

Alembic Pharma

BUY

CMP Rs999

Target Rs1,180

Upside 18%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Strong beat in revenues driven by US at US\$79mn as sartans continue to remain stable opportunity; not much from Azithromycin ✓ India declined 6% yoy as lock downs across cities in April and May and early June impacted sales; management aims to outperform the industry even on the decline ✓ Margin came in better than expected at 30% as R&D spend lower at Rs1.4bn vs Rs1.8bn in Q4 FY20; gross margin came off due to lower India and higher API revenues ✓ QIP to fund complex generics and 505b2 opportunities as also to repay debt; funding for less capex intensive but longer gestation programs
Our View	<ul style="list-style-type: none"> ✓ We tweak FY21/22 estimates based on strong ROW and API performance/guidance offset by lowering of domestic sales in FY21 ✓ We retain 25x PE and believe any further rerating is not warranted given that gap with Torrent would be largely closed at our target multiple; reckon stock should trade at some discount to Torrent given that US will account for 42% of sales and domestic business is not comparable to scale of Torrent
Risk to our call	<ul style="list-style-type: none"> ✓ We have assumed sartans revenues to erode in H2 FY21 based on past management guidance; if it persists; there could be earnings surprises not factored by us.

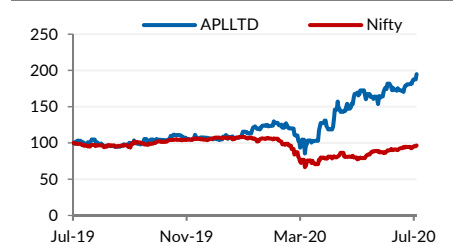
Exhibit 1: Result table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Revenues	13,413	12,068	11.1	9,489	41.4
RM + inventory changes	(2,885)	(2,289)	26.0	(1,224)	135.7
Purchase of goods	(493)	(350)	40.8	(820)	(39.9)
Staff	(2,754)	(2,469)	11.5	(2,149)	28.2
Other expenses	(3,208)	(3,685)	(12.9)	(3,047)	5.3
Operating profit	4,074	3,275	24.4	2,249	81.1
OPM (%)	30.4	27.1	323 bps	23.7	667 bps
Depreciation	(415)	(441)	(6.0)	(354)	17.2
Interest	(67)	(78)	(13.9)	(50)	33.9
Other income	3	9	(64.0)	33	(90.3)
PBT	3,595	2,765	30.0	1,878	91.4
Tax	(668)	(621)	7.5	(360)	85.7
Effective tax rate (%)	18.1	22.5	(434) bps	22.5	(439) bps
Minority/Associate	87	214	-	(281)	-
Exceptional	-	(109)	-	-	-
PAT	3,015	2,249	34.0	1,237	143.7

Stock data (as on Jul 22, 2020)

Nifty	11,133
52 Week h/l (Rs)	999 / 435
Market cap (Rs/USD mn)	188,327 / 2478
Outstanding Shares (mn)	189
6m Avg t/o (Rs mn):	311
Div yield (%):	0.7
Bloomberg code:	ALPM IN
NSE code:	APLLTD

Stock performance



	1M	3M	1Y
Absolute return	6.9%	63.5%	97.9%

Shareholding pattern (As of Jun'20 end)

Promoter	73.0%
FII+DII	14.4%
Others	12.6%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	42.8	47.3
EPS (Old)	43.0	44.1
% change	-	7.0%

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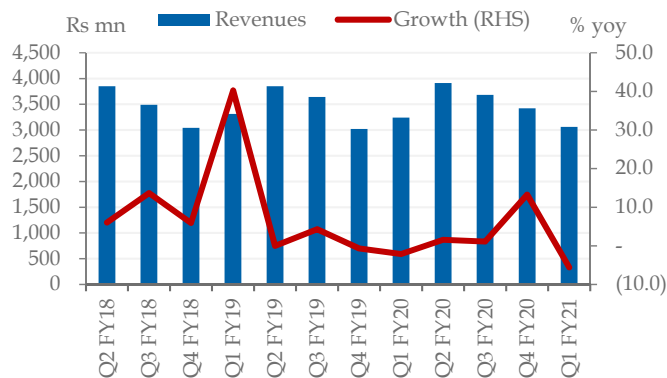
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CON-CALL HIGHLIGHTS

- ✓ Q1 Capex is Rs1.4bn; cumulative capex Rs15bn inc pre-operative expense. Aleor JV invested Rs7bn so far
- ✓ Sartans stable; one additional player has entered but no player has any dominant share
- ✓ R&D down due to shutdowns and guided to Rs7bn in FY21
- ✓ Launched 3 products in Q1 and 5 products in Q2 in US market; 15-20 launches annually
- ✓ Saw challenges in April and May and parts of June and domestic perf in line with IMS nos for industry; aim to outperform industry even on the downside
- ✓ Enabling fund raising for complex generics and 505b2 opportunities
- ✓ Onco injectables exhibit batches in 6 months; Rs3.5bn pre-operating expenses
- ✓ QIP to be used for capex and debt reduction
- ✓ About 13 people in US and not a sales force per se since selling to distributors; only distributor model in ROW region
- ✓ About US\$250mn of capex produces incremental about US\$400mn in sales over following 3 years

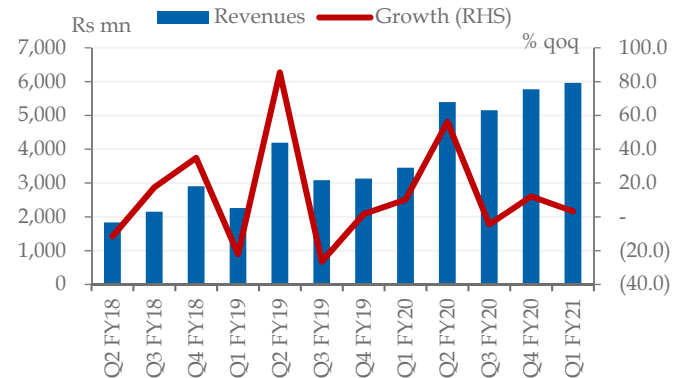
CHARTS

Exhibit 2: India sales lower yoy



Source: Company, YES Sec – Research

Exhibit 3: US revenues maintain their momentum



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 4: 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	38,044	45,418
Net worth	22,201	27,188	31,904	38,421	45,795
Debt	5,408	5,513	10,348	12,000	5,500
Def.tax lia	354	188	122	122	122
Total liabilities	27,963	32,889	42,374	50,543	51,417
Fixed assets	20,037	27,097	33,986	38,761	38,880
Investments	1,128	1,103	1,284	1,284	1,284
Net working capital	6,799	4,689	7,105	10,499	11,253
Inventories	7,339	9,673	11,875	13,136	14,357
Sundry debtors	5,263	4,889	8,648	9,565	10,454
Cash	895	2,064	801	2,722	1,954
Other current assets	4,745	2,960	3,297	3,566	3,898
Sundry creditors	(7,593)	(6,443)	(6,259)	(6,923)	(7,567)
Other current liabilities	(3,851)	(8,453)	(11,257)	(11,568)	(11,843)
dTotal assets	27,963	32,889	42,374	50,543	51,417

Exhibit 5: Income statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Revenue	31,310	39,347	46,060	50,948	55,684
Operating profit	6,433	8,736	12,233	12,737	15,060
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
Profit before tax	5,434	7,493	10,437	10,177	11,248
Taxes	(1,204)	(1,568)	(1,992)	(2,035)	(2,250)
Exceptional items	(83)	(82)	(152)	(81)	(81)
Net profit	4,148	5,844	8,294	8,061	8,918

Exhibit 6: Cash flow statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Profit before tax	5,434	7,493	10,437	10,177	11,248
Depreciation	1,055	1,152	1,573	2,263	3,381
Tax paid	(1,204)	(1,568)	(1,992)	(2,035)	(2,250)
Working capital Δ	(702)	3,279	(3,680)	(1,472)	(1,523)
Other operating items	(83)	(82)	(152)	(81)	(81)
Operating cashflow	4,485	10,108	6,122	8,852	10,776
Capital expenditure	(9,135)	(8,212)	(8,462)	(7,038)	(3,500)
Free cash flow	(4,649)	1,896	(2,340)	1,814	7,276
Equity raised	(87)	356	(1,372)	(0)	(0)
Debt financing/disposal	4,835	106	4,835	1,652	(6,500)
Dividends	(882)	(1,213)	(2,206)	(1,544)	(1,544)
Net Δ in cash	(700)	1,169	(1,264)	1,922	(768)

Exhibit 7: Du-pont analysis

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	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	0.96
EBIT margin (x)	0.17	0.20	0.23	0.21	0.21
Asset turnover (x)	0.94	0.90	0.86	0.79	0.80
Financial leverage (x)	1.61	1.77	1.82	1.83	1.66
RoE (%)	20.5	24.0	28.6	23.2	21.4

Exhibit 8: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20	FY21E	FY22E
Growth matrix (%)					
Revenue growth	(0.1)	25.7	17.1	10.6	9.3
Op profit growth	4.5	35.8	40.0	4.1	18.2
EBIT growth	2.2	40.4	39.5	(1.3)	11.4
Net profit growth	2.8	40.9	41.9	(2.8)	10.6
Profitability ratios (%)					
OPM	20.5	22.2	26.6	25.0	27.0
EBIT margin	17.5	19.5	23.3	20.7	21.1
Net profit margin	13.5	15.1	18.3	16.0	16.2
RoCE	22.8	25.2	28.5	22.7	23.1
RoNW	20.5	24.0	28.6	23.2	21.4
RoA	12.8	13.6	15.7	12.6	12.9
Per share ratios					
EPS	22.0	31.0	44.0	42.8	47.3
Dividend per share	4.0	5.5	10.0	7.0	7.0
Cash EPS	28.0	37.5	53.1	55.2	65.7
Book value per share	117.8	144.2	169.2	203.8	242.9
Valuation ratios (x)					
P/E	45.4	32.2	22.7	23.4	21.1
P/BV	8.5	6.9	5.9	4.9	4.1
M Cap/Sales	6.0	4.8	4.1	3.7	3.4
EV/EBIDTA	30.0	22.0	16.2	15.5	12.7
Payout (%)					
Tax payout	22.2	20.9	19.1	20.0	20.0
Dividend payout	21.3	20.8	26.6	19.2	17.3
Liquidity ratios					
Debtor days	61	45	69	69	69
Inventory days	86	90	94	94	94
Creditor days	89	60	50	50	50

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