

# Alembic Pharma

BUY

CMP Rs890

Target Rs1,100

Upside 23.6%

## FY20 AR highlights: Strong US commentary

### Management commentary

- ✓ Chronic accounts for 65% of sales and 93% of all launches in last 5 years
- ✓ Acute portfolio (cough & cold, pain management and anti-infectives) fairly resilient in the current disruption
- ✓ Withdrawal of stockist promotion and inventory adjustments initiated in end FY19 would improve supply chain hygiene; management believes benefit of portfolio and incentive rationalization to be seen from FY21
- ✓ MR productivity is low and scope for improvement to be seen in current fiscal
- ✓ To launch 10 products in H1 FY21; Azithromycin and Venlafaxine listed as key products apart from Valsartan
- ✓ ~70 products in the US market with 22 launches in FY20; US team stable and attrition has declined over the past few years
- ✓ 90% of R&D towards US which is against the run of play as several generic players downsizing US investments
- ✓ TG Therapeutics would file an NDA for Umbralisib for oncology indications and subsequently, Rhizen Pharma which out-licensed Umbralisib, would receive milestone payments for filing, approval and launch followed by sales based royalties. Alembic holds 50% stake in Rhizen Pharma. We reckon NPV of milestone payments and royalties will not move the needle significantly for Alembic earnings in the period beyond FY22.
- ✓ API business: Alembic doubled capacity to 1,100MT in last 3 years. However, we note external API sales cagr just 5% in last 3 years despite increased capacity and higher API prices in general. This can be explained by larger internal consumption to support US sales leading to higher share of vertically integrated revenues. Management says API business to grow at least 15-20% in FY21. FY20 was soft due to lack of orders from a large MNC (albeit rest of API business grew 20%).

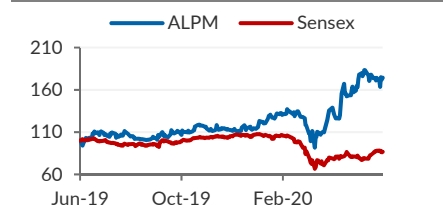
### Balance sheet observations

- ✓ Best in class receivable days adjusted for share of US sales in total revenues – 69 vs AJP (96), TRP (76), ALKEM (67, but lower US share)
- ✓ ~Rs500mn impairment of intangible asset vs nil last year – reckon R&D projects written off
- ✓ R&D capex at Rs480mn; R&D workforce at 1,200
- ✓ Expenses of Rs1.7bn added to CWIP pending capitalization; total Rs3.6bn in expenses pending cap in CWIP vs Rs2.6bn in FY19.
- ✓ Borrowings costs of Rs840mn capitalized at interest cost of 7.6% (PY Rs600mn)
- ✓ CFs- Rs6.1bn in operating CF less capex of ~Rs8.5bn resulting in negative FCF; expect FCF generation to start in FY21 as capex peaks out at Rs7bn in FY21 and Rs3-3.5bn thereafter
- ✓ Major debt repayments - Rs3bn NCD in FY22, cumulative Rs4.6bn (term loans + NCD + US\$8mn ECB) in FY23
- ✓ Related party transactions: No major change or significant quantum (as % of sales/costs)

### Stock data (as on Jun 15, 2020)

Sensex:	33,229
52 Week h/l (Rs)	913 / 435
Market cap (Rs/USD mn)	167,779 / 2,208
Outstanding Shares	189
6m Avg t/o (Rs mn):	228
Div yield (%):	0.8
Bloomberg code:	ALPM IN
NSE code:	APLLTD

### Stock performance



	1M	3M	1Y
Absolute return	6.1%	48.6%	74.4%

### Shareholding pattern (As of Mar'20 end)

Promoter	73.0%
FII+DII	15.2%
Others	11.9%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,100	1,100

### Δ in earnings estimates

	FY21e	FY22e
EPS (New)	43.6	44.6
EPS (Old)	43.7	44.4
% change	-	-

### Financial Summary

	FY20	FY21E	FY22E
Revenues	46,060	50,196	54,841
Yoy growth (%)	17.1	9.0	9.3
OPM (%)	26.6	25.8	26.3
EPS (Rs)	44.0	43.6	44.6
EPS growth	41.9	(1.0)	2.4
P/E (x)	20.2	20.4	20.0
Price/Book (x)	5.3	4.3	3.7
EV/EBITDA (x)	14.5	13.7	11.9
Debt/Equity (x)	0.3	0.3	0.1
RoE (%)	28.6	23.5	20.2
RoCE (%)	25.3	21.3	21.9

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# Alembic Pharma

## Exhibit 1: Solid receivables management despite high US share

Company	Debtor Days	US % of total revenues
Alembic Pharma	69	46
Ajanta Pharma	96	20
Alkem	67	26
IPCA Labs	63	-
Torrent Pharma	76	19

Source: Companies, YES Sec – Research

## Exhibit 2: R&D comparison across companies

R&D	Capital (Rs mn)	Recurring (Rs mn)	Average filings/year	Cost/filing (US\$ mn)	US sales (US\$ mn)	# of Products	Rev/ANDA (US\$ mn)
Alembic	480	5,737	25	3.0	280	60	5.1
Ajanta	661	1,760	15	1.5	69	25	2.8
Alkem	154	4,622	23	2.6	310	65	4.8

Source: Companies, YES Sec – Research

Note: Alembic rev/ANDA excludes ~US\$50mn sartans revenues and associated 15 ANDAs. Except Alembic, figures relate for FY19; Alkem ANDA filings and # of products our estimates

## Exhibit 3: Expenses pending capitalization included in CWIP

Rs mn	FY19	FY20
Opening balance	1,089	2,570
Capitalized during the year	-	(656)
Incurred during the year		
Salaries	788	701
Professional fees	20	22
Others	673	961
Closing balance	2,570	3,598

Source: Companies, YES Sec – Research

## Exhibit 4: No major change in related party transactions

Rs mn	FY19	FY20
<b>Purchase of goods</b>		
Alembic Ltd	516	372
Shreno Publications Ltd	235	244
<b>Reimbursement of expenses</b>		
Alembic Ltd	105	43
<b>Receiving of services</b>		
Alembic Ltd	108	111
<b>Purchase of property, plant &amp; equipment</b>		
Controlling company		
Nirayu Ltd	-	189
<b>Other related parties</b>		
Shreno Ltd	189	-
Paushak Ltd	24	-

Source: Companies, YES Sec – Research

## FINANCIALS

**Exhibit 5: Balance sheet**

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	377	377	377	377	377
Reserves	21,824	26,811	31,527	38,195	45,056
<b>Net worth</b>	<b>22,201</b>	<b>27,188</b>	<b>31,904</b>	<b>38,572</b>	<b>45,433</b>
Debt	5,408	5,513	10,348	12,000	5,500
Def.tax lia	354	188	122	122	122
<b>Total liabilities</b>	<b>27,963</b>	<b>32,889</b>	<b>42,374</b>	<b>50,694</b>	<b>51,055</b>
Fixed assets	20,037	27,097	33,986	38,761	38,880
Investments	1,128	1,103	1,284	1,284	1,284
<b>Net working capital</b>	<b>6,799</b>	<b>4,689</b>	<b>7,105</b>	<b>10,649</b>	<b>10,892</b>
Inventories	7,339	9,673	11,875	12,942	14,139
Sundry debtors	5,263	4,889	8,648	9,424	10,296
Cash	895	2,064	801	3,115	1,864
Other current assets	4,745	2,960	3,297	3,514	3,839
Sundry creditors	(7,593)	(6,443)	(6,259)	(6,821)	(7,452)
Other current liabilities	(3,851)	(8,453)	(11,257)	(11,524)	(11,794)
Misc.exp	-	-	-	-	-
<b>Total assets</b>	<b>27,963</b>	<b>32,889</b>	<b>42,374</b>	<b>50,694</b>	<b>51,055</b>

Source: Company, YES Sec – Research

**Exhibit 6: Income statement**

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Revenue	31,310	39,347	46,060	50,196	54,841
<b>Operating profit</b>	<b>6,433</b>	<b>8,736</b>	<b>12,233</b>	<b>12,926</b>	<b>14,420</b>
Depreciation	(1,055)	(1,152)	(1,573)	(2,263)	(3,381)
Interest expense	(34)	(184)	(272)	(391)	(525)
Other income	90	94	49	94	94
<b>Profit before tax</b>	<b>5,434</b>	<b>7,493</b>	<b>10,437</b>	<b>10,365</b>	<b>10,608</b>
Taxes	(1,204)	(1,568)	(1,992)	(2,073)	(2,122)
<b>Adj. profit</b>	<b>4,231</b>	<b>5,926</b>	<b>8,446</b>	<b>8,292</b>	<b>8,486</b>
Exceptional items	(83)	(82)	(152)	(81)	(81)
<b>Net profit</b>	<b>4,148</b>	<b>5,844</b>	<b>8,294</b>	<b>8,211</b>	<b>8,405</b>

Source: Company, YES Sec – Research

## Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Profit before tax	5,434	7,493	10,437	10,365	10,608
Depreciation	1,055	1,152	1,573	2,263	3,381
Def.tax lia	(15)	(167)	(66)	-	-
Tax paid	(1,204)	(1,568)	(1,992)	(2,073)	(2,122)
Working capital Δ	(702)	3,279	(3,680)	(1,230)	(1,494)
Other operating items	(83)	(82)	(152)	(81)	(81)
Operating cashflow	4,485	10,108	6,122	9,245	10,292
Capital expenditure	(9,135)	(8,212)	(8,462)	(7,038)	(3,500)
<b>Free cash flow</b>	<b>(4,649)</b>	<b>1,896</b>	<b>(2,340)</b>	<b>2,207</b>	<b>6,792</b>
Equity raised	(87)	356	(1,372)	(0)	(0)
Investments	83	24	(180)	-	-
Debt financing/disposal	4,835	106	4,835	1,652	(6,500)
Dividends	(882)	(1,213)	(2,206)	(1,544)	(1,544)
<b>Net Δ in cash</b>	<b>(700)</b>	<b>1,169</b>	<b>(1,264)</b>	<b>2,315</b>	<b>(1,251)</b>

Source: Company, YES Sec – Research

## Exhibit 8: DuPont analysis

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Tax burden (x)	0.78	0.79	0.81	0.80	0.80
Interest burden (x)	0.99	0.98	0.97	0.96	0.95
EBIT margin (x)	0.17	0.20	0.23	0.21	0.20
Asset turnover (x)	0.94	0.90	0.86	0.78	0.79
Financial leverage (x)	1.61	1.77	1.82	1.83	1.66
<b>RoE (%)</b>	<b>20.5</b>	<b>24.0</b>	<b>28.6</b>	<b>23.5</b>	<b>20.2</b>

Source: Company, YES Sec – Research

## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20	FY21E	FY22E
<b>Growth matrix (%)</b>					
Revenue growth	(0.1)	25.7	17.1	9.0	9.3
Op profit growth	4.5	35.8	40.0	5.7	11.6
EBIT growth	2.2	40.4	39.5	0.4	3.5
Net profit growth	2.8	40.9	41.9	(1.0)	2.4
<b>Profitability ratios (%)</b>					
OPM	20.5	22.2	26.6	25.8	26.3
EBIT margin	17.5	19.5	23.3	21.4	20.3
Net profit margin	13.5	15.1	18.3	16.5	15.5
RoCE	22.8	25.2	28.5	23.1	21.9
RoNW	20.5	24.0	28.6	23.5	20.2
RoA	12.8	13.6	15.7	12.9	12.2
<b>Per share ratios</b>					
EPS	22.0	31.0	44.0	43.6	44.6
Dividend per share	4.0	5.5	10.0	7.0	7.0
Cash EPS	28.0	37.5	53.1	56.0	63.0
Book value per share	117.8	144.2	169.2	204.6	241.0
<b>Valuation ratios (x)</b>					
P/E	40.5	28.7	20.2	20.4	20.0
P/BV	7.6	6.2	5.3	4.3	3.7
M Cap/Sales	5.4	4.3	3.6	3.3	3.1
EV/EBIDTA	26.8	19.6	14.5	13.7	11.9
<b>Payout (%)</b>					
Tax payout	22.2	20.9	19.1	20.0	20.0
Dividend payout	21.3	20.8	26.6	18.8	18.4
<b>Liquidity ratios</b>					
Debtor days	61	45	69	69	69
Inventory days	86	90	94	94	94
Creditor days	89	60	50	50	50
<b>Leverage ratios</b>					
Interest coverage	160.8	41.7	39.4	27.5	21.2
Net debt / equity	0.2	0.1	0.3	0.2	0.1
Net debt / op. profit	0.7	0.4	0.8	0.7	0.3

Source: Company, YES Sec – Research

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