

Alembic Pharmaceuticals Ltd.



Alembic Pharmaceuticals Ltd.

Decline in US sales to be a drag on profitability

CMP INR 769	Target INR 778	Upside 1%	Market Cap (INR Mn) INR 151,210	Recommendation HOLD	Sector Pharmaceuticals
----------------	-------------------	--------------	------------------------------------	-------------------------------	----------------------------------

Result Highlights of Q2FY22

- Alembic Pharma reported 11.3% YoY (-2.5% QoQ) decline in the total revenue to INR 12.92 bn as its US generic formulation segment's revenue (27% of total revenue) fell by 40.2% YoY (-5.7% QoQ) due to increased competitive intensity witnessed in the US. On the other hand, India market (39% of total revenue) posted strong growth (+22.7% YoY/+5.8% QoQ) in revenue, driven by faster growth in acute and specialty segments than the growth in India pharma market (IPM).
- Heightened competitive intensity in the US, flat growth (both YoY and QoQ) in Ex-USA revenue (15% of total revenue), and decline (9.1% YoY/14.3% QoQ) in API revenue (18% of total revenue) led to EBITDA decline of 42.0% YoY (+9.0% QoQ) in Q2FY22 and adjusted PAT decline of 49.2% YoY (+2.9% QoQ) to INR 1.69 bn in Q2FY22.

MARKET DATA

Shares outs (Mn)	197
Equity Cap (INR Mn)	50,670
Mkt Cap (INR Mn)	151,210
52 Wk H/L (INR)	1,145/720
Volume Avg (3m K)	362
Face Value (INR)	2
Bloomberg Code	ALPM IN

KEY FINANCIALS

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Revenue	39,347	46,058	53,931	51,757	56,694
EBITDA	8,736	12,230	15,576	10,286	11,792
PAT	5,844	8,288	11,783	7,211	8,271
EPS (INR)	30.94	42.48	59.18	36.7	42.1
EBITDA Margin	22.2%	26.6%	28.9%	19.9%	20.8%
NPM	14.9%	18.0%	21.8%	13.9%	14.6%

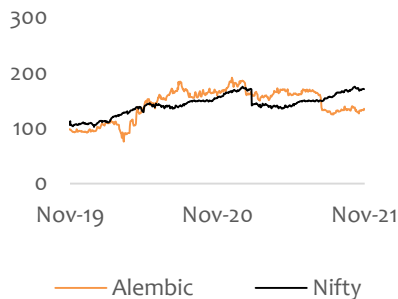
Source: Company, KRChoksey Research

US sales continued its declining pace in Q2FY22: The US sales continue to decline at far steeper rate in Q2FY22. US sales declined 40.2% YoY/5.7% QoQ vs. decline of 38.1% YoY/22.3% QoQ in Q1FY22 to INR 3.48 bn (USD 46.74 million) due to continued challenges witnessed in the US on account of pricing competition. The company earlier had guided that the US sales will decline and stabilize around USD 55 – 60 million/quarter over the next couple of quarters; partially offset by new product launches. The company states that the price erosions started in Q2FY21 has impacted the US generic business severely over the last one year. The company has launched 4 new products in the US vs. 2 products in Q1FY22, 3 in Q4FY21 and 16 in FY21. The company had plans to launch over 10-15 new products in FY22. So far it has launched 6 products in H1FY22 and intends to launch 7-8 products in H2FY22. The company has received 4 ANDA approvals in Q2FY22 vs. 7 ANDA approvals it bagged during Q1FY22 and 16 Final Approvals against 29 ANDA filings in FY21. The company has 150 ANDA approvals in place vs. 214 ANDA filings, and 98 products launched in the US markets as of Q2FY22 (vs. 92 products launched as of FY21), on a cumulative basis. We expect the company's US sales to decline at a steeper rate of 18.8% CAGR vs. a decline of 7.3% CAGR anticipated earlier over FY21-FY23 (vs. 30% CAGR growth over FY19-FY21), owing to heightened competitive intensity in the US.

India continues to show strong growth momentum: India business experienced strong growth in sales at +22.7% YoY/+5.8% QoQ to INR 5.09 bn as acute business revenue grew at 79.0% YoY while specialty business revenue increased at over 20% YoY, across therapies such as gastro, gynecology, diabetes, and orthopedic. We expect 21.7% CAGR growth vs. 17.3% CAGR growth forecast earlier for India revenue over FY21-FY23E (vs. 4% CAGR growth during FY19-FY21).

Lower growth in the US to impact gross margins as well as PAT growth: The loss in the US business revenue at a higher rate than anticipated leads us to believe that the PAT will decline at a higher CAGR over FY21-FY23E. We now estimate the company's PAT to decline by 16.2% CAGR over FY21-FY23 vs. a decline of 13.7% estimated earlier.

SHARE PRICE PERFORMANCE

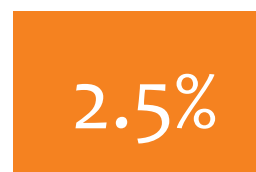


MARKET INFO

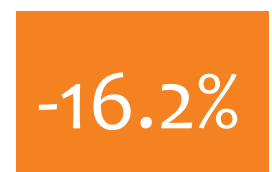
SENSEX	59,920
NIFTY	17,887

SHARE HOLDING PATTERN (%)

Particulars	Sep-21 (%)	Jun-21 (%)	Mar-21 (%)
Promoters	69.5	69.5	69.5
FIIs	5.5	6.4	6.6
DIIIs	11.4	11.3	10.9
Others	13.6	12.8	13.0
Total	100	100	100



Revenue CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

Alembic Pharmaceuticals Ltd.

Key Concall Highlights: (i) The company believes that the price erosion is severe in the US, since Q2FY21 (ii) Cumulative capex on ongoing projects has been INR 19.81 bn as of Q2FY22 (iii) The gross borrowings at consolidated level stands at INR 8.50 bn as of Q2FY22 vs. INR 5.00 bn as of June 21 (iv) Net debt to Equity stands at 0.10x as of Q2FY22 (v) The US business continues to remain challenging on account of price erosion (vi) The company's R&D expenses were at INR 1.68 bn (13.0% of revenue) in Q2FY22 vs. INR 1.85 bn (13.0% of revenue) in Q2FY21 (vii) The company received EIR for its newly devised F3 facility (general injectables) and a compliance review has taken place for the same and then the USFDA has issued form 483 with 10 observations, which can delay the launch of injectables further (viii) The company launched 4 new products in the US in Q2FY22 and plans to launch around 8-10 products in the US in H2-FY22 (ix) USD 45-50 mn could be the new US revenue base going forward compared to an average USD 70-75 mn a quarter run rate, it was at, between Q1FY21 and Q4FY21.

Valuation and view: Alembic Pharma has been witnessing even more heightened competition in the US markets, which stands uncertain as of now. Also, we believe that the growth in its ex-USA and API revenue besides growth in India market may not be able to more than offset the weakness in the US markets, fully, over FY22E-FY23E. Due to fall in the US sales, Alembic Pharma has experienced 680 bps decline in EBITDA margins to 19.9% and 650 bps decline in net profits margin to 13.1% since Q4FY21. The only positive remains that the margins have inched up QoQ on the back of reduced materials costs, while other expenses also increased QoQ. Nevertheless, we have revised down our Revenue/PAT CAGR growth estimates, from 5.5% and -13.7% earlier, respectively, to 2.5% and -16.2% CAGR, respectively, over FY21-FY23E. The company has set up 3 new manufacturing plants for injectables and complex generics, which are expected to add to profitability from FY23 onwards. The company has 2 injectable ANDAs approved by USFDA as of Q2FY22 (out of 150 approved ANDAs so far). **Since the beginning of sharp fall in Alembic Pharma's US revenue from Q2FY21 onwards, the shares of the company have declined by ~17% and are currently trading at forward P/Es of 21.0x/18.3x on revised FY22E/FY23E earnings. We slightly upgrade our valuation multiple to 18.5x from 17.7x earlier (historically the company has traded at an average forward PEs in the range of 18.0x-20.2x over the last 5 years) on revised FY23E EPS of INR 42.1 (vs. earlier 45.3/share) and reduce our target price (TP) to INR 778/share (earlier INR 801/share). Since the new TP indicates a potential upside of 1% from its CMP of INR 769, we maintain our "HOLD" rating on the shares of Alembic Pharma.**

Segment Results (INR Mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Total	14,570	13,150	12,800	13,260	12,930
Formulation	11,940	11,010	10,660	10,470	10,540
USA	5,820	5,120	4,750	3,690	3,480
Ex-USA	1,970	1,710	2,330	1,970	1,970
India	3,060	4,150	4,180	3,580	4,810
API	2,630	2,140	2,140	2,790	2,390

Segment Results (Sales Mix)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Total	100%	100%	100%	100%	100%
Formulation	82%	84%	83%	79%	82%
USA	40%	39%	37%	28%	27%
Ex-USA	14%	13%	18%	15%	15%
India	21%	32%	33%	27%	37%
API	18%	16%	17%	21%	18%

Segment Performance (%YoY)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Total	17.4%	8.8%	6.1%	-1.1%	-11.3%
Formulation	15.1%	6.7%	1.4%	-2.8%	-11.7%
USA	8.0%	-0.6%	-17.7%	-38.1%	-40.2%
Ex-USA	84.1%	14.8%	76.5%	12.6%	0.0%
India	6.1%	13.6%	4.7%	57.2%	22.7%
API	28.9%	20.9%	38.1%	5.7%	-9.1%

Source: Company, KRChoksey Research

Alembic Pharmaceuticals Ltd.

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	51,757	56,694
COGS	9,927	10,394	12,573	13,650	14,457
Gross profit	29,420	35,664	41,358	38,107	42,237
Employee cost	7,467	9,064	10,512	11,528	12,586
Other expenses	13,217	14,369	15,271	16,293	17,859
EBITDA	8,736	12,230	15,576	10,286	11,792
EBITDA Margin	22.2%	26.6%	28.9%	19.9%	20.8%
Depreciation & amortization	1,152	1,573	1,835	2,070	2,268
EBIT	7,584	10,657	13,741	8,216	9,525
Interest expense	184	272	160	97	97
Other income	-94	-49	-100	-150	-150
PBT	7,493	9,999	13,682	8,270	9,578
Tax	1,568	1,992	2,533	1,571	1,820
Share of Profit/(Loss) of Associates/Minority	-82	282	634	513	513
Net profit	5,844	8,288	11,783	7,211	8,271
EPS (INR)	31.0	44.0	60.8	36.7	42.1
No. of Shares (mn) - Diluted	189	189	194	197	197

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	899	2,056	808	1,058	4,450
Adjustments	3	27	(4,929)	-	-
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%	19.9%	20.8%
Tax rate (%)	20.9%	19.9%	18.5%	19.0%	19.0%
Net Profit Margin (%)	14.9%	18.0%	21.8%	13.9%	14.6%
RoE (%)	21.5%	26.0%	23.3%	12.0%	11.7%
RoCE (%)	20.8%	21.6%	26.1%	13.2%	13.1%
Current Ratio (x)	1.3	1.4	2.0	2.1	2.1
EPS (INR)	31.0	44.0	60.8	36.7	42.1

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

Alembic Pharmaceuticals Ltd.

Alembic Pharmaceuticals Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	Target (INR)	Recommendation	Our Rating	Upside
12-Nov-21	769	778	HOLD	Buy	More than 15%
27-Jul-21	793	801	HOLD		
30-Jun-21	987	995	HOLD	Accumulate	5% – 15%
07-May-21	942	995	ACCUMULATE		
05-Apr-21	974	1,286	BUY	Hold	0 – 5%
17-Mar-21	924	1,286	BUY		
15-Dec-20	1,086	1,286	BUY	Reduce	-5% – 0
24-Oct-20	974	1,286	BUY		
24-Jul-20	981	1,135	BUY	Sell	Less than – 5%
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		

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, in reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the 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 KRCSPL and affiliates 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 them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

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

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

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

www.krchoksey.com