

Alembic Pharmaceuticals

BSE SENSEX 35,844
S&P CNX 10,552



Stock Info

Bloomberg	ALPM IN
Equity Shares (m)	189
M.Cap.(INRb)/(USDb)	169.1 / 2.3
52-Week Range (INR)	984 / 436
1, 6, 12 Rel. Per (%)	0/72/79
12M Avg Val (INR M)	177
Free float (%)	27.0

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Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	46.1	50.2	55.7
EBITDA	12.2	11.9	13.6
Adj. PAT	8.6	7.7	8.4
EBIT Margin (%)	23.1	19.6	20.1
Cons. Adj. EPS (INR)	45.9	41.0	44.3
EPS Gr. (%)	47.7	-10.6	8.2
BV/Sh. (INR)	170.8	199.7	232.0

Ratios

Net D:E	0.6	0.5	0.4
RoE (%)	30.1	22.9	21.2
RoCE (%)	19.7	14.4	14.9
Payout (%)	27.4	29.4	27.2

Valuations

P/E (x)	19.5	21.9	20.2
EV/EBITDA (x)	12.1	12.4	10.7
Div. Yield (%)	1.1	1.1	1.1
FCF Yield (%)	-1.0	1.5	4.5
EV/Sales (x)	3.2	2.9	2.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	73.0	73.0	73.0
DII	6.9	6.7	5.5
FII	8.3	9.2	9.5
Others	11.9	11.1	12.1

FII Includes depository receipts

CMP: INR897 TP: INR975 (+9%) Neutral

Huge capex cycle nears completion

Momentum of filings to improve over medium term

- Alembic Pharma (ALPM) is building a robust foundation for the next phase of growth in the US through huge capex (INR15b spent over FY16–20). This would be used to enhance its manufacturing strength in dosages other than oral solids (largely Injectables, Ophthalmic, and Derma); the company would be in the late stage of the capex cycle with INR7b in FY21.
- This move is supported by an industry-leading R&D spend (at 13–14% of sales) of INR22.9b over FY16–20. It has helped the company develop a strong product pipeline (200+ under development) for different dosages, which is expected to drive growth over the next three to four years. In fact, ALPM has already started filing ophthalmic and derma products from its new facilities.
- We raise our EPS estimates by 8%/7% over FY21/FY22 and the PE multiple to 20x (from 17x earlier) to factor better prospects from the ANDA pipeline, minimal regulatory risk, and a changed strategy in the Domestic Formulations (DF) market. We ascribe a 15% premium to its 10-year average to factor potential growth from new investments. Accordingly, we revise our price target to INR975 (from INR705 earlier).
- Earnings may appear stable over FY20–22, considering the COVID-19-led slowdown expected in DF for FY21. Moreover, meaningful contribution from the new capex program would reflect from 2HFY22.
- However, considering stock appreciation of ~60% over the past six months, we await a better entry point on the stock. Maintain Neutral.

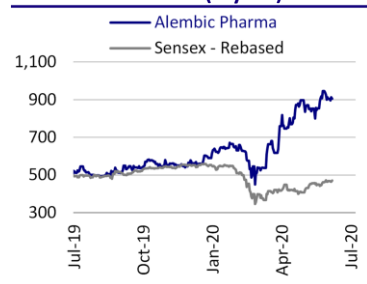
US – Pace of filings/launches to add momentum over next 15–18M

ALPM delivered a 14% CAGR in US sales to USD280m (43% of sales) on account of 58 launches over FY16–20. Particularly, in FY20, ALPM garnered 49% YoY growth, led by new launches (22) and partly by regulatory concerns witnessed by peers. ALPM has guided for the momentum in launches to sustain in 1HFY21. On a high FY20 base, we expect a 10% CAGR in US sales to USD340m over FY20–22. ALPM would ramp up filings across new dosages (Ophthalmology, General Injectables, Oncology Injectables, and Oral Solids). The considerable share of revenue from new capex / product development would reflect in overall growth in US sales 2HFY22 onward; thus, it forms a marginal portion of the business trajectory over FY20–22.

Consistent compliance minimizes regulatory risk over medium term

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

Stock Performance (1-year)



India – Expect 12M growth efforts to be dented by COVID-19

ALPM saw a muted 5% CAGR in DF (31% of sales) over FY16–20, weighed by underperformance in key therapies (Anti-Infectives, Cardiac, Respiratory, Gastrointestinal, Gynecology, Anti-Diabetic). Particularly, the reduced discount strategy implemented over the past 12M impacted YoY growth for FY20. ALPM delivered 13% YoY growth in 4QFY20, reflecting the benefit of the pre-buying of medicines (in anticipation of shortage due to COVID-19) and partly of renewed strategy. While efforts to improve sales growth have been on track, performance could be dented on account of the COVID-19-led slowdown. Accordingly, we expect a 6% CAGR in the DF segment to INR16b over FY20–22.

Positive FCF over next 12–24M

Free cash flow (FCF) has been largely in the negative territory due to the major capex implemented over FY16–20. FCF declined to a negative INR2.2b in FY20 from INR6.5b in FY16, largely on account of capex expansion. Increased working capital needs in 2HFY20 on account of COVID-19 further dragged down FCF for FY20. The company has seen some recovery from debtors and a reduction in inventory requirements in the recent past. Coupled with the completion of the capex cycle over the next 12M and the increased pace of ANDA approvals, we expect FCF to not only turn positive but also improve considerably to INR5.8b by FY22.

Valuation and view

We raise our earnings estimate by 8%/7% over FY21/FY22 to factor new launches and better traction from approved products. We also raise our PE multiple to 20x from 17x to factor increased dosage offerings in US Generics and the benefit of renewed strategy in the DF segment. Accordingly, we revise our price target to INR975 (from INR705 earlier) on a 20x 12M forward basis. The stock has appreciated by ~60% over the past six months and captures a lot of near-term positives; hence, we await a better entry point. Maintain Neutral.

Exhibit 1: Valuation matrix

Company Name	Market Cap (INRb)	FY20 Revenue (INRb)	3 year Revenue CAGR	FY20 EBITDA margin (%)	FY20 ROE%	EPS (INR)		EV/EBITDA		PE	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Large-cap											
Sun Pharma	1,135	323.3	2.2%	20.0%	9.1	19.7	23.5	14.8	12.6	24.1	20.3
Divis	583	53.9	9.6%	34.1%	18.2	60.2	76.3	26.0	20.1	36.4	28.7
Cipla	520	171.3	5.5%	18.7%	9.4	24.1	28.6	13.9	11.7	26.5	22.4
Zydus Cadila*	372	142.5	14.8%	19.8%	11.3	17.3	19.6	13.1	11.6	21.1	18.7
Average				23.2%	12.0			17.0	14.0	27.0	22.5
Mid-cap											
Torrent Pharma	398	79.4	10.7%	27.3%	21.5	72.1	93.7	17.1	14.5	33.2	25.6
Alkem	281	83.4	12.6%	17.9%	19.7	103.3	125.7	16.2	13.2	22.8	18.7
Ipca	209	46.5	13.1%	20.6%	19.3	65.7	77.0	17.2	14.3	25.3	21.6
Alembic	170	46.1	13.7%	26.6%	30.1	37.9	41.4	16.7	14.5	23.7	21.7
Ajanta	125	25.9	8.9%	27.0%	18.7	56.9	69.4	16.3	13.7	24.8	20.3
Average				23.9%	21.9			16.7	14.0	26.0	21.6
Small-cap											
Laurus Labs	56	30.3	14.1%	18.6%	19.3	29.3	36.1	9.6	8.1	18.1	14.7
Strides	37	27.5	-7.6%	19.4%	5.3	34.0	42.3	6.7	5.9	12.2	9.8
Average				19.0%	12.3			8.2	7.0	15.2	12.3
Total Average				22.7%	16.5			15.2	12.7	24.4	20.2

Source: MOFSL, Company, Bloomberg

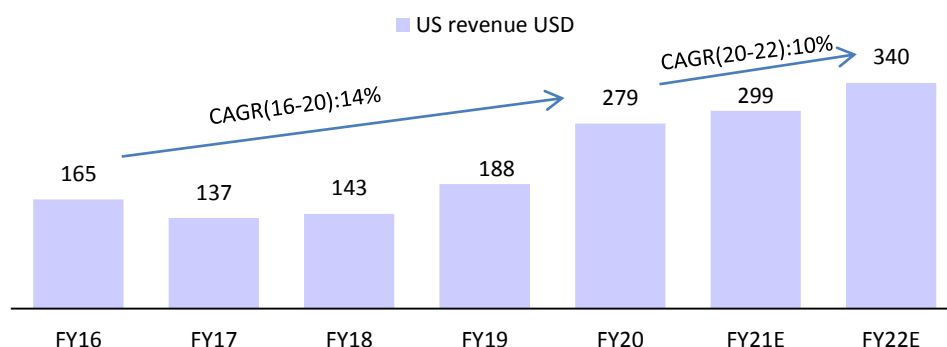
US Generics moves to new orbit of growth

- The company's pipeline of 65 ANDAs, yet to be approved, would be further augmented by new filings for Ophthalmology, Injectables, and Dermatology dosages for the US market.
- The benefit of major capex and R&D spend (pipeline of 200+ products under development) would accrue meaningfully 2HFY22 onward.
- A successful regulatory history reduces the risk of adverse actions from the USFDA, which could disrupt the US business.

Pace of filings/launches to add momentum in US over next 15–18M

- Alembic Pharma has recorded a 14% CAGR in US sales over the past four years on a USD basis. It registered growth of 49% YoY in FY20, driven by an increased number of new launches and higher volumes for existing products, partially offset by price erosion. We believe price erosion in the base business in the US was lower in FY20, attributed to high demand and increased product prices, driven by COVID-19-led stocking up, especially in acetaminophens and antibiotics.

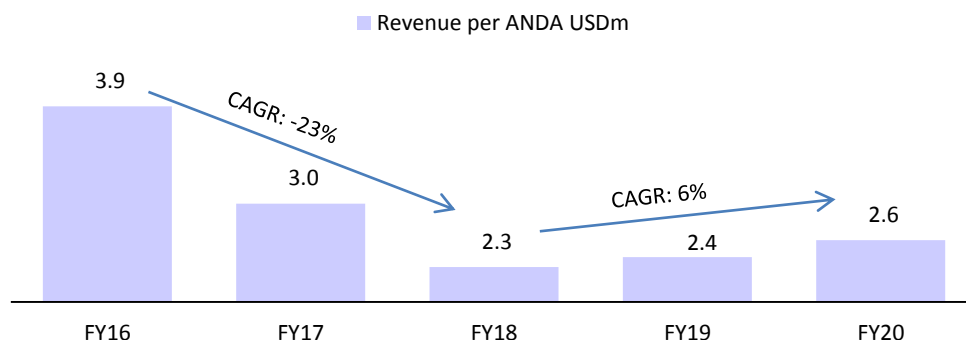
Exhibit 2: US growth to be driven by new product launches



Source: MOFSL, Company

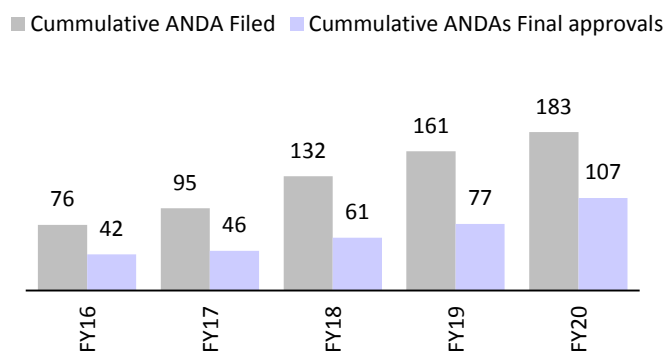
- US revenues in FY20 were aided by the Sartans opportunity and partly by the Febuxostat opportunity, in addition to new launches.

Exhibit 3: Revenue per ANDA back on growth track from FY18

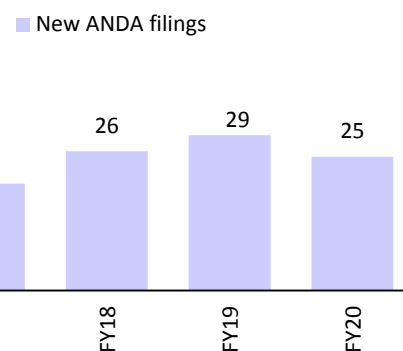


Source: MOFSL, Company

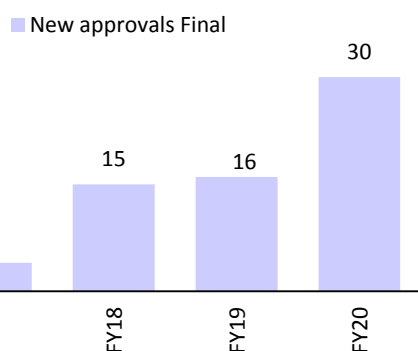
- We expect new product launches in the US to drive growth over the next two years. With ALPM building a strong ANDA pipeline, of which 65 are yet to be approved, we believe the company could sustain the pace of new product launches. On a high FY20 base, we expect a 10% CAGR (14% in INR terms) in US sales to USD340m over FY20–22. The considerable share of revenue from new capex would reflect in overall growth in US sales 2HFY22 onward and thus forms a marginal portion of the business trajectory over FY20–22.

Exhibit 4: Healthy rate of pipeline growth over past 5 years

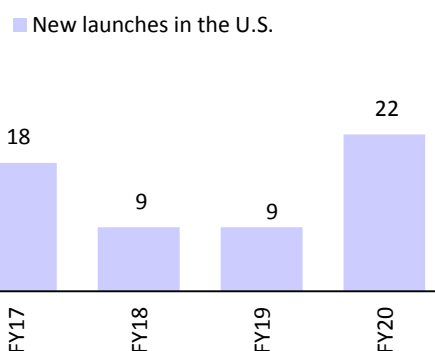
Source: MOFSL, Company

Exhibit 5: Pace of new filings to sustain in 1HFY21

Source: MOFSL, Company

Exhibit 6: New approvals doubled in FY20

Source: MOFSL, Company

Exhibit 7: New launches increased with more approvals

Source: MOFSL, Company

- The number of approvals also doubled to 30 in FY20 from 16 in FY19, which aided growth. ALPM launched 22 products in the US in FY20, up from nine in FY19.
- Alembic and Aleor have together received 25 ANDA approvals in the past 12 months in the US. Of these 25 approvals, the company has launched 23 products and discontinued one; two products are yet to be launched.

Increased traction in recent launches to aid growth over next 12M

- The company's newly launched products have a market size of USD7.9b on a MAT basis, as per IMS. Considering the competition and price erosion, we estimate that the newly launched products have an incremental opportunity worth USD52m on an annualized basis.

Exhibit 8: Probable incremental business from ANDA launches over past 12M

Drug	IMS MAT market size (USD m)	Approval timeline	ALPM annual revenue (USD m)
Pregabalin Capsules	5470	Jul'19	11.2
Febuxostat Tablets	578	Jul'19	10.8
Oseltamivir Phosphate Capsules	647	Jun'19	8.1
Deferasirox Tablets	468	Nov'19	5.4
Deferasirox Tablets for Oral Suspension	135	Nov'19	4.2
Clonazepam Orally Disintegrating Tablets	20	Jul'19	2.0
Azithromycin Tablets	129	Jan'20	1.8
Sildenafil Capsules	114	Nov'19	1.6
Carbidopa and Levodopa ER Tablets	24	Jun'19	1.4
Fenofibrate Tablets	94	Aug'19	1.3
Dorzolamide Hydrochloride Ophthalmic Solution	35	Aug'19	1.3
Clobetasol Propionate Topical Solution	33	Oct'19	1.0
Bosentan Tablets	24	Jan'20	0.8
Bromfenac Ophthalmic Solution	6	Jun'19	0.6
Tizanidine Hydrochloride Capsules	28	Jan'20	0.6
Others			1.0
Total			52.2

Source: MOFSL, Company

Proven track record of successful USFDA inspections

- Alembic has a successful history of USFDA inspections, with no warning letters, OAI, or import alerts received for any of its plants to date.
- The onco oral solids plant, Unit F2, received an NAI, and no form 483 was issued following the inspection of the plant. The general solids plant, Unit F1, was inspected in Mar'20, and four observations were issued. The plant has subsequently received a VAI classification and an EIR. Similarly, the API plant –III in Kharkadi received two observations after an inspection in Jan'20, but received a VAI classification on inspection. Aleor's Kharkadi plant also cleared the USFDA inspection with an NAI classification.
- This successful history of regulatory compliance, especially with USFDA norms, lowers the risk of adverse regulatory action and the resultant impact on exports to the US.
- The F4 oral solids and F2 onco injectables plants are expected to file for audit in 1H and 2H of FY21, respectively, whereas the F3 general injectables plant filed for audit in Jan'20.

Exhibit 9: Inspection history

Facilities	Inspection End Date	Remarks
API - III, Kharkadi	10-Feb'11	Inspection closed with NAI classification
	5-Apr'13	Inspection closed with VAI classification
	23-Apr'15	Inspection closed with VAI classification
	18-May'18	Form 483 was issued with one observation Inspection closed with VAI classification
	17-Jan'20	Form 483 was Issued with two observations Inspection closed with VAI classification
Unit-F1, Panelav	15-May'10	Inspection closed with VAI classification
	30-Aug'12	Inspection closed with VAI classification
	20-Feb'15	Inspection closed with NAI classification
	25-Mar'16	Inspection closed with VAI classification
	20-Mar'18	Form 483 was issued with three observations Inspection closed with VAI classification
	26-Oct'18	Inspection closed with NAI classification
	13-Mar'20	Form 483 was Issued with four observations Inspection closed with VAI classification
Unit-F2, Panelav	6-Apr'11	Inspection closed with VAI classification
	13-Apr'11	Inspection closed with NAI classification
	18-Apr'12	Inspection closed with VAI classification
	12-Apr'13	Inspection closed with VAI classification
	29-Jun'16	Inspection closed with NAI classification
	23-Apr'18	Inspection closed with NAI classification
	28-Jun'19	Inspection closed with NAI classification
Aleor, Kharkadi	8-Jan'20	Inspection closed with NAI classification

Source: MOFSL, Company

ALPM nears commercial benefit stage for US Generics

Considering the gestation period of five to six years for commercial benefits from ANDA filings (from product development, building manufacturing capabilities, capacity, to subsequent filings), ALPM is now at the end of the capex phase and has exhibit batches / product filings underway.

ALPM has 200+ products under development in Ophthalmology, Oncology, and Dermatology in different dosages in R&D.

The benefit from meaningful filings is expected to reflect 2HFY22 onward.

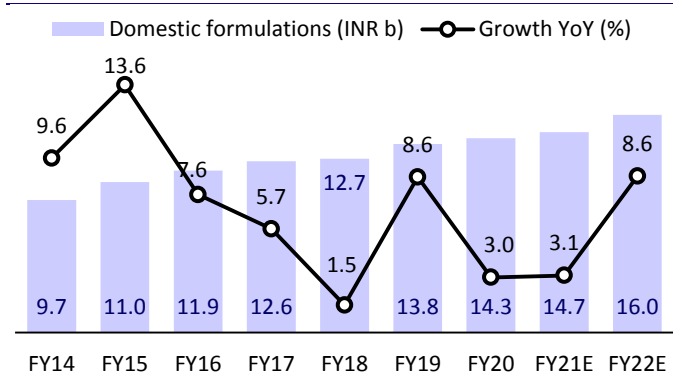
Efforts undertaken to revive DF growth; results to reflect over near term

- ALPM has undertaken various strategic initiatives, such as reducing discounts and product rationalization, to improve growth in DF.
- While COVID-19 may impact near-term growth, ALPM is well-placed to reflect recovery in the DF segment.
- Although ALPM witnessed a subdued 5% sales CAGR in the DF segment over FY15–20 – partly led by supply disruption due to GST/demonetization and reduced discounts in the past three quarters of FY20 – we expect better growth going forward, led by superior execution and increased market share in core brands.

Multiple factors lead to underperformance in DF segment

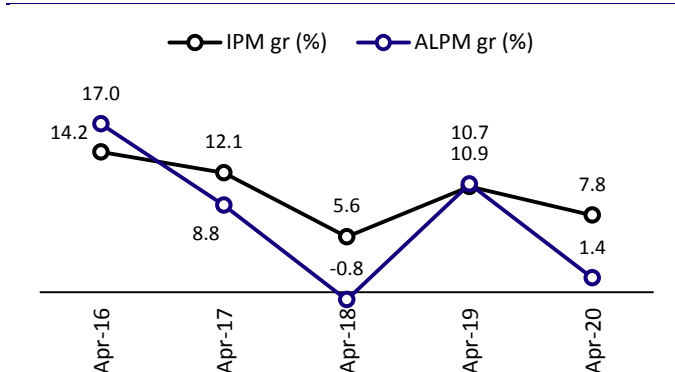
Alembic Pharma (ALPM)'s domestic sales reported a CAGR of 5% to INR14.2b over FY16–20 v/s the industry CAGR of 9%. Traction has been good in key therapies such as Cardio (8.7% CAGR), Gynecology (4.7% CAGR), and Gastro (6.5% CAGR); however, performances have been adversely impacted for the past couple of years, partly due to GST-led inventory re-stocking in the initial phase, followed by demonetization. Furthermore, by the end of FY19, ALPM had undertaken voluntary corrective action to reduce the extra discounts. Particularly, these discounts were on the higher side for the Specialty segment (65% of DF), compared with the Acute segment (35% of DF).

Exhibit 10: Sales CAGR to clock ~5% over FY20–22E



Source: MOFSL, Company

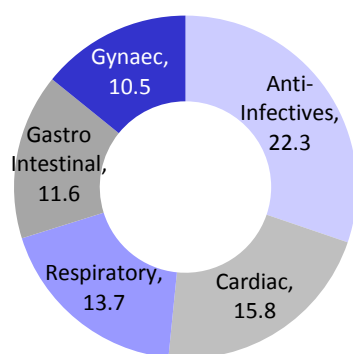
Exhibit 11: Industry beats ALPM's growth since MAT Apr'17



Source: MOFSL, Company

Anti-Infectives drag down overall performance in therapy

Anti-Infectives (22% of sales) witnessed a sales CAGR of 3.1%, while the industry performed better at a CAGR of 5.2% during MAT Apr'16–Apr'20. Growth was dragged down by lower sales in top brand Azithral, with its volumes declining 2% during this period. For Apr'20, growth in Azithral was better at 9.8%, backed by sales traction, partly due to the COVID-19 outbreak. Growth in Apr'20 was supported by an increase in volumes (+5% YoY) and price (+4.7% YoY). Azithral-brand sales contributed 24% to the total molecule sales in the industry for MAT Apr'20.

Exhibit 12: Top 5 therapies contribute 74% to total sales

Source: MOFSL, Company

Exhibit 13: COVID-19-led pickup in Anti-Infectives/Respiratory

Molecule	ALPM CAGR MAT16-20 (%)	Therapy CAGR MAT16-20 (%)	Alembic company		
			MAT Growth (%)	3M - ending Apr	Apr-20
Anti-Infectives	3.1	5.2	6.1	11.9	(1.1)
Cardiac	8.7	10.0	3.4	5.9	1.5
Respiratory	6.5	8.7	11.0	13.2	(3.7)
Gastro Intestinal	0.1	6.8	(5.0)	(6.8)	(19.7)
Gynecological	4.7	6.2	(9.3)	(22.9)	(37.7)
Anti-Diabetic	9.4	13.8	(1.0)	(2.5)	(3.8)

Source: MOFSL, Company

Top 25 brands driving growth for ALPM

ALPM's top 5 brands account for ~25% of overall sales for the MAT Apr'20 period. Three of the top 5 brands come under the Anti-Infectives therapy, one under Gastrointestinal, and one under Gynecology.

Exhibit 14 highlights ALPM's top brands that outperformed the industry over MAT Apr'16–Apr'20. Sales of brands such as Althrocin and New Brozeet were driven by price movement, while brands such as Wikoryl, Crina N, Azithral XI, Cetanil T, and Cloff outperformed the industry on account of volume growth during MAT Apr'16–Apr'20.

The Althrocin brand (for Anti-Infectives therapy) accounts for 85% of the total molecule sales and reported a 6% CAGR v/s a 3.8% industry CAGR over MAT Apr'16–Apr'20. Growth was largely driven by price growth. Althrocin as a brand has performed well in the past few quarters and seen an uptick in sales. For the quarter ending Apr'20, brand sales grew 23% YoY.

New Brozeet (for Respiratory therapy) saw a 5.1% CAGR v/s the industry CAGR of 2.1% over MAT Apr'16–Apr'20. It accounted for 8% share in overall molecule sales, driven by a price CAGR of 7% for the same period. The brand also grew at a robust rate of 24% YoY over MAT Apr'16–Apr'20.

Exhibit 14: Outperforming brands

Key Brands	Apr'20				CAGR over FY16–20					Base molecule
	Revenue (INR m)	Growth (%) YoY	Brand share in base molecule (%)	Base molecule contribution to therapy (%)	ALPM	Volume growth YoY (%)	Price Change INR	Base molecule	Therapy	
Althrocin	877	10.6	84.9	0.5	6.0	-0.3	7.8	3.8	5.2	Erythromycin
Wikoryl	733	8.5	12.7	5.3	11.2	4.7	8.3	7.7	8.7	Paracetamol + Phenylephrine + Chlorpheniramine
Crina N	273	0.8	15.8	2.5	16.7	12.8	16.2	7.7	6.2	Norethisterone
Azithral XI	229	15.1	3.2	3.7	12.3	12.2	0.3	5.3	5.2	Azithromycin
New Brozeet	213	24.0	8.3	2.3	5.1	-1.9	15.7	2.1	8.7	Guaifenesin + Terbutaline + Ambroxol
Cetanil-T	206	30.0	10.7	1.0	37.8	19.1	51.3	32.5	10.0	Cilnidipine + Telmisartan
Cloff	186	-4.2	7.7	1.2	34.5	31.3	16.7	10.7	5.2	Clarithromycin

Source: MOFSL, Company

Exhibit 15: Brand-wise growth distribution on Apr'20 basis

	% of sales	MAT growth (%)	Growth Contribution (%)
Total	100.0	1.4	100.0
Top 10 Brands	33.8	1.7	38.8
11 to 25 Brands	18.6	1.6	20.5
26 to 50 Brands	18.3	(3.1)	(41.6)
Above 50 Brands	29.2	4.2	82.3

Source: MOFSL, Company, AIOCD

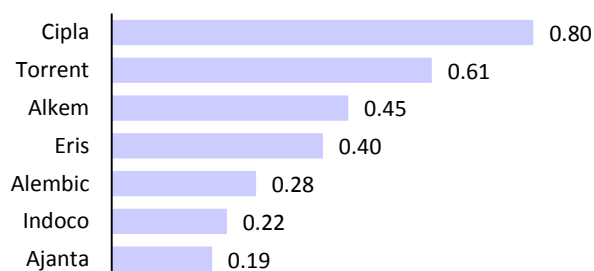
MR productivity yet to see pickup

ALPM's MR productivity was in the range of INR0.25–0.28m in sales / MR per month over the period of FY15–19. Productivity increased to 0.31m sales/month in FY20. The sales/MR per month ratio has been the strongest for Cipla, followed by Torrent Pharma, among peers. ALPM's MR productivity has been lower than the industry average of INR0.4m in sales/MR per month.

We expect improvement in this area with the efforts to which ALPM has alluded.

Exhibit 16: MR productivity below avg. industry level

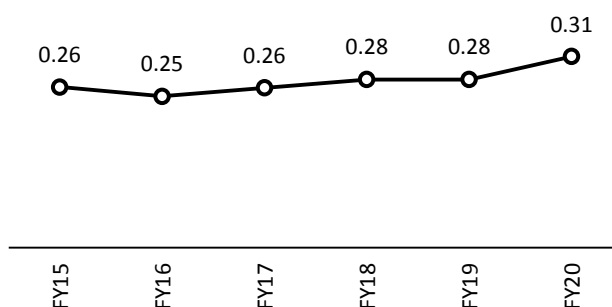
■ MR Productivity(Sales per MR per month-INR Mn)



Source: MOFSL, Company

Exhibit 17: MR productivity slowly seeing improvement

—○— MR Productivity(Sales per MR per month-INR Mn)



Source: MOFSL, Company

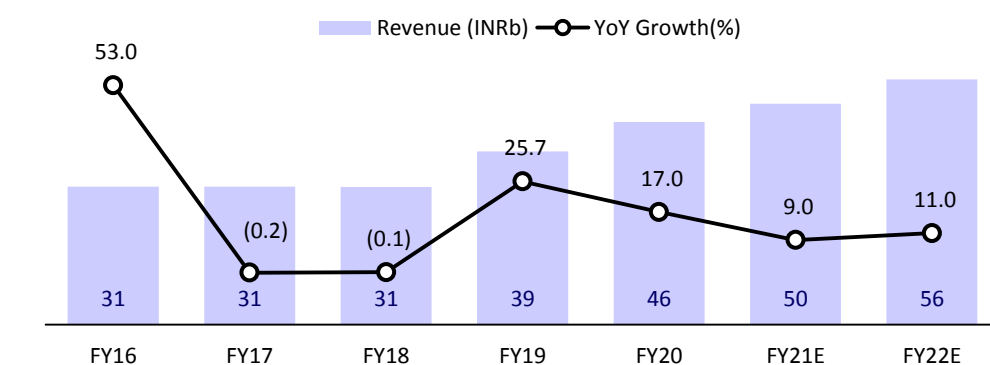
FY21 to see end of huge capex program

- Although the outlook over next 12–15M is expected to be moderate in terms of financial performance, the completion of the capex/R&D program and subsequent product filings would be key monitorables over the medium term.
- A 10% CAGR is expected in revenue over FY20–22, driven by a 14% CAGR in US revenues, 6% in DF, and 9% in API growth.
- On account of the COVID-19 impact and an increase in depreciation and interest expenses, adj. EPS would be stable over FY20–22.

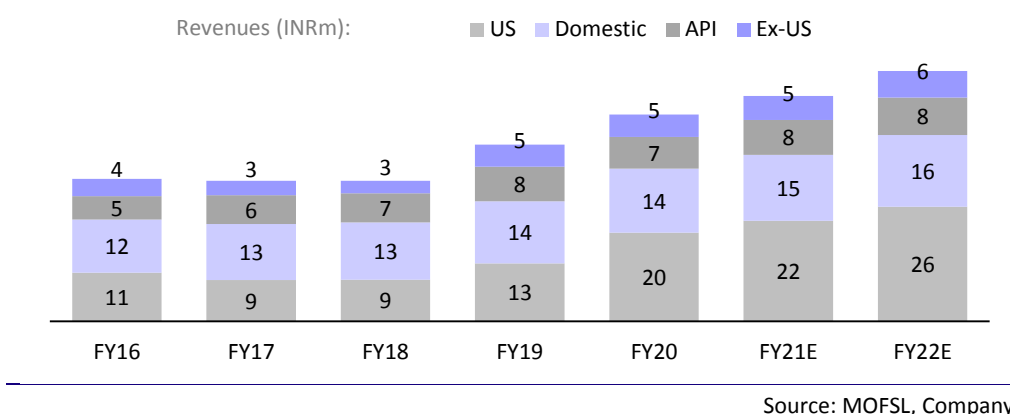
US revenue CAGR of 14% to drive topline over next two years

- ALPM registered a revenue CAGR of 10% to INR46b in FY20 from INR31b in FY16. Revenue growth over FY16–20 was primarily driven by growth in the US, which posted a revenue CAGR of 16% over FY16–20 from INR10.8b to INR19.8b (14% CAGR from USD165m to USD279m in FY20). International Generics sales, ex-US, posted a CAGR of 7% over FY16–20 from INR3.8b to INR5b. The API business' growth was marginally slower than the company growth rate, at an 8% CAGR over FY16–20. The India business saw the slowest growth over FY16–20, registering a disappointing 5% CAGR from INR11.9b to INR14.3b.
- ALPM has built a strong pipeline of products, with heavy investments in capex over the past five years and R&D on new products for the US. It filed 25 ANDAs in FY20 and has 65 ANDAs pending approval. We expect topline growth over FY20–22 to be supported by a 14% CAGR in US sales (10% growth in USD terms) as the launch momentum is expected to continue in 1HFY21.
- We expect slower growth at 6% in the domestic business over FY20–22 due to the impact of COVID-19 in FY21; we expect 3% growth YoY in FY21. We expect the API business to grow at a 9% CAGR and other generics markets to grow at 9% over FY20–22, in line with the company's reported growth in these segments in the recent past.

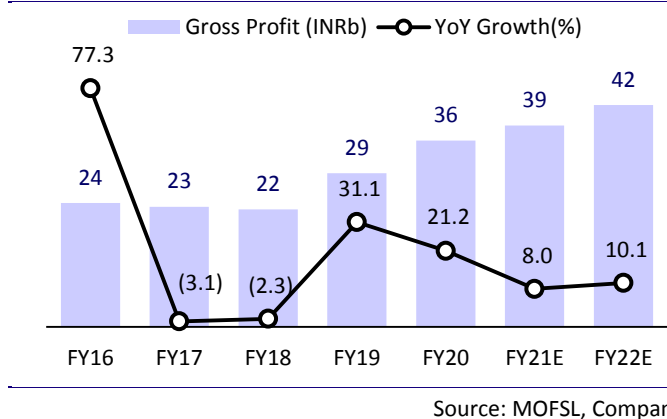
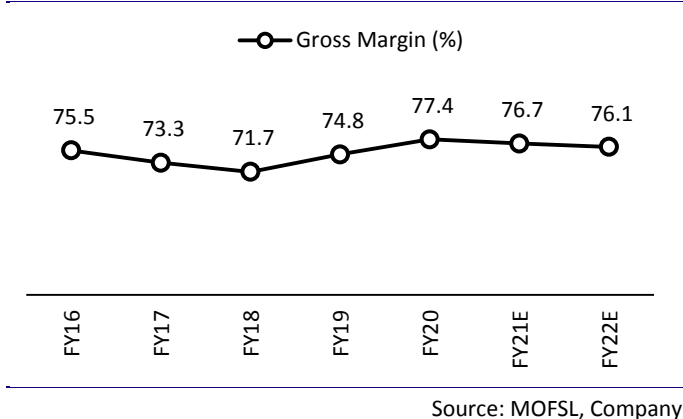
Exhibit 18: Revenues to grow at 10% CAGR over FY20–22, driven by growth in US sales



Source: MOFSL, Company

Exhibit 19: US sales to grow at 14% CAGR over next two years**Superior product mix revives gross margins over past two years**

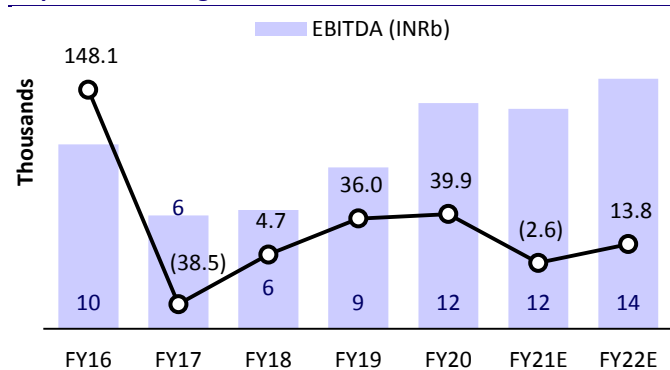
- Gross profit improved at a CAGR of 11% over FY16–20 to INR35.7b in FY20 from INR23.7b in FY16. Gross margins (GM) expanded 190bps during this period, supported by a superior product mix.
- GM declined 380bps during FY16–18 on muted growth in DF, decline in International Generics, and an increase in the low-margin API business.
- US Generics has been back on the growth path since FY19, which has helped the company improve GM by 570bps to 77.4% from 71.7% over FY18–20. GM expansion in the US over FY18–20 was aided by a shortage in Sartans and the exclusivity of Febuxostat in particular for FY20, and shortage in Valsartan in FY19.
- We expect GM to be steady at elevated levels at ~76% over FY20–22, with sustained contribution from high-margin products in both DF/US. Accordingly, we expect gross profit growth at a 9% CAGR over the next two years.

Exhibit 20: Gross profit to rise at 9% CAGR over FY20–22**Exhibit 21: GM to be at ~76% in FY22****Higher opex to drag down EBITDA growth over medium term**

- ALPM's EBITDA growth was slower than growth witnessed in GM over FY16–20 as employee/R&D expenses grew rapidly. This was partially offset by cost-control measures, which slowed growth in other expenses.
- Employee expenses increased at a CAGR of 21% to INR9.1b in FY20 from INR4.2b in FY16. R&D expenses rose at a CAGR of 20% over FY16–20 to INR6.4b from INR3.1b, led by aggressive product development in the US market.

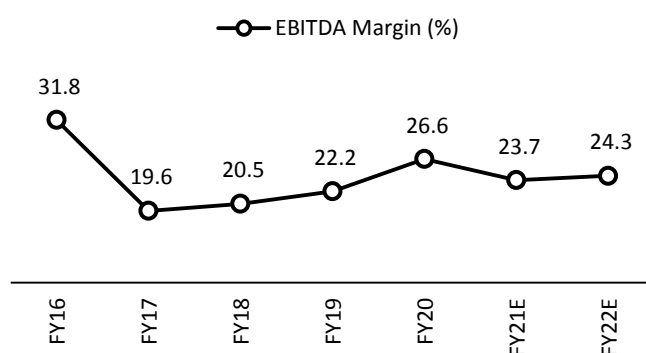
- Also, the share of limited-competition products increased in FY16, resulting in a high base.
- Accordingly, EBITDA registered a low growth rate of 5% to INR12.2b in FY20 from INR10b in FY16 and margin contraction of 520bp during this period.
- At 14% of sales in FY20, ALPM has one of the highest R&D expense ratios on the street, which keeps EBITDA margins under pressure.
- We expect EBITDA margins to be lower in FY21 YoY by 3% due to: a) the impact of COVID-19 on the domestic and international businesses and b) increasing contribution from relatively lower margin new launches in US Generics. With normalcy expected to return in 2HFY21, we expect a 14% YoY improvement in the EBITDA in FY22, with 60bps YoY EBITDA margin gains in FY22.

Exhibit 22: New launches and reducing COVID-19 impact to improve EBITDA growth...



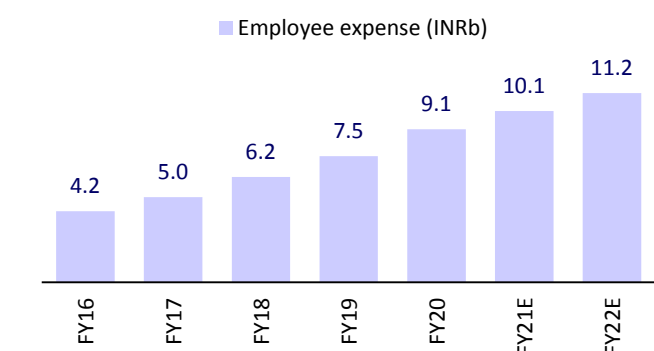
Source: MOFSL, Company

Exhibit 23: ... as well as EBITDA margins



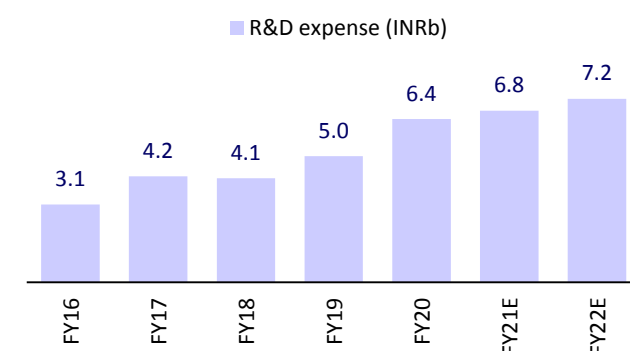
Source: MOFSL, Company

Exhibit 24: Employee expenses to grow at 11% CAGR over FY20–22

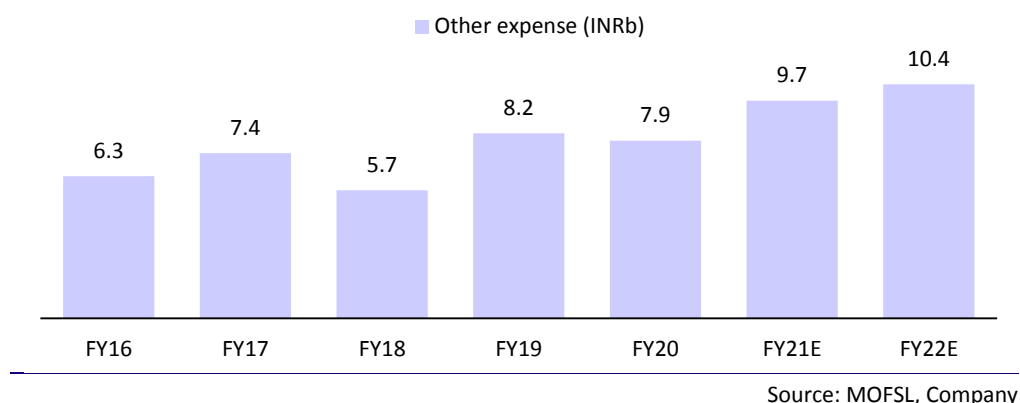
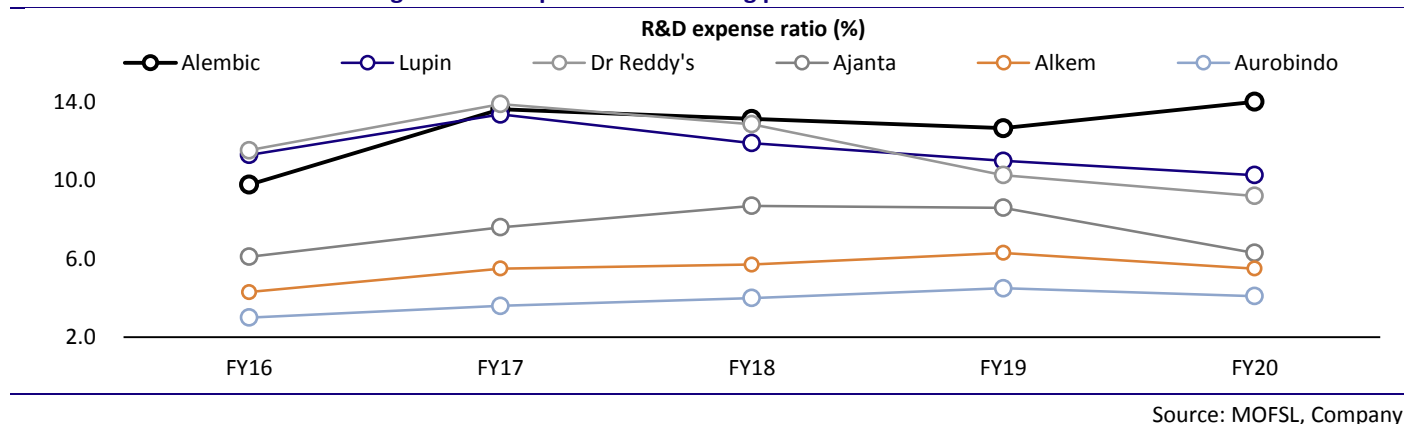


Source: MOFSL, Company

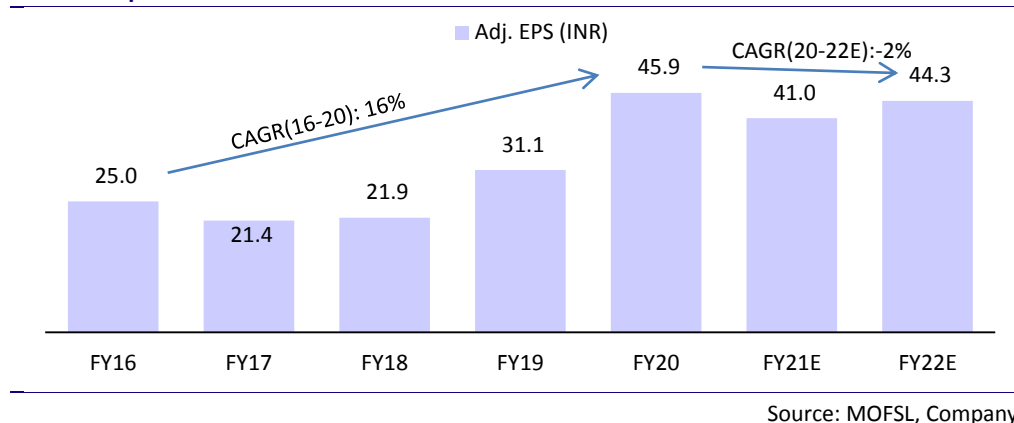
Exhibit 25: R&D expense growth to slow to 6% CAGR (FY20–22)



Source: MOFSL, Company

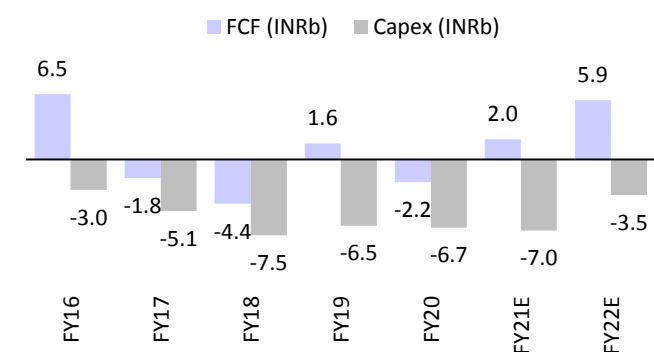
Exhibit 26: Other expenses to grow at 15% CAGR over FY20–22**Exhibit 27: ALPM has one of the highest R&D expense ratios among peers****Commissioning of new plants to impact adj. PAT growth**

- Adj. PAT posted a 16% CAGR over FY16–20 from INR4.7b to INR8.6b.
- Growth in adj. PAT over EBITDA was driven by improvement in the tax rate, which declined to 19.9% in FY20 from 23.2% in FY16.
- We expect adj. PAT decline at a 2% CAGR over FY20–22 on slower EBITDA margin compression and an increase in depreciation and interest expenses. Unit F4-Jarod would turn operational in 2HFY21 and Units F2-Panelav and F3-Kharkadi from 2HFY22, increasing the depreciation expenses in FY21 and FY22.

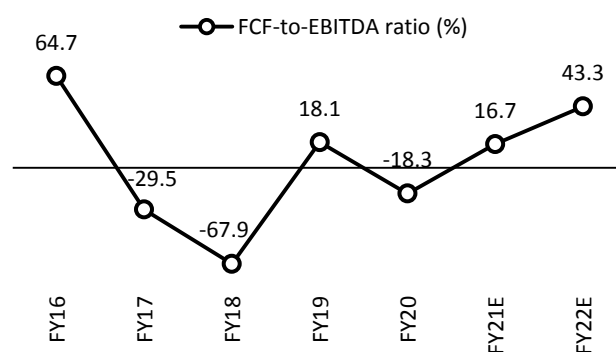
Exhibit 28: Adj. PAT to decline 2% over FY20–22 due to an increase in depreciation and interest expenses

FCF to improve with lower capex and working capital requirements

- FCF declined to negative INR2.2b in FY20 from INR6.5b in FY16 on account of capex expansion.
- Operating cash flows were impacted in FY20 due to an increase in working capital (to INR7b YoY), delay in payments from customers, and a higher inventory holding period on account of COVID-19.
- ALPM has seen close to INR30b worth of capex in the past five years toward expanding capacity in US exports. ALPM is at the end of its capex cycle, with the smaller Jarod plant expected to commence operations from mid-FY21. The Panelav onco injectables plant and Kharkadi general injectables plant are expected to commence operations mid-FY22.
- With the completion of the capex cycle on new projects and better working capital ratios, we expect ALPM's FCF to improve to ~INR6b in FY22, which would also improve the FCF to EBITDA ratio to 43% in FY22.

Exhibit 29: FCF to improve as capex cycle ends...

Source: MOFSL, Company

Exhibit 30: ...along with FCF to EBITDA ratio

Source: MOFSL, Company

Valuation and view**Pace of filings/launches to add momentum in US over next 15–18M**

ALPM delivered a 14% CAGR in US sales to USD280m, supported by 58 launches over FY16–20. Particularly, in FY20, ALPM garnered 49% YoY growth, led by new launches (22) and partly by regulatory concerns witnessed by peers. ALPM has guided for the launch momentum to sustain in 1HFY21, and the company is in a good position to support this with 65 ANDAs pending approval. This would be supplemented by the new filings of 200+ products in the development pipeline. Owing to the high base of FY20, we expect a 10% CAGR in US sales to USD340m over FY20–22. The considerable share of revenue from new capex would reflect in overall growth in US sales 2HFY22 onward and thus constitute a marginal portion of the business trajectory 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 medium term.

India (31 % of sales): Renewed strategy to provide better growth prospects

ALPM posted a muted 5% CAGR in Domestic Formulations over FY16–20 due to its underperformance in key therapies (Anti-Infectives, Cardiac, Respiratory, Gastrointestinal, Gynecology, and Anti-Diabetic). Particularly, the reduced discount strategy implemented over past 12M impacted YoY growth for FY20. ALPM delivered 13% YoY growth in 4QFY20, reflecting the benefit from renewed strategy. Furthermore, considering the slowdown in DF was led by COVID-19, we expect ALPM to garner a 6% CAGR to INR16b over FY20–22.

Positive FCF over next 12–24M

FCF has been largely in the negative territory due to the massive capex witnessed over FY16–20. Over the next 12M, the completion of the capex cycle and increased pace of ANDA approvals would enable improvement in FCF.

Valuation and view

We raise our earnings estimate by 8%/7% over FY21/FY22 to factor new launches, better traction from approved products, and gradual turnaround in the DF business. We also raise our PE multiple from 17x to 20x, revise our price target to INR975 on a 12M forward earnings basis to factor: a) increased dosage offerings in US Generics, b) a strong buildup in the ANDA pipeline, c) consistent compliance, and d) the benefit of renewed strategy in DF.

However, considering stock appreciation of ~60% over the past six months, we await a better entry point on the stock. Maintain Neutral.

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	50,226	55,741
Change (%)	22.6	10.2	53.0	-0.2	-0.1	25.7	17.0	9.0	11.0
EBITDA	3,577	4,026	9,988	6,146	6,433	8,746	12,233	11,912	13,555
Margin (%)	19.2	19.6	31.8	19.6	20.5	22.2	26.6	23.7	24.3
Depreciation	405	444	722	830	1,055	1,152	1,573	2,076	2,351
EBIT	3,172	3,582	9,266	5,316	5,378	7,594	10,660	9,836	11,204
Int. and Finance Charges	104	18	37	51	34	184	272	480	1,056
Other Income - Rec.	38	26	91	25	70	94	49	60	67
PBT bef. EO Exp.	3,106	3,591	9,320	5,290	5,415	7,503	10,437	9,416	10,214
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	9,416	10,214
Current Tax	685	764	1,986	1,224	1,236	1,781	2,046	2,166	2,349
Deferred Tax	66	0	174	-2	-33	-214	-54	-188	-204
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	-284.7	-284.7
Reported PAT	2,355	2,829	7,154	4,029	4,128	5,854	8,294	7,723	8,354
PAT Adj for EO items	2,355	2,829	4,720	4,029	4,128	5,854	8,643	7,723	8,354
Change (%)	42.5	20.1	66.8	-14.6	2.5	41.8	47.7	-10.6	8.2
Margin (%)	12.6	13.8	15.0	12.9	13.2	14.9	18.8	15.4	15.0

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	37,275	43,360
Net Worth	6,756	8,846	16,005	19,011	22,201	27,188	32,197	37,652	43,738
Minority Interest	0	0	0	1	3	-8	-290	-290	-290
Deferred Liabilities	227	314	501	369	354	188	122	-66	-271
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	57,504	61,386
Gross Block	6,541	8,756	11,190	12,548	11,726	15,156	20,700	38,627	46,874
Less: Accum. Deprn.	2,688	3,132	3,878	4,554	2,456	3,608	5,181	7,258	9,609
Net Fixed Assets	3,854	5,978	7,748	8,264	10,928	11,585	15,518	31,370	37,265
Capital WIP	323	323	925	3,693	9,108	15,512	18,462	7,534	2,787
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	30,496	34,530
Inventory	3,108	3,828	5,776	6,328	7,339	9,673	11,875	13,456	15,318
Account Receivables	2,734	3,612	3,505	3,375	5,263	4,889	8,648	10,118	11,229
Cash and Bank Balance	240	268	4,508	1,596	899	2,056	808	2,390	3,282
Loans and Advances	1,887	2,381	2,111	3,110	5,457	3,576	4,404	4,532	4,702
Curr. Liability & Prov.	3,957	4,866	6,762	6,683	9,774	11,125	9,656	12,075	13,376
Account Payables	2,884	3,109	5,664	5,232	7,593	6,443	6,259	7,048	8,024
Other Current Liabilities	339	715	656	755	1,429	3,838	2,270	2,475	2,747
Provisions	734	1,042	443	696	752	844	1,127	2,551	2,605
Net Current Assets	4,011	5,223	9,138	7,725	9,185	9,068	16,078	18,421	21,154
Appl. of Funds	8,221	11,546	17,832	20,184	29,637	36,652	50,238	57,504	61,386

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	41.0	44.3
Cash EPS	14.6	17.4	28.9	25.8	27.5	37.2	54.2	52.0	56.8
BV/Share	35.8	46.9	84.9	100.8	117.8	144.2	170.8	199.7	232.0
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	29.4	27.2
Valuation (x)									
P/E	71.7	59.7	35.8	41.9	40.9	28.9	19.5	21.9	20.2
Cash P/E	61.2	51.6	31.0	34.8	32.6	24.1	16.5	17.2	15.8
P/BV	25.0	19.1	10.6	8.9	7.6	6.2	5.2	4.5	3.9
EV/Sales	7.0	6.4	4.0	4.1	4.4	3.5	3.2	2.9	2.6
EV/EBITDA	36.6	32.8	12.7	21.0	21.2	15.7	12.1	12.4	10.7
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4	0.6	1.1	1.1	1.1
Return Ratios (%)									
RoE	40.0	36.3	37.9	22.8	19.6	23.4	30.1	22.9	21.2
RoCE	32.7	29.6	50.3	22.1	17.3	18.5	19.7	14.4	14.9
RoIC	34.0	30.4	61.1	30.5	24.9	31.8	34.6	19.9	17.3
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	98	100
Debtor (Days)	53	64	40	39	61	45	69	74	74
Creditor (Days)	57	55	66	61	89	60	50	51	53
Leverage Ratio (x)									
Debt/Equity	0.2	0.3	0.1	0.0	0.3	0.3	0.6	0.5	0.4

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	9,416	10,214
Depreciation	405	444	722	830	1,055	1,152	1,573	2,076	2,351
Interest & Finance Charges	66	-9	54	52	34	184	272	420	990
Direct Taxes Paid	663	676	1,970	1,180	1,351	1,665	2,361	2,166	2,349
(Inc)/Dec in WC	-694	-1,184	1,389	-1,656	-1,809	1,116	-5,844	-760	-1,842
CF from Operations	2,221	2,166	9,555	3,337	3,342	8,281	3,638	8,987	9,364
CF from Operating incl EO	2,256	1,891	9,398	3,246	2,969	8,018	5,383	8,987	9,364
(inc)/dec in FA	-816	-2,215	-3,011	-5,101	-7,494	-6,539	-6,726	-7,000	-3,500
Free Cash Flow	1,440	-324	6,387	-1,856	-4,525	1,478	-1,343	1,987	5,864
(Pur)/Sale of Investments	0	0	-64	48	14	39	23	0	0
Others	37	15	201	299	-1,146	-1,030	-596	60	67
CF from Investments	-779	-2,200	-2,874	-4,754	-8,626	-7,530	-7,299	-6,940	-3,433
(Inc)/Dec in Debt	-633	1,149	-1,404	-336	6,194	2,203	5,919	2,285	-1,715
Interest Paid	-104	-18	-52	-52	-260	-703	-1,111	-480	-1,055
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	-432	-5,007
Inc/Dec of Cash	79	29	4,281	-2,797	-631	1,150	-1,246	1,615	923
Add: Beginning Balance	161	240	228	4,393	1,531	899	2,056	777	2,390
Closing Balance	240	268	4,509	1,596	899	2,056	808	2,390	3,282

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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