

# Alembic Pharmaceuticals Ltd.



# Alembic Pharmaceuticals Ltd.

**Delayed execution on the US front and loss making Aleor are key concerns**

CMP <b>INR 734</b>	Target <b>INR 758</b>	Upside <b>3%</b>	Market Cap (INR Mn) <b>INR 144,240</b>	Recommendation <b>HOLD</b>	Sector <b>Pharmaceuticals</b>
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## Result Highlights of Q4FY22

- Alembic Pharma reported 10.6% YoY (+11.3% QoQ) rise in total operating revenue to INR 14.16 bn in Q4FY22, as US revenue grew at 17.3% YoY (+41.7% QoQ), breaking the consecutive quarterly declining trend in the segment that ensued since Q3FY21.
- The company witnessed 1,538 bps YoY (-880 bps QoQ) fall in EBITDA margin to 11.3% in Q4FY22, due to one-time costs associated with acquisition of Aleor Dermaceuticals.
- The reported PAT declined 85.9% YoY (-79.9% QoQ) to INR 355 mn for the quarter. Without the Aleor related onetime expenses, the company would have posted a 28.0% YoY decline (+2.3% QoQ) in net income to INR 1,805 mn in Q4FY22.
- The company launched 1 product in Q4FY22 and 13 in FY22, in the US.

## MARKET DATA

Shares outs (Mn)	197
Equity Cap (INR Mn)	57,278
Mkt Cap (INR Mn)	144,240
52 Wk H/L (INR)	1,035/678
Volume Avg (3m K)	262
Face Value (INR)	2
Bloomberg Code	ALPM IN

## KEY FINANCIALS

INR Millions	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	53,931	53,058	58,776	65,273	71,373
EBITDA	15,576	8,742	10,211	13,005	14,221
PAT	11,783	5,457	6,868	8,952	9,768
EPS (INR)	59.18	27.8	34.9	45.5	49.7
EBITDA Margin	28.9%	16.5%	17.4%	19.9%	19.9%
NPM	21.8%	10.3%	11.7%	13.7%	13.7%

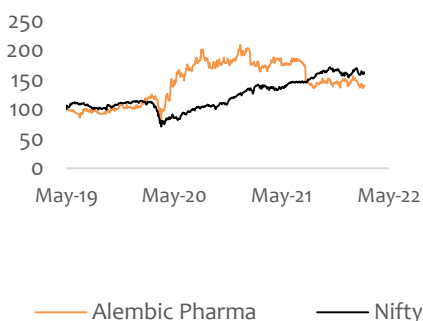
Source: Company, KRChoksey Research

### Strong recovery in the US revenue besides strong growth in India revenue drove revenue performance:

The company posted revenue of INR 14,157 Mn (vs. our estimate of INR 12,426 Mn) in Q4FY22, up 10.6% YoY (+11.3% QoQ). This was driven by the US sales (39.0% of total revenue) growing at a strong pace of 17.3% YoY (+41.7% QoQ) for the period. Growth has been visible after 5 consecutive quarters of annual decline in its US sales. The company attributes it to increased market share in existing products, one-time opportunities and destocking of the distributor pipe-line. The total revenue growth was also supported by 25.4% YoY (-8.0% QoQ) rise in India branded revenue (32.0%) and API revenue (16.0%) growing at 3.7% YoY (+12.1% QoQ) in Q4FY22. The growth in India branded revenue was driven by its acute and most of the specialty products, outperforming market growth. The company has acquired 40.0% stake in its JV Aleor Dermaceuticals from its JV Partner. The company has launched 1 new product in the US in Q4FY22 vs. 6 in Q3FY22 vs. 4 in Q2FY22 vs. 2 in Q1FY22 and 13 in FY22 vs. 16 in FY21. The company plans to launch over 15 new products in FY23. The company cumulatively has 160 ANDA approvals (including 22 Tentative Approvals - TAs) in place, 230 ANDA filings and 105 products launched in the US markets as of FY22 (vs. 139 ANDAs approved, 212 ANDA filings and 92 products launched in FY21). The company has 2 injectables, 19 Derma, 14 ophthalmic, and 1 inhalation ANDAs approved besides 124 oral solids related ANDAs as of FY22. We expect the company's US sales to grow at 4.1% CAGR during FY22-FY25E as the US revenue base is stabilizing with expected halt in severe price erosions; partially offset by new product launches and market share gains.

**Profitability declined severely due to acquisition related one-time expenses:** The company witnessed 268 bps YoY (-30.0 bps QoQ) decline in Gross Margins to 72.7% in Q4FY22 due to increased raw materials costs. Similarly, the company experienced 15.38 % points YoY (-880 bps QoQ) decline in EBITDA margins to 11.3% in Q4FY22. It was due to Aleor acquisition related one-time expenses. The reported net income declined 85.9% YoY (-79.9% QoQ) to INR 355 mn in Q4FY22. Without the one-time cost around Aleor Dermaceuticals, the company would have posted EBITDA margin of 24.6%, up 448 bps QoQ (-210 bps YoY) in Q4FY22 and a 28.0% YoY decline (+2.3% QoQ) in net income to INR 1,805 mn in Q4FY22.

## SHARE PRICE PERFORMANCE

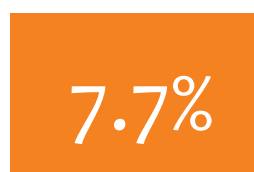


## MARKET INFO

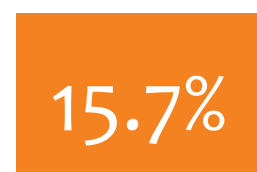
SENSEX	55,669
NIFTY	16,678

## SHARE HOLDING PATTERN (%)

Particulars	Mar-22 (%)	Dec-21 (%)	Sep-21 (%)
Promoters	69.6	69.5	69.5
FIIIs	6.0	5.9	5.5
DIIIs	11.7	11.6	11.4
Others	12.7	13.0	13.6
Total	100	100	100



Revenue CAGR between FY22 and FY25E



PAT CAGR between FY22 and FY25E

## Alembic Pharmaceuticals Ltd.

**Key Concall Highlights:** (i) The company has declared a dividend of INR 10 per share i.e., 500.0% of the FV of INR 2 / share for FY22 (ii) The company has acquired remaining of its 40.0% stake in its JV called Aleor Dermaceuticals from its JV partner Orbicular Technologies to strengthen its Dermaceuticals therapy products segment. As a result, the company has accelerated R&D and Intangible expenses for Aleor Dermaceuticals, leading to increased Amortization and R&D expenses affecting EBITDA to the tune of INR 1.88 bn and PAT to the tune of INR 1.45 bn in Q4FY22 (iii) The company has launched its first inhalation and only approved inhalation related ANDA so far (Formoterol Fumarate inhalation product - Perforomist) in the US in Q4FY22 (It's a limited competition product) and expects to launch nearly 15 products in the US in FY23 vs. 13 in FY22 (iv) R&D expenses were at INR 3.50 bn in Q4FY22 (v) The company is still underway with remediation measures associated with the USFDA 's inspection of its general injectable facility located at Karkhadi, Gujarat. (vi) The company expects to continue to outperform in India branded market. The specialty portfolio revenue grew at 13.0% YoY while the market grew at 7.0%. This was driven by growth in gastro, gynecology, and diabetes therapies. (vii) The company filed 11 ANDAs during Q4FY22 and received 8 approvals including 3 TAs as of Q4FY22 (viii) R&D costs is expected to be around INR 7.00 bn in FY23

**Valuation and view:** The company is going strong as far as India branded revenue segment is concerned. However, it expects to normalize going forward, given lesser incidence of COVID 19. The company aspires to beat IPM growth, however, there are no specific drivers for it. The US revenue growth has resumed back as the company has gained market share in existing products and launched new products in the US. However, the company has only gPerforomist launched recently as a notable launch of Q4FY22 and reduced number of (13) products launched in FY22 vs. 16 in FY21. It is yet (since Dec 21) to get its general injectable plant (F3) cleared from the USFDA based on which its US Sales trajectory will get determined over medium term. Also, acquisition of its loss making Aleor Dermaceuticals can be a drag on profitability in FY23. Given the recovery in the US sales, we now expect the company to clock in Revenue/PAT CAGR growths of 7.7% and 15.7% (vs. earlier 5.5% and -7.5%, respectively), respectively over FY22-FY25E. **The company's shares have been flat since our last earnings update in Feb 22 and are currently trading at 21.0x/16.1x/14.8x its FY23E/FY24E/FY25E EPS estimates, respectively. Using DCF method and applying 16.4x valuation multiple on FY24E EPS of INR 45.5 (earlier INR 47.4), we arrive at the same target price (TP) of INR 758/share. Since the TP indicate a potential 3.0% upside from its CMP of INR 734, we maintain our "HOLD" recommendation on the shares of Alembic Pharma.**

Segment Results (INR Mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Total</b>	<b>12,800</b>	<b>13,260</b>	<b>12,930</b>	<b>12,720</b>	<b>14,160</b>
<b>Formulation</b>	<b>10,660</b>	<b>10,470</b>	<b>10,540</b>	<b>10,740</b>	<b>11,940</b>
USA	4,750	3,690	3,480	3,930	5,570
Ex-USA	2,330	1,970	1,970	1,930	1,880
India	4,180	3,580	4,810	5,090	4,880
<b>API</b>	<b>2,140</b>	<b>2,790</b>	<b>2,390</b>	<b>1,980</b>	<b>2,220</b>

Segment Results (Sales Mix)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Formulation</b>	<b>83%</b>	<b>79%</b>	<b>82%</b>	<b>84%</b>	<b>84%</b>
USA	37%	28%	27%	31%	39%
Ex-USA	18%	15%	15%	15%	13%
India	33%	27%	37%	40%	34%
<b>API</b>	<b>17%</b>	<b>21%</b>	<b>18%</b>	<b>16%</b>	<b>16%</b>

Segment Performance (%YoY)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Operating Revenue</b>	<b>6.1%</b>	<b>-1.1%</b>	<b>-11.3%</b>	<b>-3.3%</b>	<b>10.6%</b>
<b>Formulation</b>	<b>1.4%</b>	<b>-2.8%</b>	<b>-11.7%</b>	<b>-2.5%</b>	<b>12.0%</b>
USA	-17.7%	-38.1%	-40.2%	-23.2%	17.3%
Ex-USA	76.5%	12.6%	0.0%	12.9%	-19.3%
India	4.7%	57.2%	22.7%	16.7%	25.4%
<b>API</b>	<b>38.1%</b>	<b>5.7%</b>	<b>-9.1%</b>	<b>-7.5%</b>	<b>3.7%</b>

Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Millions	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>53,931</b>	<b>53,058</b>	<b>58,776</b>	<b>65,273</b>	<b>71,373</b>
COGS	12,573	14,464	16,031	17,803	19,467
<b>Gross profit</b>	<b>41,358</b>	<b>38,594</b>	<b>42,744</b>	<b>47,469</b>	<b>51,906</b>
Employee cost	10,512	11,330	13,401	14,882	16,273
Other expenses	15,271	18,522	19,133	19,582	21,412
<b>EBITDA</b>	<b>15,576</b>	<b>8,742</b>	<b>10,211</b>	<b>13,005</b>	<b>14,221</b>
EBITDA Margin	28.9%	16.5%	17.4%	19.9%	19.9%
Depreciation & amortization	1,835	2,868	2,008	2,230	2,438
<b>EBIT</b>	<b>13,741</b>	<b>5,874</b>	<b>8,203</b>	<b>10,776</b>	<b>11,783</b>
Interest expense	160	177	177	177	177
Other income	-100	-505	-150	-150	-150
<b>PBT</b>	<b>13,682</b>	<b>6,502</b>	<b>8,479</b>	<b>11,051</b>	<b>12,059</b>
Tax	2,533	1,045	1,611	2,100	2,291
Share of Profit/(Loss) of Associates/Minority	634	0	0	0	0
<b>Net profit</b>	<b>11,783</b>	<b>5,457</b>	<b>6,868</b>	<b>8,952</b>	<b>9,768</b>
<b>EPS (INR)</b>	<b>60.8</b>	<b>27.8</b>	<b>34.9</b>	<b>45.5</b>	<b>49.7</b>
No. of Shares (mn) - Diluted	194	197	197	197	197

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Millions	FY21	FY22	FY23E	FY24E	FY25E
Net Cash Generated From Operations	19,542	10,376	12,020	813	15,411
Net Cash Flow from/(used in) Investing Activities	(8,388)	(6,975)	(7,882)	(8,907)	(10,065)
Net Cash Flow from Financing Activities	(5,974)	(10)	(10)	(10)	(10)
Net Inc/Dec in cash equivalents	5,180	3,391	4,128	(8,103)	5,337
Opening Balance	808	1,058	4,450	8,578	475
Adjustments	(4,929)	-	-	-	-
Closing Balance Cash and Cash Equivalents	1,058	4,450	8,578	475	5,811

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	28.9%	16.5%	17.4%	19.9%	19.9%
Tax rate (%)	18.5%	16.1%	19.0%	19.0%	19.0%
Net Profit Margin (%)	21.8%	10.3%	11.7%	13.7%	13.7%
RoE (%)	23.3%	9.1%	9.7%	10.8%	10.1%
RoCE (%)	26.1%	9.5%	11.3%	12.7%	12.0%
Current Ratio (x)	2.0	2.1	2.1	1.8	1.9
EPS (INR)	60.8	27.8	34.9	45.5	49.7

Source: Company, KRChoksey Research

# Alembic Pharmaceuticals Ltd.

## Exhibit 4: Balance Sheet

INR Millions	FY21	FY22	FY23E	FY24E	FY25E
Share capital	393	393	393	393	393
Reserves and surplus	50,883	59,692	70,094	82,438	96,149
<b>Shareholders' funds</b>	<b>50,670</b>	<b>60,085</b>	<b>70,487</b>	<b>82,831</b>	<b>96,542</b>
Long-term borrowings	1,999	1,989	1,979	1,969	1,959
Short term borrowings	0	0	0	0	0
<b>Total debt</b>	<b>1,999</b>	<b>1,989</b>	<b>1,979</b>	<b>1,969</b>	<b>1,959</b>
Deferred tax liabilities (net)	42	0	0	0	0
Long-term provisions/ Other Liabilities	1,571	1,651	1,690	1,732	1,776
<b>SOURCES OF FUNDS</b>	<b>54,282</b>	<b>63,725</b>	<b>74,157</b>	<b>86,532</b>	<b>1,00,277</b>
PPE	17,037	21,641	26,544	31,786	37,410
Other Intangible Assets	856	898	943	990	1,040
Capital WIP	19,443	22,908	24,053	25,256	26,518
Intangible Assets under development	2,374	0	0	0	0
Non-current investments	0	518	544	571	599
Goodwill	0	0	0	0	0
Other financial assets	1,601	1,164	1,222	1,283	1,347
<b>Non-current assets</b>	<b>41,311</b>	<b>47,128</b>	<b>53,305</b>	<b>59,885</b>	<b>66,915</b>
Inventories	14,862	17,127	19,354	47,349	53,504
Trade receivables	3,486	3,687	4,166	4,708	5,320
Cash and Bank Balance	1,058	4,450	8,578	475	5,811
Other current & financial assets	6,373	6,692	7,027	7,378	7,747
<b>Current assets</b>	<b>25,779</b>	<b>31,955</b>	<b>39,124</b>	<b>59,909</b>	<b>72,382</b>
<b>less: current liabilities and provisions</b>	<b>12,808</b>	<b>15,358</b>	<b>18,273</b>	<b>33,261</b>	<b>39,019</b>
Trade payables	6,688	7,707	8,709	21,307	24,077
Other current liabilities	4,807	7,651	9,563	11,954	14,943
Other financial & current tax liabilities	793	0	0	0	0
Short-term provisions	520	0	0	0	0
<b>Net current assets</b>	<b>12,971</b>	<b>16,598</b>	<b>20,852</b>	<b>26,648</b>	<b>33,362</b>
<b>APPLICATION OF FUNDS</b>	<b>54,282</b>	<b>63,725</b>	<b>74,157</b>	<b>86,533</b>	<b>1,00,277</b>

Source: Company, KRChoksey Research

# Alembic Pharmaceuticals Ltd.

Alembic Pharmaceuticals Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	Target (INR)	Recommendation	Our Rating	Upside
05-May-22	734	758	HOLD	Buy	More than 15%
11-Feb-22	752	758	HOLD		
11-Nov-21	769	778	HOLD	Accumulate	5% – 15%
27-Jul-21	793	801	HOLD		
30-Jun-21	987	995	HOLD	Hold	0 – 5%
07-May-21	942	995	ACCUMULATE		
05-Apr-21	974	1,286	BUY	Reduce	-5% – 0
17-Mar-21	924	1,286	BUY		
15-Dec-20	1,086	1,286	BUY	Sell	Less than – 5%
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		

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