

RESEARCH
Alembic Pharma | Target: Rs 980 | +8% | HOLD

US disappoints; acute-led recovery in domestic business

SUMMARY
Alembic Pharma

- ALPM reported a 42% YoY decline in Q1 EBITDA due to weak US sales led by increased competition in key molecules and launch delays
- EBITDA margin contracted 1,270bps YoY owing to a lower gross margin of 71% (74.8% in Q1FY21) and a 17% YoY rise in operating cost
- We cut FY22/FY23 earnings estimates by 18%/23%, lower our Mar'22 TP to Rs 980 (vs. Rs 1,230) and downgrade the stock from BUY to HOLD

[Click here for the full report.](#)

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.29	1bps	(23bps)	67bps
India 10Y yield (%)	6.23	0bps	20bps	37bps
USD/INR	74.42	0.0	(0.3)	0.6
Brent Crude (US\$/bbl)	74.50	0.5	(2.2)	71.6
Dow	35,144	0.2	2.1	32.2
Shanghai	3,467	(2.3)	(3.9)	8.2
Sensex	52,852	(0.2)	(0.1)	39.3
India FII (US\$ mn)	23-Jul	MTD	CYTD	FYTD
FII-D	32.2	(121.5)	(3,288.2)	(1,261.0)
FII-E	(28.9)	(636.2)	7,448.0	121.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

researchreport@bobcaps.in



HOLD

TP: Rs 980 | ▲ 8%

ALEMBIC PHARMA

Pharmaceuticals

27 July 2021

US disappoints; acute-led recovery in domestic business

- ALPM reported a 42% YoY decline in Q1 EBITDA due to weak US sales led by increased competition in key molecules and launch delays
- EBITDA margin contracted 1,270bps YoY owing to a lower gross margin of 71% (74.8% in Q1FY21) and a 17% YoY rise in operating cost
- We cut FY22/FY23 earnings estimates by 18%/23%, lower our Mar'22 TP to Rs 980 (vs. Rs 1,230) and downgrade the stock from BUY to HOLD

Saad Shaikh

researchreport@bobcaps.in

US a big miss: ALPM's US business faced price erosion due to increased competition, with sales declining 23% QoQ (-37% YoY) to US\$ 50mn – a substantial drop from the quarterly run-rate of US\$ 75mn-80mn. The decline stemmed from pricing rather than volumes, a lack of new launches due to USFDA inspection delays and higher competition in key products (Theophylline, Timolol). With uncertainty over US market dynamics and delays from the USFDA, we assume that the quarterly sales run-rate will remain muted at US\$ 50mn throughout FY22.

Strong domestic recovery led by acute and specialty segments: ALPM's domestic business grew 57% YoY led by 121% growth in the acute portfolio and a 29% uptick in its specialty portfolio. Key specialty therapies that did well during the quarter were dermatology (+108% YoY), ophthalmology (+68% YoY), gynaecology (+40% YoY) and gastroenterology (+36% YoY). In the acute segment, anti-infectives/cold & cough products grew 130%/90% YoY.

Lower gross margin, reversal of lockdown-led savings hit EBITDA margin: EBITDA margin contracted 1,270bps YoY/890bps QoQ to 17.8% primarily due to a weaker gross margin of 71% (vs. 74.8%/75.4% in Q1FY21/Q4FY21). An improving domestic mix notwithstanding, gross margin suffered from the double impact of price erosion in the US business and a reversal of lockdown-led savings on travelling and promotional expenses. Operating cost (including R&D) rose 17% YoY in Q1FY22. R&D spend was at 13% of sales compared to 10% in the year-ago quarter.

Management withdraws FY22 EPS guidance: With uncertainties in the US business and lack of clarity from the USFDA for pending approvals, management has withdrawn its EPS guidance of Rs 50 given earlier for FY22.

Earnings call takeaways: (1) Cumulative capex for ongoing projects under CWIP including pre-operative expense is Rs 18.9bn. (2) ALPM expects to launch 5 products in Q2 and close to 15 products each year (earlier 10+ launches). (3) The company has received 7 ANDA approvals in Q1 and filed 3 ANDAs. (4) Net borrowing stood at ~Rs 2.3bn.

Key changes

Target	Rating
▼	▼

Ticker/Price	ALPM IN/Rs 910
Market cap	US\$ 2.4bn
Free float	35%
3M ADV	US\$ 5.6mn
52wk high/low	Rs 1,145/Rs 864
Promoter/FPI/DII	70%/6%/11%

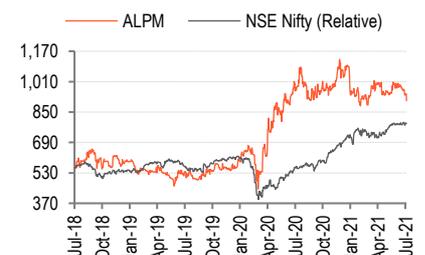
Source: NSE | Price as of 26 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	53,940	52,333	55,784
EBITDA (Rs mn)	15,584	12,654	14,410
Adj. net profit (Rs mn)	11,473	7,843	9,025
Adj. EPS (Rs)	60.0	39.9	45.9
Consensus EPS (Rs)	60.0	44.1	48.5
Adj. ROAE (%)	28.5	14.6	14.9
Adj. P/E (x)	15.2	22.8	19.8
EV/EBITDA (x)	12.3	14.8	12.4
Adj. EPS growth (%)	35.1	(33.5)	15.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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

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.

Rating distribution

As of 30 June 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 7 have HOLD ratings, 17 are rated ADD*, 4 are rated REDUCE* and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this 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.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

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 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

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.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does 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.

BOBCAPS is not engaged in any market making activities for 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.