

Alembic Pharma

Estimate change



TP change



Rating change



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Bloomberg	ALPM IN
Equity Shares (m)	189
M.Cap.(INRb)/(USDb)	188.4 / 2.5
52-Week Range (INR)	1044 / 436
1, 6, 12 Rel. Per (%)	-2/77/96
12M Avg Val (INR M)	192

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	46.1	52.6	58.4
EBITDA	12.2	14.2	15.1
Adj. PAT	8.6	9.8	10.0
EBIT Margin (%)	23.1	23.7	22.2
Cons. Adj. EPS (INR)	45.9	51.7	53.1
EPS Gr. (%)	47.7	12.8	2.7
BV/Sh. (INR)	170.8	210.5	251.6

Ratios

Net D:E	0.5	0.4	0.3
RoE (%)	30.1	27.8	23.8
RoCE (%)	19.7	17.9	16.4
Payout (%)	27.4	23.3	22.6

Valuations

P/E (x)	21.8	19.3	18.8
EV/EBITDA (x)	12.1	10.4	9.7
Div. Yield (%)	1.0	1.0	1.0
FCF Yield (%)	-1.0	1.9	3.1
EV/Sales (x)	3.2	2.8	2.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	73.0	73.0	73.0
DII	7.1	6.9	5.4
FII	7.3	8.3	9.6
Others	12.6	11.9	12.1

FII Includes depository receipts

CMP: INR999
TP: INR1,100 (+10%)
Neutral

Export Formulations/API lead superior performance

COVID-19-led drag on Domestic Formulations (DF) growth

- Alembic Pharma (ALPM) delivered record revenue/EBITDA/PAT for 1QFY21 on the back of strong performance in Export Formulations/API and partly due to lower R&D spend for the quarter. ALPM remains on track in terms of completing capex, with ~INR15b spent over FY16–20 and a similar amount expensed for R&D. We expect the meaningful benefit to be reflected from 2HFY22.
- We raise our EPS estimate by 20%/19.4% for FY21/FY22 to factor new launches in US Generics and a favorable outlook for Non-US Formulations/API sales. Accordingly, we revise our price target to INR1,100 (from INR975 earlier), valuing the stock on a 20x 12M forward earnings basis. Maintain Neutral stance on limited upside from current levels.

US Formulations momentum continues; India business declines

- ALPM's 1QFY21 revenues were up 41% YoY to INR13.4b (est.: INR11.3b), led by International Formulations (+70% YoY), supported by an increase in the US segment (44% of sales; +73% YoY) to INR6b (USD80m) and Non-US segment (13% of sales; +62% YoY) to INR1.8b. API revenue (20% of sales) grew by a strong 54% YoY to INR2.6b. However, this was offset to some extent by 5.6% YoY decline in the India business (22% of sales).
- The gross margin (GM) declined by 360bps YoY to 74.8% on increased share of Export Formulations and API sales.
- The EBITDA margin at 30.4% (our est.: 25.5%) expanded 670bp YoY despite lower GM on account of improved operating leverage, with reduced other expenses / R&D spend (-390bp/-430bp as a percentage of sales). Employee cost was also lower for the quarter (-210bp as a percentage of sales). Reduced travel cost and promotional expense resulted in lower opex for the quarter. EBITDA grew 81% YoY.
- PAT doubled to INR4.1b YoY (est.: INR1.9b) for the quarter.

Highlights from management commentary

- ALPM guided for the US base business to have a quarterly run-rate of USD70m. ALPM plans to launch 15–20 ANDAs (three launched in 1QFY21) in the US this year, providing scope for revenues in addition to the base business.
- ALPM guided for capex of INR7b for FY21, comprising pre-op expenses of INR3.5b across new facilities of ALPM and maintenance capex of ~INR3b. It plans to spend INR6–7b in the next two years on injectable facilities and the Jarod expansion for additional lines and investments to build API capacity.
- While R&D spend was INR1.4b (1QFY21), it is expected to be ~INR7b for FY21.
- Opex for 1QFY21 was lower due to lower travel/promotional cost on the DF front.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- We raise our earnings estimate by 20%/19.4% over FY21/FY22 to factor a continued strong performance in the US, driven by new launches, better traction from approved products, improved business prospects in Non-US Formulations, the API segment, and gradual turnaround in the DF business.
- We continue to value ALPM at 20x (in line with its five-year average) and arrive at price target of NR1,100 on a 12M forward earnings basis. Maintain Neutral.

1QFY21 financial snapshot

Y/E March	FY20				FY21E				FY20	FY21E	FY21E	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	9,489	12,409	12,091	12,068	13,413	13,428	12,911	12,878	46,060	52,630	11,323	18.5%
YoY Change (%)	10.0	10.1	18.8	30.2	41.4	8.2	6.8	6.7	17.0	14.3	19.3	
Total Expenditure	7,240	8,954	8,841	8,793	9,340	9,789	9,541	9,741	33,827	38,411	8,436	
EBITDA	2,249	3,455	3,251	3,275	4,074	3,639	3,370	3,137	12,233	14,220	2,887	41.1%
YoY Change (%)	49.0	14.3	34.2	84.0	81.1	5.3	3.7	-4.2	39.9	16.2	28	
Margins (%)	23.7	27.8	26.9	27.1	30.4	27.1	26.1	24.4	26.6	27.0	25.5	
Depreciation	354	360	418	441	415	430	450	474	1,573	1,769	450	
EBIT	2,603	3,815	3,669	3,717	4,489	4,069	3,820	3,611	13,806	15,989	3,337	
YoY Change (%)	28.3	25.6	44.0	47.4	72.4	6.7	4.1	-2.8	39.5	15.8	28	
Interest	50	71	74	78	67	90	120	184	272	461	88	
Other Income	33	4	4	9	3	8	12	14	49	37	15	
PBT before EO expense	1,878	3,029	2,763	2,765	3,595	3,127	2,812	2,493	10,437	12,027	2,364	52.0%
Extra-Ord expense	328	0	0	109	0	0.0	0.0	0	436	0	0	
PBT	1,550	3,029	2,763	2,660	3,595	3,127	2,812	2,493	10,001	12,027	2,364	52.0%
Tax	360	525	486	621	668	672	638	547	1,992	2,526	449	
Rate (%)	23.2	17.3	17.6	23.4	18.6	21.5	22.7	22.0	19.9	21.0	19.0	
MI & P/L of Asso. Cos.	-47	41	-65	-214	-87	-60	-45	-58	-285	-250	0	
Reported PAT	1,237	2,463	2,342	2,252	3,015	2,515	2,218	2,003	8,294	9,751	1,915	57.4%
Adj PAT	1,504	2,463	2,342	2,334	3,015	2,515	2,218	2,003	8,643	9,751	1,915	57.4%
YoY Change (%)	66.2	23.1	37.9	88.2	100.4	2.1	-5.3	-14.2	47.7	12.8	27.3	
Margins (%)	15.9	19.8	19.4	19.3	22.5	18.7	17.2	15.6	18.8	18.5	16.9	

Source: MOFSL, Company

Key performance indicators

Y/E March	FY20				FY21E				FY20	FY21E	FY21E	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
India	3240	3910	3680	3420	3060	4027	3864	3746	14250	14698	3272	-6%
YoY Change (%)	(2.1)	1.6	0.8	13.2	(5.6)	3.0	5.0	9.5	3.0	3.1	1.0	
Exports	4,530	6,460	6,640	7,100	7,710	7,157	7,029	7,334	24,730	29,230	6,417	20%
YoY Change (%)	28.7	10.1	48.2	79.7	70.2	10.8	5.9	3.3	38.7	18.2	41.7	
APIs	1,720	2,040	1,770	1,550	2,640	2,244	2,018	1,801	7,080	8,703	1,634	62%
YoY Change (%)	(4.4)	31.6	(13.7)	(32.6)	53.5	10.0	14.0	16.2	(8.1)	22.9	(5.0)	
Cost Break-up												
RM Cost (% of Sales)	21.5	22.0	24.7	21.9	25.2	24.5	25.0	24.9	22.6	24.9	23.2	
Staff Cost (% of Sales)	22.6	17.5	18.8	20.5	20.5	20.5	20.0	20.6	19.7	20.4	21.2	
R&D Expenses (% of Sales)	14.8	14.0	12.1	15.3	10.5	12.5	13.5	12.8	14.0	12.3	14.5	
Other Cost (% of Sales)	17.3	18.6	17.6	15.2	13.4	15.4	15.4	17.5	17.2	15.4	17.0	
Gross Margins(%)	78.5	78.0	75.3	78.1	74.8	75.5	75.0	75.1	77.4	75.1	76.8	
EBITDA Margins(%)	23.7	27.8	26.9	27.1	30.4	27.1	26.1	24.4	26.6	27.0	24.1	
EBIT Margins(%)	27.4	30.7	30.3	30.8	33.5	30.3	29.6	28.0	30.0	30.4	28.1	

Source: MOFSL, Company

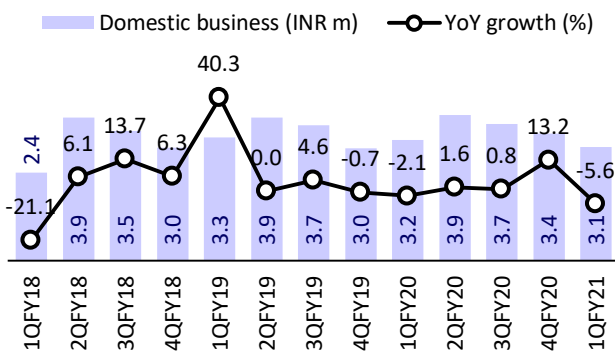


Conference call highlights

- With the resolution of the serialization issue in non-US markets, the 1QFY21 quarterly run-rate of INR1.8b could be considered sustainable over the medium term.
- The substantial adverse impact of lower sales of liquid forms of dosages was partially offset by higher Azithromycin OSD sales in the DF segment.
- The DF business showed signs of growth in June and the first 20 days of July. ALPM expects DF sales to continue to grow and liquids to see an uptick as hospital visits pick up, particularly in Pediatric and Gynaec.
- Sartans forms about 40% of US sales. While new competition has emerged for these sets of products, APLM has been able to hold on to its market share.
- The company filed five general injectables at the end of 1QFY21.
- Fundraising has been planned for investing in complex injectables/505b2 and reducing financial leverage. ALPM has not indicated any plans to enter the Biosimilars segment.
- The API business grew 53.5% YoY for the quarter, partly led by the higher off-take of Azithromycin.
- The Aleor R&D capitalization was INR250m for the quarter.

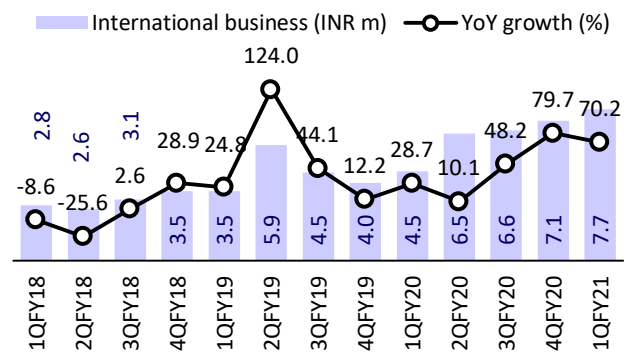
Key exhibits

Exhibit 1: DF sales decline 5.6% YoY in 1QFY21



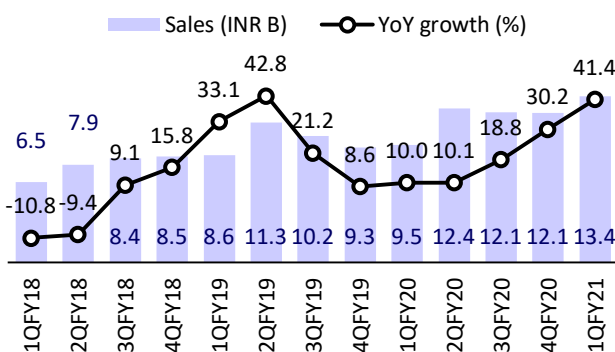
Source: MOFSL, Company

Exhibit 2: US (+73% YoY) leads growth in international sales



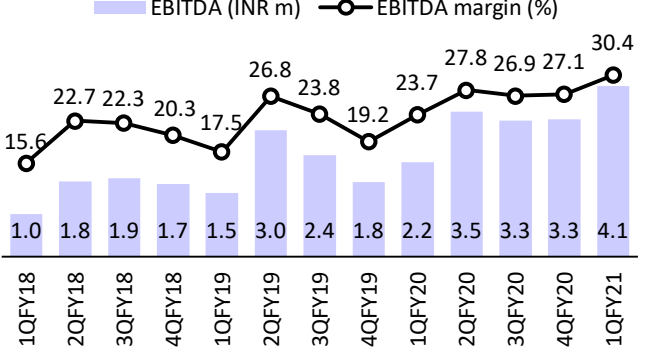
Source: MOFSL, Company

Exhibit 3: International business-led growth in overall sales



Source: MOFSL, Company

Exhibit 4: Margins expand ~670bp YoY



Source: MOFSL, Company

Valuation and view

Healthy US traction; WIP to build capacity and product pipeline for new dosages

ALPM continued its strong performance in 1QFY21, driven by a 73% increase in US sales (44% of sales). Growth in the US was driven by an increase in the volumes of existing products, supported by three launches in the quarter. ALPM intends to launch 15–20 products in the US in FY21 and is well-positioned to support this, with 66 ANDAs pending approval. 12 of its ANDAs have been approved in the Ophthalmic Dosage category. Furthermore, it has started filing general injectables and intends to file onco-injectables from 2HFY21. Over FY16–20, through spending INR23b on R&D, it has built a development pipeline of 200+ products to cater to future growth in the US Generics segment. However, the meaningful benefit from the commercialization of these products is expected to reflect from 2HFY22, considering the time required for site compliance and product approval. Considering the high base of FY20, led by the Sartans opportunity, we expect an 11% CAGR in US sales to USD350m over FY20–22.

Consistent compliance minimizes regulatory risk over medium term

ALPM has had 20+ inspections at its four sites to date and has been consistently compliant, exhibiting a sound inspection track record. Even the new sites (F1 for oral solids and the Aleor derma site) were inspected successfully, with EIRs in place. This reduces regulatory risk for ALPM over the medium term.

India (22% of sales): Liquids drags down Domestic Formulations

ALPM posted a muted 5% CAGR in Domestic Formulations over FY16–20, weighed by underperformance in key therapies (Anti-Infectives, Cardiac, Respiratory, Gastrointestinal, Gynecology, and Anti-Diabetic).

ALPM has already implemented a strategy to revive growth in this segment, with reduced discounts to trade channels being a part of the strategy. The benefit of the same was partly reflected in its 4QFY20 performance.

However, ALPM saw 5.6% YoY decline in 1QFY21 on low demand due to COVID-19, especially in the Liquids segment. Pediatric and Gynaec/Hormones witnessed a major impact as the patients using drugs in these categories largely stayed away from hospitals.

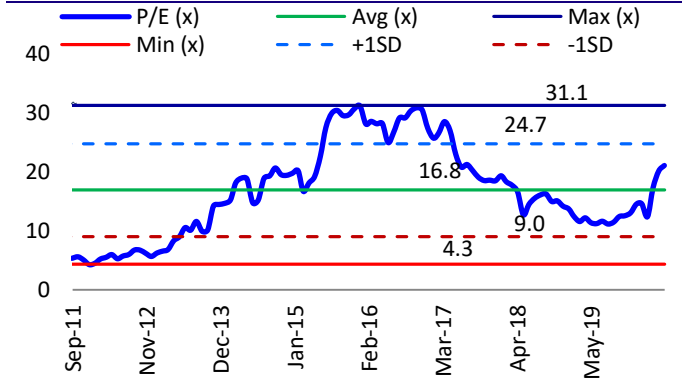
Nevertheless, ALPM has been seeing early signs of recovery from June'20 on the back of a favorable macro as well as the benefit of a renewed strategy.

Considering the slowdown witnessed in DF due to COVID-19, we expect ALPM to post a 6% CAGR to INR16b over FY20–22.

Valuation and view

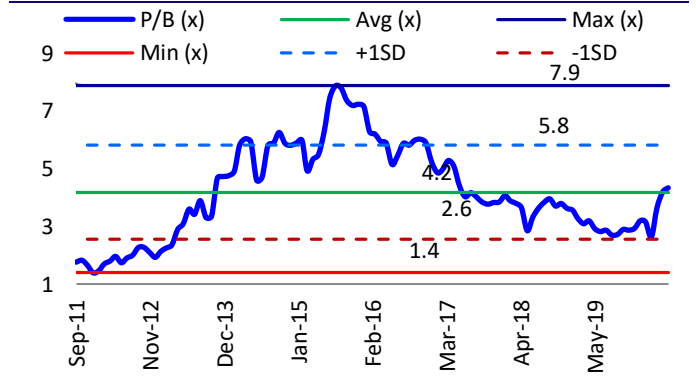
We raise our earnings estimates by 20%/19.4% over FY21/FY22 to factor a continued strong performance in the US, driven by new launches, better traction from approved products, improved business prospects in the Non-US Formulations and API segments, with gradual turnaround expected in the DF business for the remainder of the year. We continue to value ALPM at 20x (in line with its five-year average) and arrive at price target of NR1,100 on a 12M forward earnings basis. Maintain Neutral on limited upside from current levels.

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

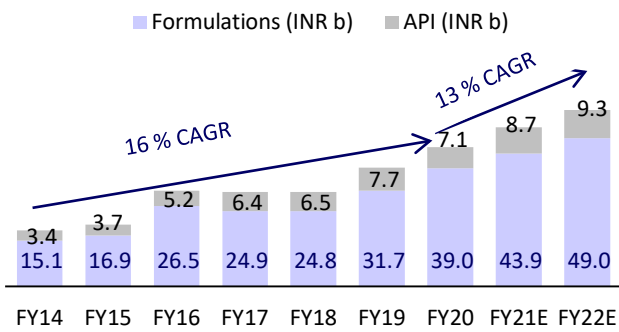
Exhibit 6: P/B chart



Source: MOFSL, Company, Bloomberg

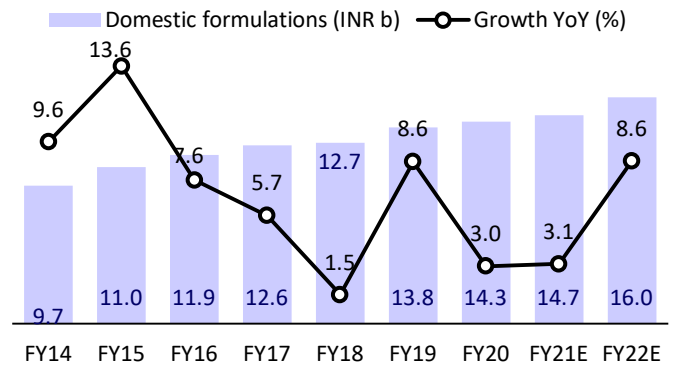
Story in charts

Exhibit 7: Expect Formulations CAGR of ~13% over FY20–22



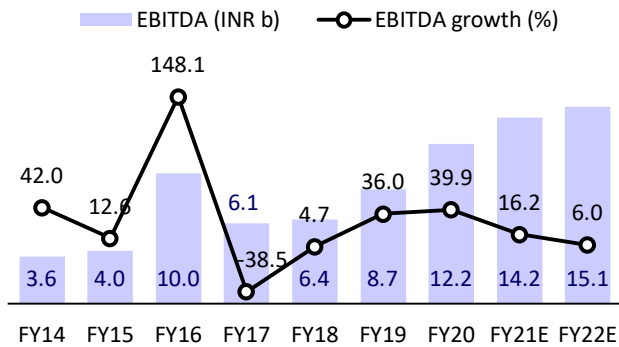
Source: MOFSL, Company

Exhibit 8: Expect DF biz to recover in FY22



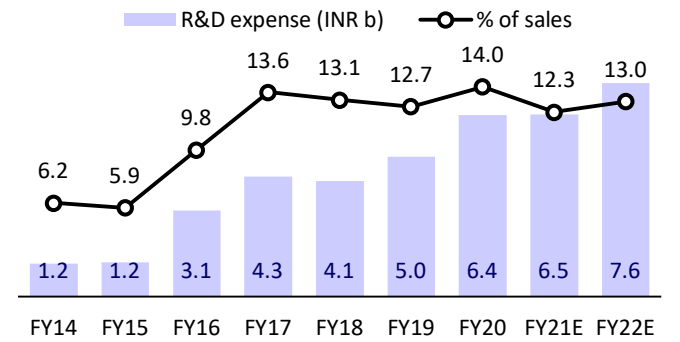
Source: MOFSL, Company

Exhibit 9: EBITDA to gradually improve over FY20–22



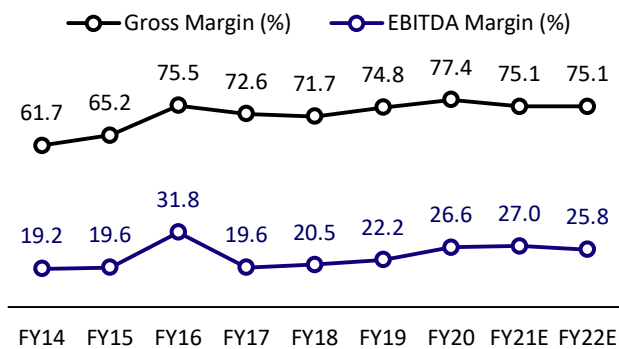
Source: MOFSL, Company

Exhibit 10: R&D spend to be steady over FY20–22



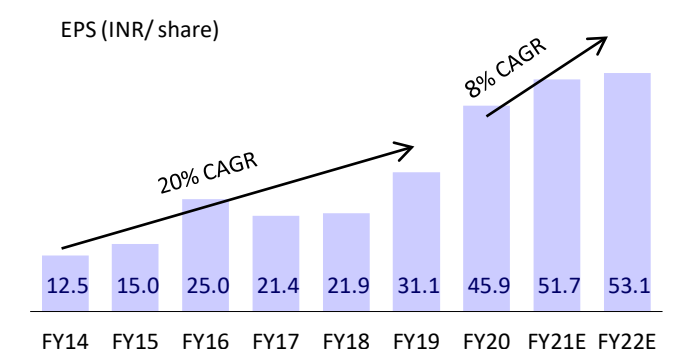
Source: MOFSL, Company

Exhibit 11: Slower DF growth to impact margins



Source: MOFSL, Company

Exhibit 12: EPS to grow slowly over FY20–22 on a high base



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	18,632	20,527	31,416	31,345	31,310	39,357	46,060	52,630	58,384
Change (%)	22.6	10.2	53.0	-0.2	-0.1	25.7	17.0	14.3	10.9
EBITDA	3,577	4,026	9,988	6,146	6,433	8,746	12,233	14,220	15,074
Margin (%)	19.2	19.6	31.8	19.6	20.5	22.2	26.6	27.0	25.8
Depreciation	405	444	722	830	1,055	1,152	1,573	1,769	2,112
EBIT	3,172	3,582	9,266	5,316	5,378	7,594	10,660	12,451	12,961
Int. and Finance Charges	104	18	37	51	34	184	272	461	807
Other Income - Rec.	38	26	91	25	70	94	49	37	70
PBT bef. EO Exp.	3,106	3,591	9,320	5,290	5,415	7,503	10,437	12,027	12,225
EO Expense/(Income)	0	0	0	0	0	0	436	0	0
PBT after EO Exp.	3,106	3,591	9,320	5,290	5,415	7,503	10,001	12,027	12,225
Current Tax	685	764	1,986	1,224	1,236	1,781	2,046	2,766	2,812
Deferred Tax	66	0	174	-2	-33	-214	-54	-241	-244
Tax Rate (%)	24.2	21.3	23.2	23.1	22.2	20.9	19.9	21.0	21.0
MI & P/L of Asso. Cos.	0.0	-2.0	6.0	39.2	82.8	82.0	-284.7	-250.0	-360.0
Reported PAT	2,355	2,829	7,154	4,029	4,128	5,854	8,294	9,751	10,017
PAT Adj for EO items	2,355	2,829	4,720	4,029	4,128	5,854	8,643	9,751	10,017
Change (%)	42.5	20.1	66.8	-14.6	2.5	41.8	47.7	12.8	2.7
Margin (%)	12.6	13.8	15.0	12.9	13.2	14.9	18.8	18.5	17.2

Consolidated - Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	377	377	377	377	377	377	377	377	377
Total Reserves	6,379	8,469	15,628	18,634	21,824	26,811	31,820	39,302	47,051
Net Worth	6,756	8,846	16,005	19,011	22,201	27,188	32,197	39,679	47,429
Minority Interest	0	0	0	1	3	-8	-290	-290	-290
Deferred Liabilities	227	314	501	369	354	188	122	-119	-363
Total Loans	1,238	2,385	1,325	802	7,078	9,284	18,208	20,208	18,208
Capital Employed	8,221	11,546	17,832	20,184	29,637	36,652	50,237	59,479	64,984
Gross Block	6,541	8,756	11,190	12,548	11,726	15,156	20,700	38,267	49,742
Less: Accum. Deprn.	2,688	3,132	3,878	4,554	2,456	3,608	5,181	6,950	9,062
Net Fixed Assets	3,854	5,978	7,748	8,264	10,928	11,585	15,518	31,317	40,680
Capital WIP	323	323	925	3,693	9,108	15,512	18,462	7,895	2,919
Total Investments	34	23	21	502	416	488	179	179	179
Curr. Assets, Loans&Adv.	7,968	10,089	15,900	14,408	18,959	20,193	25,734	33,133	35,449
Inventory	3,108	3,828	5,776	6,328	7,339	9,673	11,875	15,069	16,716
Account Receivables	2,734	3,612	3,505	3,375	5,263	4,889	8,648	10,602	11,761
Cash and Bank Balance	240	268	4,508	1,596	899	2,056	808	2,856	2,189
Loans and Advances	1,887	2,381	2,111	3,110	5,457	3,576	4,404	4,606	4,783
Curr. Liability & Prov.	3,957	4,866	6,762	6,683	9,774	11,125	9,656	13,044	14,243
Account Payables	2,884	3,109	5,664	5,232	7,593	6,443	6,259	7,893	8,756
Other Current Liabilities	339	715	656	755	1,429	3,838	2,270	2,594	2,877
Provisions	734	1,042	443	696	752	844	1,127	2,557	2,610
Net Current Assets	4,011	5,223	9,138	7,725	9,185	9,068	16,078	20,089	21,206
Appl. of Funds	8,221	11,546	17,832	20,184	29,637	36,652	50,238	59,479	64,984

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS	12.5	15.0	25.0	21.4	21.9	31.1	45.9	51.7	53.1
Cash EPS	14.6	17.4	28.9	25.8	27.5	37.2	54.2	61.1	64.3
BV/Share	35.8	46.9	84.9	100.8	117.8	144.2	170.8	210.5	251.6
DPS	3.0	3.5	4.0	4.0	4.0	5.5	10.0	10.0	10.0
Payout (%)	28.1	28.1	12.7	22.5	22.0	21.3	27.4	23.3	22.6
Valuation (x)									
P/E	80.0	66.6	39.9	46.8	45.7	32.2	21.8	19.3	18.8
Cash P/E	68.3	57.6	34.6	38.8	36.4	26.9	18.5	16.4	15.5
P/BV	27.9	21.3	11.8	9.9	8.5	6.9	5.9	4.8	4.0
EV/Sales	7.0	6.4	4.0	4.1	4.4	3.5	3.2	2.8	2.5
EV/EBITDA	36.6	32.8	12.7	21.0	21.2	15.7	12.1	10.4	9.7
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4	0.6	1.0	1.0	1.0
Return Ratios (%)									
RoE	40.0	36.3	37.9	22.8	19.6	23.4	30.1	27.8	23.8
RoCE	32.7	29.6	50.3	22.1	17.3	18.5	19.7	17.9	16.4
RoIC	34.0	30.4	61.1	30.5	24.9	31.8	34.6	24.8	18.9
Working Capital Ratios									
Asset Turnover (x)	2.3	1.8	1.8	1.6	1.1	1.1	0.9	0.9	0.9
Inventory (Days)	61	68	67	74	86	90	94	105	105
Debtor (Days)	53	64	40	39	61	45	69	74	74
Creditor (Days)	57	55	66	61	89	60	50	55	55
Leverage Ratio (x)									
Net Debt/Equity	0.1	0.2	-0.2	0.0	0.3	0.3	0.5	0.4	0.3

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Profit / (Loss) Before Tax	3,106	3,591	9,360	5,291	5,413	7,493	9,998	12,027	12,225
Depreciation	405	444	722	830	1,055	1,152	1,573	1,769	2,112
Interest & Finance Charges	66	-9	54	52	34	184	272	424	737
Direct Taxes Paid	663	676	1,970	1,180	1,351	1,665	2,361	2,766	2,812
(Inc)/Dec in WC	-694	-1,184	1,389	-1,656	-1,809	1,116	-5,844	-1,962	-1,784
CF from Operations	2,221	2,166	9,555	3,337	3,342	8,281	3,638	9,491	10,478
CF from Operating incl EO	2,256	1,891	9,398	3,246	2,969	8,018	5,383	9,491	10,478
(inc)/dec in FA	-816	-2,215	-3,011	-5,101	-7,494	-6,539	-6,726	-7,000	-6,500
Free Cash Flow	1,440	-324	6,387	-1,856	-4,525	1,478	-1,343	2,491	3,978
(Pur)/Sale of Investments	0	0	-64	48	14	39	23	0	0
Others	37	15	201	299	-1,146	-1,030	-596	37	70
CF from Investments	-779	-2,200	-2,874	-4,754	-8,626	-7,530	-7,299	-6,963	-6,430
(Inc)/Dec in Debt	-633	1,149	-1,404	-336	6,194	2,203	5,919	2,250	-1,640
Interest Paid	-104	-18	-52	-52	-260	-703	-1,111	-461	-806
Dividend Paid	-662	-794	-787	-901	-908	-909	-3,260	-2,269	-2,269
Others	0	0	0	0	0	72	-878	32	32
CF from Fin. Activity	-1,398	337	-2,243	-1,289	5,026	662	671	-448	-4,682
Inc/Dec of Cash	79	29	4,281	-2,797	-631	1,150	-1,246	2,081	-635
Add: Beginning Balance	161	240	228	4,393	1,531	899	2,053	777	2,825
Closing Balance	240	268	4,509	1,596	899	2,048	808	2,856	2,190

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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