 31 Mar 2024 is Rs 1.2bn. Gross debt as of 31 Mar 2024 is Rs 4.3bn.
- R&D cost of Rs 4.8bn in FY24 was allocated towards oral solids, injectables, ophthalmic and oncology therapies.

Valuation methodology

With stabilising margins, expectations of better operating leverage and strong momentum in the US and the ROW businesses, we remain optimistic of ALPM's future potential. But given its full valuations, we retain our HOLD rating with unchanged TP of Rs 970 based on unchanged FY26E EV/EBITDA of 14x.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	70.1	76.3	71.1	76.7	(1.5)	(0.6)
EBITDA	11.9	13.7	11.6	14.1	2.2	(2.6)
EBITDA margin (%)	17.0	18.0	16.4	18.4	61bps	(36bps)
EPS (Rs)	37.1	42.0	37.1	44.6	(0.0)	(5.9)

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY24A	FY25E	FY26E
India	22.0	24.5	27.0
US	17.3	20.4	21.4
ROW	10.5	11.6	12.7
API	12.5	13.7	15.1

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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,410	2,585	BUY
Alembic Pharma	ALPM IN	2.4	1,001	970	HOLD
Alkem Labs	ALKEM IN	7.4	5,068	4,800	SELL
Aurobindo Pharma	ARBP IN	8.0	1,115	1,100	HOLD
Cipla	CIPLA IN	13.3	1,359	1,576	BUY
Divi's Labs	DIVI IN	12.2	3,790	3,000	SELL
Dr Reddy's Labs	DRRD IN	11.9	5,877	5,900	HOLD
Eris Lifesciences	ERIS IN	1.4	848	955	BUY
Glenmark Life Sciences	GLS IN	1.2	833	790	HOLD
Laurus Labs	LAURUS IN	2.8	427	305	SELL
Lupin	LPC IN	8.8	1,584	1,600	HOLD
Sun Pharma	SUNP IN	43.6	1,495	1,550	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	53,060	56,526	62,290	70,103	76,252
EBITDA	8,744	7,083	9,337	11,897	13,719
Depreciation	2,868	2,754	2,727	3,270	3,680
EBIT	5,876	4,329	6,611	8,627	10,039
Net interest inc./(exp.)	(177)	(502)	(562)	(450)	(428)
Other inc./(exp.)	505	27	283	400	450
Exceptional items	0	0	0	0	0
EBT	6,203	3,855	6,332	8,577	10,061
Income taxes	1,045	126	160	1,287	1,811
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,159	3,729	6,172	7,291	8,250
Adjustments	0	0	0	0	0
Adjusted net profit	5,159	3,729	6,172	7,291	8,250

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	7,064	6,798	7,356	8,643	9,401
Other current liabilities	3,015	2,343	2,038	3,505	3,813
Provisions	1,595	1,763	1,748	1,967	2,139
Debt funds	7,171	7,220	5,132	4,875	4,631
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	51,924	42,082	46,093	51,221	57,309
Shareholders' fund	52,317	42,475	46,486	51,614	57,702
Total liab. and equities	71,162	60,598	62,759	70,604	77,686
Cash and cash eq.	694	823	1,266	5,900	5,229
Accounts receivables	8,071	10,464	10,248	11,524	17,757
Inventories	16,097	14,753	16,435	19,206	20,891
Other current assets	4,094	3,598	3,169	2,103	2,288
Investments	1,184	963	930	930	930
Net fixed assets	17,415	23,985	25,467	25,697	25,348
CWIP	23,042	6,013	5,244	5,244	5,244
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	62,759	70,604	77,686

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	5,085	5,352	8,651	11,003	5,493
Capital expenditures	(2,344)	(8,665)	(3,450)	(3,500)	(3,330)
Change in investments	1,179	221	33	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,165)	(8,445)	(3,417)	(3,500)	(3,330)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,335	49	(2,089)	(257)	(244)
Interest expenses	(177)	(502)	(562)	(450)	(428)
Dividends paid	(1,572)	(1,966)	(2,162)	(2,162)	(2,162)
Other financing cash flows	(3,870)	5,639	21	0	0
Cash flow from financing	(4,284)	3,220	(4,792)	(2,869)	(2,834)
Chg in cash & cash eq.	(364)	128	443	4,634	(671)
Closing cash & cash eq.	694	823	1,266	5,900	5,229

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	26.5	17.4	31.4	37.1	42.0
Adjusted EPS	26.5	17.4	31.4	37.1	42.0
Dividend per share	8.0	10.0	11.0	11.0	11.0
Book value per share	266.2	216.1	236.5	262.6	293.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.9	3.6	3.3	2.9	2.6
EV/EBITDA	23.7	28.6	21.8	17.0	14.5
Adjusted P/E	37.8	57.6	31.9	27.0	23.9
P/BV	3.8	4.6	4.2	3.8	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	83.2	96.7	97.5	85.0	82.0
Interest burden (PBT/EBIT)	105.6	89.0	95.8	99.4	100.2
EBIT margin (EBIT/Revenue)	11.1	7.7	10.6	12.3	13.2
Asset turnover (Rev./Avg TA)	22.9	25.9	30.7	32.4	32.1
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.1	1.1	1.1
Adjusted ROAE	10.1	7.2	13.9	14.9	15.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	(1.6)	6.5	10.2	12.5	8.8
EBITDA	(40.9)	(19.0)	31.8	27.4	15.3
Adjusted EPS	(54.5)	(34.4)	80.2	18.3	13.2
Profitability & Return ratios (%)					
EBITDA margin	16.5	12.5	15.0	17.0	18.0
EBIT margin	11.1	7.7	10.6	12.3	13.2
Adjusted profit margin	9.7	6.6	9.9	10.4	10.8
Adjusted ROAE	10.1	7.2	13.9	14.9	15.1
ROCE	11.0	8.0	13.6	16.7	17.7
Working capital days (days)					
Receivables	56	68	60	60	85
Inventory	111	95	96	100	100
Payables	49	44	43	45	45
Ratios (x)					
Gross asset turnover	2.0	1.6	1.6	1.7	1.7
Current ratio	2.5	2.7	2.8	2.7	3.0
Net interest coverage ratio	33.1	8.6	11.8	19.2	23.5
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%

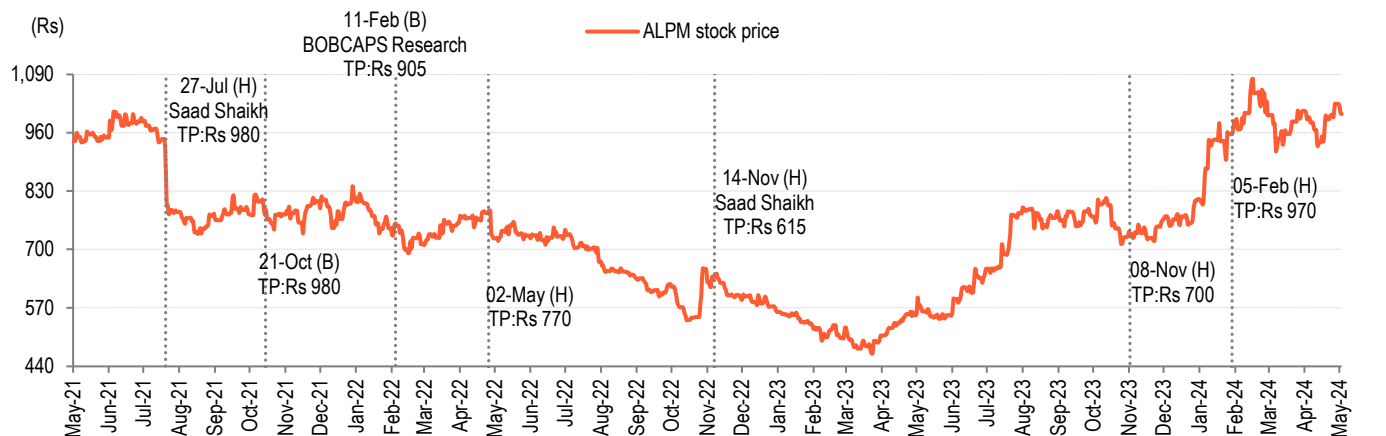
HOLD – Expected return from -6% to +15%

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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