

Alembic Pharmaceuticals Ltd.



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ROW recovery continues; Azithromycin helps API growth

CMP INR 960	Target INR 1,286	Potential Upside 34.0%	Market Cap (INR Mn) INR 1,88,757	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q2FY21

- For the quarter, Alembic Pharma reported strong Revenue growth of 17.4% YoY (up 8.6% QoQ) led by strong growth in the ROW market and the API segment.
- EBITDA grew 28.3% YoY (up 8.9% QoQ). EBITDA margin expanded to 30.4% in Q2FY21 (from 27.8% last year).
- Net Profit rose 35.4% YoY (up 10.6% QoQ) while Net Profit Margin for the quarter expanded 303 bps YoY to 22.9% (up 40 bps QoQ) from 19.8% in Q2FY20.
- The company invested INR 1.68 bn in capex in Q2FY21 (vs INR 1.97 bn in Q2FY20). R&D expense for the quarter stood at INR 1.85 bn (12.7% of revenue) vs INR 1.74 bn (14% of revenue in Q2FY20).

MARKET DATA

Shares outs (Mn)	197
Equity Cap (INR Mn)	31,907
Mkt Cap (INR Mn)	1,88,757
52 Wk H/L (INR)	1,129/434
Volume Avg (3m K)	504
Face Value (INR)	2
Bloomberg Code	ALPM IN

KEY FINANCIALS

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Revenue	31,308	39,347	46,058	55,432	62,863
EBITDA	6,431	8,736	12,230	15,576	15,841
PAT	4,126	5,844	8,291	10,791	10,753
EPS (INR)	21.90	30.94	42.49	54.9	54.7
EBITDA Margin	20.5%	22.2%	26.6%	28.1%	25.2%
NPM	13.2%	14.9%	18.0%	19.5%	17.1%

Source: Company, KRChoksey Research

Broad based growth continues; ROW/API shines:

Alembic pharma reported yet another outstanding quarterly numbers with 7%/21%/34% higher Revenue/EBITDA/PAT from our estimates. The beat was supported by strong growth in Azithromycin OSD along with the strong market share gain. Lagging therapies of Gastroenterology and Gynecology also reported significant improvement during the quarter. Geography wise, growth in revenue was led by the ROW market which grew by 84.1% YoY (14% of revenue, up 3.3% QoQ) due to continued recovery in the European businesses from supply chain related issues and API business which grew by 28.9% YoY (18% of revenue, flat QoQ). The US business (8.0%/-2.3% YoY/QoQ) & domestic business (6.1%/35.6% YoY/QoQ) too saw a healthy growth.

Top therapies in terms of revenue growth in the domestic market for the quarter were Cardiology (+14.0% YoY, 2.1% MS), Gastrology (12.0% YoY, 1.6% MS), Anti-diabetic (11.0% YoY, 1.5% MS) while the therapies which were a drag are Cold & Cough (-32% YoY, 4.3% MS), Dermatology (-29% YoY, 0.2% MS), and Ophthalmology (-9% YoY, 1.4% MS).

Yet another quarter of 30% EBITDA margin:

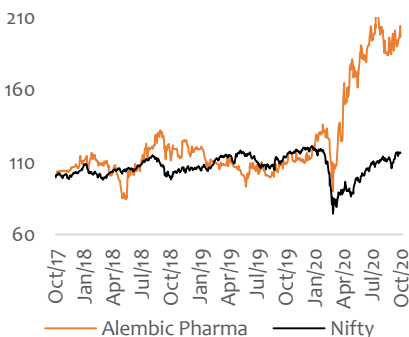
Alembic Pharma recorded EBITDA margin of 30.4% in Q2FY21 (+259bps YoY) mainly on account of lower other expenses (29.2% of revenue in Q2FY21 vs 32.6% in 1QFY20). This was on account of lower travelling and promotional expenses as well as reduced R&D spend.

Net Profit Margin expansion of 303bps YoY was on account of EBITDA margin expansion, higher other income at INR 32 mn (vs INR 3.6 mn in Q2FY20) and 36.6% YoY decline in finance cost.

Pipeline activity:

Company filed 7 ANDAs during the quarter and received approvals for 6 ANDAs. Cumulatively, company now has 198 ANDA filings, with 131 approvals & 82 products launched so far. Company will launch 5+ products in Q3FY21.

SHARE PRICE PERFORMANCE

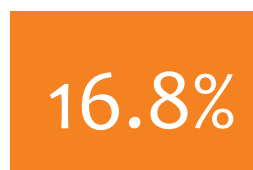


MARKET INFO

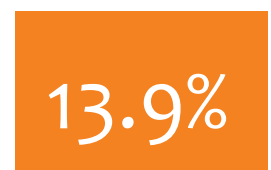
SENSEX	40,146
NIFTY	11,768

SHARE HOLDING PATTERN (%)

Particulars	Sep-20 (%)	Jun-20 (%)	Mar-20 (%)
Promoters	69.8	72.9	72.9
FIIIs	7.0	7.3	8.3
DIIIs	9.4	7.2	6.9
Others	13.8	12.6	11.9
Total	100	100	100



Revenue CAGR between FY20 and FY22E



PAT CAGR between FY20 and FY22E

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Key Concall Highlights: (i) Cumulative CapEx for ongoing projects (still under CWIP) including the pre-operatives is INR 1,825 Cr (ii) Financial assistance to Aleor JV for the quarter stands at INR 40 Cr (INR 65 Cr for H1). Cumulative financial assistance to Aleor JV is INR 742 Cr (iii) Company has paid INR 800+ Cr of borrowings (iv) Management has guided for incremental costs of INR 4.5bn from commercialization of 4 new facilities. These costs include pre-operative expenses & interest expenses (which are capitalized currently) and depreciation from the new facilities (v) Alembic's associate company Rhizen has out-licensed Umbralisib, a promising drug candidate under development to TG Therapeutics.

Valuation and view:

Alembic Pharma to continue to see traction in the Azithromycin for at least two more quarters, which will drive the API business. Recovery in the RoW & domestic market to continue. With 15-20 expected new launches in the US market, US growth remains intact. We have upwardly revised our FY21 Revenue/PAT estimates by 6.5%/42.6% & FY22 estimates by 6.2%/18.1%, respectively. Overall, we expect Alembic Pharma's topline to grow by CAGR of 16.8% over FY20-22E period and net profit to grow by CAGR of 13.9% during the same period. We are optimistic of company's growth prospects on the back of new product introductions in the US, new products filed from recently commercialized Aleor JV, and improvement in the revenue mix with contribution from general and oncology injectables. **Shares of Alembic Pharma are currently trading at a P/E of 17.5x/17.6x on FY21E/22E earnings. We continue to apply P/E multiple to 23.5x on FY22E EPS of INR 54.7/share & raise our target price to INR 1,286/share; an upside potential of 34.0%. Accordingly, we reiterate a "BUY" rating on the shares of Alembic Pharma.**

Segment Results (INR Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total	12,410	12,090	12,060	13,410	14,570
Formulation	10,370	10,320	10,510	10,770	11,940
USA	5,390	5,150	5,770	5,960	5,820
Ex-USA	1,070	1,490	1,320	1,750	1,970
India	3,910	3,680	3,420	3,060	4,150
API	2,040	1,770	1,550	2,640	2,630

Segment Results (Sales Mix)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total	100%	100%	100%	100%	100%
Formulation	83.6%	85.4%	87.1%	80.3%	82%
USA	43.4%	42.6%	47.8%	44.4%	40%
Ex-USA	8.6%	12.3%	10.9%	13.0%	14%
India	31.5%	30.4%	28.4%	22.8%	28%
API	16.4%	14.6%	12.9%	19.7%	18%

Segment Performance (%YoY)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total	10.1%	18.8%	30.1%	41.3%	17.4%
Formulation	6.7%	26.9%	50.8%	38.6%	15.1%
USA	25.1%	67.2%	84.3%	72.8%	8.0%
Ex-USA	-31.4%	6.4%	61.0%	62.0%	84.1%
India	1.6%	0.8%	13.2%	-5.6%	6.1%
API	31.6%	-13.7%	-32.6%	53.5%	28.9%

R & D Activity (INR Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
R&D Expenditure	1,738	1,457	1,850	1,426	1,846
% of Sales	14.0%	12.0%	15%	11%	13%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenues	31,308	39,347	46,058	55,432	62,863
COGS	8,856	9,927	10,394	13,027	15,276
Gross profit	22,453	29,420	35,664	42,405	47,587
Employee cost	6,228	7,467	9,064	11,086	12,573
Other expenses	9,793	13,217	14,369	15,743	19,173
EBITDA	6,431	8,736	12,230	15,576	15,841
EBITDA Margin	20.5%	22.2%	26.6%	28.1%	25.2%
Depreciation & amortization	1,055	1,152	1,573	1,893	2,074
EBIT	5,376	7,584	10,657	13,683	13,767
Interest expense	34	184	272	234	195
Other income	-70	-94	-49	-35	-35
PBT	5,413	7,493	9,998	13,485	13,608
Tax	1,204	1,568	1,992	2,697	2,858
Share of Profit/(Loss) of Associates/Minority	-83	-82	285	4	4
Net profit	4,126	5,844	8,291	10,791	10,753
EPS (INR)	21.9	30.9	42.5	54.9	54.7
No. of Shares (mn) - Diluted	189	189	189	197	197

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY18	FY19E	FY20	FY21E	FY22E
Net Cash Generated From Operations	3,124	8,120	4,492	14,386	12,794
Net Cash Flow from/(used in) Investing Activities	(8,844)	(7,556)	(7,316)	(10,588)	(7,559)
Net Cash Flow from Financing Activities	5,026	590	1,549	(292)	(2,160)
Net Inc/Dec in cash equivalents	(693)	1,154	(1,276)	3506	3075
Opening Balance	1,531	837	1,991	808	4,314
Closing Balance Cash and Cash Equivalents	899	2,056	808	4,314	7,389

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	20.5%	22.2%	26.6%	28.1%	25.2%
Tax rate (%)	22.2%	20.9%	19.9%	20.0%	21.0%
Net Profit Margin (%)	13.2%	14.9%	18.0%	19.5%	17.1%
RoE (%)	18.6%	21.5%	26.0%	26.5%	21.7%
RoCE (%)	18.4%	20.8%	21.6%	22.7%	19.9%
Current Ratio (x)	1.6	1.3	1.4	1.5	1.6
EPS (INR)	21.9	30.9	42.5	54.9	54.7

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Share capital	377	377	377	393	393
Reserves and surplus	21,825	26,811	31,820	40,646	49,434
Shareholders' funds	22,202	27,180	31,907	40,749	49,537
Long-term borrowings	5,000	4,993	8,870	10,370	10,370
Short term borrowings	2,078	4,291	8,605	9,105	9,105
Total debt	7,078	9,284	17,475	19,475	19,475
Deferred tax liabilities (net)	354	188	122	122	122
Long-term provisions/ Other Liabilities	617	520	1,478	1,369	1,369
SOURCES OF FUNDS	30,251	37,173	50,982	61,715	70,503
PPE	9,270	10,984	15,249	20,356	24,567
Other Intangible Assets	626	564	269	269	269
Capital WIP	9,108	13,414	15,741	18,889	19,834
Intangible Assets under development	994	2,098	2,721	2,993	3,143
Non-current investments	416	488	176	194	204
Goodwill	38	36	0	0	0
Other financial assets	708	616	1,107	1,257	1,426
Non-current assets	21,160	28,200	35,263	43,958	49,442
Inventories	7,339	9,673	11,875	10,707	13,392
Trade receivables	5,263	4,889	8,648	7,593	8,611
Cash and Bank Balance	899	2,056	808	4,314	7,389
Other current & financial assets	4,746	2,960	3,300	3,300	3,300
Current assets	18,247	19,577	24,630	25,914	32,693
less: current liabilities and provisions	9,157	10,605	8,911	8,156	11,631
Trade payables	7,593	7,023	6,259	5,353	8,370
Other current liabilities	1,233	880	1,051	1,080	1,404
Other financial & current tax liabilities	196	2,378	1,219	1,341	1,475
Short-term provisions	135	324	382	382	382
Net current assets	9,090	8,972	15,719	17,758	21,061
APPLICATION OF FUNDS	30,250	37,173	50,982	61,715	70,503

Source: Company, KRChoksey Research

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Alembic Pharmaceuticals Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	Target (INR)	Recommendation	Our Rating	Upside
26-Oct-20	960	1,286	BUY	Buy	More than 15%
24-Jul-20	981	1,135	BUY		
24-Apr-20	760	883	BUY	Accumulate	5% – 15%
18-April-20	617	740	BUY	Hold	0 – 5%
23-Jan-19	588	679	BUY	Reduce	-5% – 0
26-Oct-19	540	633	BUY		
02-Aug-19	522	619	BUY	Sell	Less than – 5%
10-May-19	535	619	BUY		

ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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