

Alembic Pharma

BUY

CMP Rs1,011

Target Rs1,180

Upside 16.7%

Solid delivery continues; Top pick BUY TP Rs1,180

Q2 call takeaways

- ✓ **Guidance:** EPS of Rs60 for FY21 (Rs33 in H1 FY21) and Rs50/share in FY22; additional Rs4.5bn costs from new facilities in FY22. Not much in FY21 as plants to be audited by FDA.
- ✓ **Domestic:** Azithral oral gave a solid boost in Q2 and will continue in Q3 and Q4. Gastro and Gyanec rebounded after weakness
- ✓ Cardio, diabetes also doing well than market; only area of concern is cough and cold where IPM market still on decline and perf in line with market
- ✓ Launched 3 products in Q2 and 15 in H2 to end total of 15-20 in FY21 followed by launches from new facilities; sartans has been stable but new launches have had an offset
- ✓ General injectables pipeline is most exciting while Jarod OSD has a very large filing; onco opportunity is some time away
- ✓ Filings from F3 (onco facility) but not sure when FDA will come for physical inspection
- ✓ **Rizen:** Would file for CLL indication in May 2021.

Our view: A solid performance and an unprecedented EPS guidance indicates a high confidence on visibility of sustaining sartans in FY21. We bump up FY21 EPS (on back of sartans present in H2 vs earlier assumption of gradual ebb) as would the street though FY22 estimates see only a marginally uptick to Rs48 (from Rs47 earlier). Alembic stays our top BUY with unchanged TP Rs1,180. Upside risks exist to FY22 estimates if sartans continue to surprise next fiscal.

Q2 FY21 results - India sales rebound; US stays firm

- ✓ India sales surprise with 6% yoy growth after a tough Q1 which would have aided gross margin at 78% vs expected ~74%
- ✓ US sales at US\$83mn continue to stay firm as sartans tailwind persists. Other expense jump 33% qoq with R&D at Rs1.8bn vs Rs1.4bn in Q1 FY21
- ✓ ROW outperforms expectation with 85% surge as base quarter was beset by serialization issues in Europe
- ✓ Solid EBIDTA performance with margins sustaining at 30%, flat qoq vs our estimated of 26.5%; PAT handily beat estimates.

Exhibit 1: Segment wise

| Rs mn | Q2 FY21 | Q1 FY21 | % qoq | Q2 FY20 | % yoy |
|-------|---------|---------|-------|---------|-------|
| India | 4,150 | 3,060 | 35.6 | 3,910 | 6.1 |
| US | 5,820 | 5,960 | (2.3) | 5,390 | 8.0 |
| ROW | 1,970 | 1,750 | 12.6 | 1,070 | 84.1 |
| API | 2,630 | 2,640 | (0.4) | 2,040 | 28.9 |

BHAVESH GANDHI
 Lead Analyst

bhavesh.gandhi@ysil.in


AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Alembic Pharma

Exhibit 2: Results table

| (Rs mn) | Q2 FY21 | Q1 FY21 | % qoq | Q2 FY20 | % yoy |
|------------------------|---------|---------|---------|---------|---------|
| Revenues | 14,571 | 13,413 | 8.6 | 12,409 | 17.4 |
| RM + inventory changes | (2,404) | (2,885) | (16.7) | (1,774) | 35.5 |
| Purchase of goods | (716) | (493) | 45.4 | (952) | (24.8) |
| Staff | (2,761) | (2,754) | 0.3 | (2,178) | 26.8 |
| Other expenses | (4,256) | (3,208) | 32.7 | (4,050) | 5.1 |
| Operating profit | 4,434 | 4,074 | 8.9 | 3,455 | 28.3 |
| OPM (%) | 30.4 | 30.4 | 6 bps | 27.8 | 259 bps |
| Depreciation | (438) | (415) | 5.5 | (360) | 21.8 |
| Interest | (45) | (67) | (32.8) | (71) | (36.6) |
| Other income | 32 | 3 | 906.3 | 4 | 794.4 |
| PBT | 3,984 | 3,595 | 10.8 | 3,029 | 31.5 |
| Tax | (730) | (668) | 9.3 | (525) | 39.0 |
| Effective tax rate (%) | 17.9 | 18.6 | -63 bps | 17.6 | 38 bps |
| Minority/Associate | 83 | 87 | | (41) | - |
| PAT | 3,337 | 3,015 | 10.7 | 2,463 | 35.5 |

Exhibit 3: Financial summary

| Y/e 31 Mar (Rs mn) | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------|--------|--------|--------|--------|--------|
| Revenues | 31,310 | 39,347 | 46,060 | 54,384 | 57,631 |
| yoy growth (%) | (0.1) | 25.7 | 17.1 | 18.1 | 6.0 |
| Operating profit | 6,433 | 8,736 | 12,233 | 15,405 | 15,218 |
| OPM (%) | 20.5 | 22.2 | 26.6 | 28.3 | 26.4 |
| Reported PAT | 4,148 | 5,844 | 8,294 | 10,194 | 9,044 |
| yoy growth (%) | 2.8 | 40.9 | 41.9 | 22.9 | (11.3) |
| EPS (Rs) | 22.0 | 31.0 | 44.0 | 54.1 | 48.0 |
| P/E (x) | 45.9 | 32.6 | 23.0 | 18.7 | 21.1 |
| P/BV (x) | 8.6 | 7.0 | 6.0 | 4.7 | 4.0 |
| EV/EBITDA (x) | 30.3 | 22.2 | 16.4 | 12.9 | 12.6 |
| Debt/Equity (x) | 0.2 | 0.2 | 0.3 | 0.3 | 0.1 |
| ROE (%) | 20.5 | 24.0 | 28.6 | 28.4 | 20.6 |
| ROCE (%) | 19.8 | 23.5 | 25.3 | 25.2 | 22.3 |

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Bhavesh Gandhi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

| Sr. No. | Particulars | Yes/No |
|---------|---|--------|
| 1 | Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies) | No |
| 2 | Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report | No |
| 3 | Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report | No |
| 4 | Research Analyst has served as an officer, director or employee of the subject company(ies) | No |
| 5 | YSL has received any compensation from the subject company in the past twelve months | No |
| 6 | YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months | No |
| 7 | YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months | No |
| 8 | YSL has received any compensation or other benefits from the subject company or third party in connection with the research report | No |
| 9 | YSL has managed or co-managed public offering of securities for the subject company in the past twelve months | No |
| 10 | Research Analyst or YSL has been engaged in market making activity for the subject company(ies) | No |

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
One International Center, Senapati Bapat Marg, Elphinstone Road,
Mumbai - 400013, Maharashtra, India

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and
Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI
Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338 |

Details of Compliance Officer: Vaibhav Purohit (For Broking / Research /
Investment Adviser): Email: compliance@ysil.in /
Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking):
Email: ghanraj.uchil@ysil.in / Contact No.: 022-33479684

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.