

Alembic Pharmaceuticals Ltd.



Alembic Pharmaceuticals Ltd.

US to decline while India slows down

CMP INR 942	Target INR 995	Potential Upside 5.6%	Market Cap (INR Mn) INR 185,162	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q4FY21

- For the quarter, Alembic Pharma reported 6.1% revenue growth YoY (-2.6% QoQ) led by both YoY/QoQ decline in the US formulations' and a QoQ fall in India formulations' revenue. Additionally, a flat growth in API segment's revenue QoQ, also added to the negative revenue growth performance QoQ.
- EBITDA grew 4.3% YoY (down 6.4% QoQ). EBITDA margin contracted to 26.7% in Q4FY21 (from 27.1% in Q4FY20 and 27.8% in Q3FY21).
- Adjusted net profit rose 6.5% YoY (down 14.3% QoQ) while net profit margin for the quarter expanded 97 bps YoY but contracted 268 bps QoQ to 19.6%.

MARKET DATA

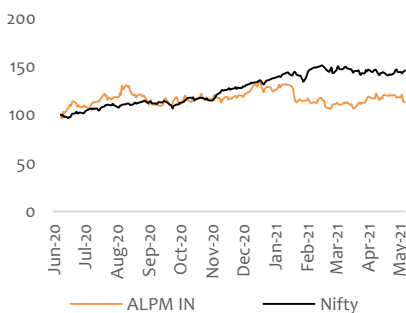
Shares outs (Mn)	196
Equity Cap (INR Mn)	50,670
Mkt Cap (INR Mn)	185,162
52 Wk H/L (INR)	1,145/752
Volume Avg (3m K)	528
Face Value (INR)	2
Bloomberg Code	ALPM IN

KEY FINANCIALS

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Revenue	39,347	46,058	53,931	57,038	64,455
EBITDA	8,736	12,230	15,576	14,029	15,853
PAT	5,844	8,288	11,783	9,821	11,108
EPS (INR)	30.94	42.48	59.18	50.7	57.3
EBITDA Margin	22.2%	26.6%	28.9%	24.6%	24.6%
NPM	14.9%	18.0%	21.8%	17.2%	17.2%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	49,206
NIFTY	14,823

US growth slows down since Q2FY21 on a YoY basis (37% of sales): US sales continues to decline at a steeper rate in Q4FY21. The US sales declined 17.7% / 7.2% (YoY/QoQ) to INR 4,750 million (USD 63.33 million) due to decline in Sartan portfolio sales. Sartan portfolio sales has been facing incremental competition and pricing pressure over the last 6 months. The company expects the US sales to decline further and stabilize around USD 55 – USD 60 million / quarter over the next couple of quarters, owing to loss of market share in Sartan products; partially offset by new product launches which have done well. The company has launched 3 products in Q4FY21 and 16 in FY21. The company plans to launch over 10 new products in FY22. The company has 4 Final Approvals against 13 ANDAs filed in Q4FY21 (16 Final Approvals against 29 ANDA filings FY21). We expect the company's US sales to grow at a 3% CAGR over FY21-FY23 vs. 30% CAGR growth over FY19-FY21, owing to loss of Sartan sales.

India and API growth indicate weakness (45% of sales): India business experienced slowdown as the sales grew up 4.7% YoY/ down 14.4% QoQ. It could be attributed to lower demand for acute therapy drugs. API business also grew flat QoQ while growing 38.1% YoY in Q4FY21. We expect 10% CAGR growth in India revenue (4% CAGR FY19-FY21) and a 13% CAGR growth in API revenue (11% CAGR FY19-FY21) over FY21-FY23.

Ex US growing strong (18% of sales): Ex US revenue grew at a strong pace of 76.5% / 36.3% (YoY / QoQ) in Q4FY21. We expect a 20% CAGR growth in Ex-US revenue segment (25% CAGR FY19-FY21) over FY21-FY23.

Lower growth in the US to affect gross margins and in return PAT profitability: The loss of US business substantially due to price deflation and loss of market share in Sartan products coupled with slowdown in India business will impact the CAGR growth expectations over FY21-FY23. The company posted a 26.7% EBITDA margin in Q4FY21, which fell by 45 and 109 bps QoQ and YoY.

SHARE HOLDING PATTERN (%)

Particulars	Mar-21 (%)	Dec-20 (%)	Sep-20 (%)
Promoters	69.5	69.8	69.8
FIIIs	6.6	7.0	7.0
DIIIs	10.9	9.4	9.4
Others	13.0	13.8	13.8
Total	100	100	100

9.3%

Revenue CAGR between FY21 and FY23E

-2.9%

PAT CAGR between FY21 and FY23E

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Key Concall Highlights: (i) Alembic doesn't have comprehensive COVID 19 products but Azithromycin has been growing over the last couple of weeks (ii) At the beginning of the year it had set R&D budget at INR 650 Cr which it has been able to exhaust in the FY21 (iii) The products it intends to launch in the US will be in oral solid dosages, dermatology, and ophthalmic specialties (iv) Management has guided for that it is losing market share in Sartan products in the US due to price erosion in it with increased competition. (v) API business benefited from China supply disruption in H1FY21, however, the effect is not sustainable as Chinese API supply has resumed back, also use of Azithromycin in use of COVID 19 treatment has come down YoY (vi) capex has been guided at around INR 5,000 – 7,000 million for FY22 (vii) Azithromycin is a large share of the overall API segment's revenue

Valuation and view: Alembic Pharma is likely to experience decline in the US business over the next couple of quarters due to loss of market share and pricing power in sartan products portfolio with increased competitive intensity. Also, India business is experiencing slowdown QoQ due to lower demand YoY for acute therapy products. Nevertheless, the company is on a positive side, experiencing strong growth, both QoQ and YoY, in the Ex-US formulations segment revenue as well as YoY growth in API segment revenue. We have hence revised down our Revenue/PAT estimates for FY22E and FY23E, respectively. Overall, we expect Alembic Pharma's topline to increase by a CAGR of 9.3% over FY21-23E period and net profit to decline by CAGR of -2.9% during the same period. We believe the company's near-term earnings growth prospects may take a hit due to fall in the US formulations segment sales and gross profits margins. Nevertheless, Ex US and API business can offset the negative impact to a certain extent. **Since our last update, the shares of Alembic Pharma has declined by ~3% and currently trading at a P/E of 18.6x/16.4x on FY22E/FY23E earnings. We apply a 17.4x P/E multiple on FY23E EPS of INR 57.3/share (earlier 23.5x on FY22E EPS of INR 54.7/share) & reduce our target price to INR 995/share (earlier INR 1,286/share); implying a potential upside of 5.6% over the CMP. Accordingly, we downgrade the rating on the shares of Alembic Pharma to "ACCUMULATE".**

Segment Results (INR Mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Total	12,060	13,410	14,570	13,150	12,800
Formulation	10,510	10,770	11,940	11,010	10,660
USA	5,770	5,960	5,820	5,120	4,750
Ex-USA	1,320	1,750	1,970	1,710	2,330
India	3,420	3,060	4,150	4,180	3,580
API	2,040	1,770	1,550	2,640	2,630

Segment Results (Sales Mix)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Total	100%	100%	100%	100%	100%
Formulation	87%	80%	82%	84%	83%
USA	48%	44%	40%	39%	37%
Ex-USA	11%	13%	14%	13%	18%
India	28%	23%	28%	32%	28%
API	17%	13%	11%	20%	21%

Segment Performance (%YoY)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Total	30.1%	41.3%	17.4%	8.8%	6.1%
Formulation	50.8%	38.6%	15.1%	6.7%	1.4%
USA	84.3%	72.8%	8.0%	-0.6%	-17.7%
Ex-USA	61.0%	62.0%	84.1%	14.8%	76.5%
India	13.2%	-5.6%	6.1%	13.6%	4.7%
API	-32.6%	53.5%	28.9%	20.9%	38.1%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 19	FY 20	FY 21	FY 22E	FY 23E
Revenues	39,347	46,058	53,931	57,038	64,455
COGS	9,927	10,394	12,573	14,490	16,374
Gross profit	29,420	35,664	41,358	42,548	48,081
Employee cost	7,467	9,064	10,512	11,408	12,891
Other expenses	13,217	14,369	15,271	17,111	19,336
EBITDA	8,736	12,230	15,576	14,029	15,853
EBITDA Margin	22.2%	26.6%	28.9%	24.6%	24.6%
Depreciation & amortization	1,152	1,573	1,835	1,882	2,127
EBIT	7,584	10,657	13,741	12,147	13,726
Interest expense	184	272	160	195	195
Other income	-94	-49	-100	-100	-100
PBT	7,493	9,999	13,682	12,052	13,632
Tax	1,568	1,992	2,533	2,231	2,524
Share of Profit/(Loss) of Associates/Minority	-82	282	634	0	0
Net profit	5,844	8,288	11,783	9,821	11,108
EPS (INR)	31.0	44.0	60.8	50.7	57.3
No. of Shares (mn) - Diluted	189	189	194	194	194

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	8,120	4,492	19,542	10,376	12,020
Net Cash Flow from/(used in) Investing Activities	(7,556)	(7,316)	(8,388)	(6,975)	(7,882)
Net Cash Flow from Financing Activities	590	1,549	(5,974)	(10)	(10)
Net Inc/Dec in cash equivalents	1,154	(1,276)	5,180	3,391	4,128
Opening Balance	837	1,991	718	1,058	4,450
Closing Balance Cash and Cash Equivalents	2,056	808	1,058	4,450	8,578

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	22.2%	26.6%	28.9%	24.6%	24.6%
Tax rate (%)	20.9%	19.9%	18.5%	18.5%	18.5%
Net Profit Margin (%)	14.9%	18.0%	21.8%	17.2%	17.2%
RoE (%)	21.5%	26.0%	23.3%	16.3%	15.8%
RoCE (%)	20.8%	21.6%	26.1%	19.6%	18.9%
Current Ratio (x)	1.3	1.4	2.0	2.1	2.1
EPS (INR)	31.0	44.0	60.8	50.7	57.3

Source: Company, KRChoksey Research

Alembic Pharmaceuticals Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Share capital	377	377	393	393	393
Reserves and surplus	26,811	31,820	50,883	59,692	70,094
Shareholders' funds	27,180	31,907	50,670	60,085	70,487
Long-term borrowings	4,993	8,870	1,999	1,989	1,979
Short term borrowings	4,291	8,605	0	0	0
Total debt	9,284	17,475	1,999	1,989	1,979
Deferred tax liabilities (net)	188	122	42	0	0
Long-term provisions/ Other Liabilities	520	1,478	1,571	1,651	1,690
SOURCES OF FUNDS	37,173	50,982	54,282	63,725	74,157
PPE	10,984	15,249	17,037	21,641	26,544
Other Intangible Assets	564	269	856	898	943
Capital WIP	13,414	15,741	19,443	22,908	24,053
Intangible Assets under development	2,098	2,721	2,374	0	0
Non-current investments	488	176	0	518	544
Goodwill	36	0	0	0	0
Other financial assets	616	1,107	1,601	1,164	1,222
Non-current assets	28,200	35,263	41,311	47,128	53,305
Inventories	9,673	11,875	14,862	17,127	19,354
Trade receivables	4,889	8,648	3,486	3,687	4,166
Cash and Bank Balance	2,056	808	1,058	4,450	8,578
Other current & financial assets	2,960	3,300	6,373	6,692	7,027
Current assets	19,577	24,630	25,779	31,955	39,124
less: current liabilities and provisions	10,605	8,911	12,808	15,358	18,273
Trade payables	7,023	6,259	6,688	7,707	8,709
Other current liabilities	880	1,051	4,807	7,651	9,563
Other financial & current tax liabilities	2,378	1,219	793	0	0
Short-term provisions	324	382	520	0	0
Net current assets	8,972	15,719	12,971	16,598	20,852
APPLICATION OF FUNDS	37,173	50,982	54,282	63,725	74,157

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
07-May-21	942	995	ACCUMULATE		
05-Apr-21	974	1,286	BUY		
17-Mar-21	924	1,286	BUY		
15-Dec-20	1,086	1,286	BUY		
24-Oct-20	974	1,286	BUY		
24-Jul-20	981	1,135	BUY		
24-Apr-20	760	883	BUY		
18-April-20	617	740	BUY		
23-Jan-19	588	679	BUY		
26-Oct-19	540	633	BUY		
02-Aug-19	522	619	BUY		
10-May-19	535	619	BUY		
				Buy	More than 15%
				Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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