

## US beat due to one-offs; Aleor provisioning drags profits...

**About the stock:** Alembic Pharma operates in international generics (US:31% & ex-US: 15% in FY22), domestic branded (36% in FY22) and API (18% in FY22).

- Domestic business has 1.5% of market share of IPM with three brands in the top 100. Going ahead, emphasis is on specialty segment with 94% of new launches being specialty products
- The company has invested ~ ₹ 1800 crore in recent years in facilities geared mainly towards US formulations. As of FY22, it has filed 230 ANDA and has 160 approvals with 105 launches in the US

**Q4FY22 Results:** Alembic reported traction in US, while profitability was affected due to non-recurring expenses at its subsidiary Aleor (now wholly owned)

- Sales grew 10.6% YoY to ₹ 1415.7 crore, driven by 17.3% YoY growth in US generics to ₹ 557 crore
- EBITDA was at ₹ 160.1 crore, down 50% YoY with margins at 11.3%. Adjusted EBITDA for Aleor's impact was ₹ 286 crore with margins at 20%
- PAT was at ₹ 35.5 crore (down 85.9% YoY). Adjusting for ₹ 145 crore impact of Aleor, adjusted PAT was at ₹ 180.5 crore

**What should investors do?** Alembic's share price has grown by ~1.2x over the past five years (from ~₹ 592 in May 2017 to ~₹ 725 levels in May 2022).

- We maintain **HOLD** rating on the stock as current levels have priced in the challenges due to slower offtake in US base business as well as impending USFDA clearances.

**Target Price and Valuation:** Valued at ₹ 720 i.e. 20x P/E on FY24E EPS of ₹ 35.9

### Key triggers for future price performance:

- Commercialisation of international formulation plants F2 (oncology OSD & injectable), F3 (general injectable & ophthalmic) & F4 (new oral solids)
- Aleor acquisition and ramp up in dermatology portfolio, further amortisation of Aleor's intangible assets
- US performance in the backdrop of price erosion. Resolving USFDA issues for timely new launches
- Consistency of performances in Indian branded formulations

**Alternate Stock Idea:** Apart from Alembic, we like Ajanta Pharma.

- Ajanta Pharma is a focused player in branded with focus on launching maximum number of first time launches with new drug delivery system
- BUY with a target price of ₹ 2605



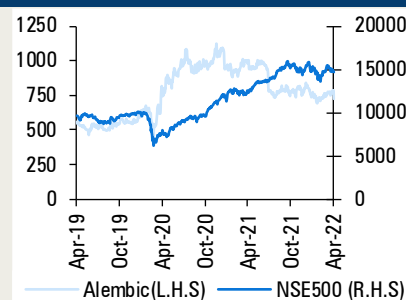
### Particulars

| Particular                     | Amount        |
|--------------------------------|---------------|
| Market Capitalisation          | ₹ 14251 crore |
| Debt (FY22)                    | ₹ 630 crore   |
| Cash & cash equivalents (FY22) | ₹ 69 crore    |
| EV                             | ₹ 14811 crore |
| 52 week H/L                    | 1034/672      |
| Equity capital                 | ₹ 39 crore    |
| Face value                     | ₹ 2           |

### Shareholding pattern

| (in %)   | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 69.5   | 69.5   | 69.5   | 69.5   | 69.6   |
| Others   | 30.5   | 30.5   | 30.5   | 30.5   | 30.4   |

### Price Chart



### Recent Event & Key risks

- Acquired the balance 40% stake in Aleor Dermaceuticals
- Key Risk:** (i) Regulatory delays (ii) Better traction for new launches

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### Key Financial Summary

| Key Financials (₹ crore) | FY20   | FY21   | FY22   | 5 year CAGR (FY17-22) | FY23E  | FY24E  | 2 year CAGR (FY22-24E) |
|--------------------------|--------|--------|--------|-----------------------|--------|--------|------------------------|
| Revenues                 | 4605.7 | 5393.1 | 5305.8 | 11.1                  | 5659.0 | 6216.8 | 8.2                    |
| EBITDA                   | 1223.0 | 1536.1 | 874.2  | 7.3                   | 950.1  | 1212.3 | 17.8                   |
| EBITDA margins (%)       | 26.6   | 28.5   | 16.5   |                       | 16.8   | 19.5   |                        |
| Net Profit               | 872.8  | 1233.9 | 545.7  | 6.4                   | 583.8  | 705.6  | 13.7                   |
| EPS (₹)                  | 44.4   | 62.8   | 27.8   |                       | 29.7   | 35.9   |                        |
| PE (x)                   | 17.2   | 11.5   | 26.1   |                       | 24.4   | 20.2   |                        |
| EV to EBITDA (x)         | 12.5   | 9.0    | 16.3   |                       | 14.8   | 11.2   |                        |
| RoCE (%)                 | 21.0   | 25.1   | 10.6   |                       | 11.2   | 13.8   |                        |
| RoNW (%)                 | 27.1   | 24.1   | 10.4   |                       | 10.3   | 11.3   |                        |

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: US one-off drives revenues

- Revenues grew 10.6% YoY to ₹ 1415.7 crore. Domestic formulations grew 25.4% YoY to ₹ 449 crore due to faster growth in acute segment. US generics grew 17.3% YoY at ₹ 557 crore mainly due to 1) one one-off opportunity, 2) restocking in US and 3) market share gains in some products. International formulations sales de-grew 19.3% YoY at ₹ 188 crore while APIs grew 3.7% YoY to ₹ 222 crore on a high base of Azithromycin. EBITDA margins declined 1370 bps YoY to 11.3%, mainly due to lower gross margins (down 268 bps YoY to 72.7%) and higher other expenditure due to Aleor's recurring R&D expenses. Adjusted EBITDA margins were at ~ 20%. EBITDA declined 50% YoY to ₹ 160.1 crore. Adjusted EBITDA for Q4FY22 was ₹ 286 crore. PAT de-grew 86% YoY to ₹ 35.5 crore while adjusting for ₹ 145 crore impact of Aleor, adjusted PAT was at ₹ 180.5 crore
- Alembic's numbers were a significant beat on revenues on the back of better traction in the US driven by one-off opportunity and inventory re-stocking. On the profitability front, however, the numbers were optically muted due non-recurring expenses at its subsidiary Aleor (now wholly owned) trending accelerated amortisation of existing intangible assets and non-recognition of current year R&D expenses as intangible assets. New launches and commercialisation of new facilities earmarked for the US market and consistency of performances in Indian branded formulations are key levers for the company

### Q4FY22 earnings conference call highlights

- US:** The management guided that US has formed a new base at ~ US\$55 million. One product was launched in US during Q4FY22 with 13 in FY22. Total 105 products launched in US market. The management guided for 15+ launches in FY23. Lacosamide has big competition in US and management does not see meaningful contribution while also guiding for 5-10% price erosion in overall US portfolio on a sequential basis
- Branded business:** Performance in Q4FY22 was led by growth of 57% in acute segment compared to industry growth of 25%. Speciality segment grew 13% compared to industry growth of 7%. Alembic's 21.5% portfolio is under NLEM. Covid led stocking in Q1FY22 is likely to be a drag on growth in FY23. Growth is estimated to be 70% volume and 30% price. NLEM hike is unlikely to be reflected in Q1FY23 as Alembic has manufactured inventory for about two months. PCPM of ₹ 3 lakh for FY22 with 5,500 MRs
- Aleor Dermaceuticals:** Alembic Pharma acquired the balance 40% stake in Aleor from its JV Partner Orbicular Pharmaceutical
- Alembic's Derma portfolio has 30 ANDAs filed till date. Out of this, 18 products are approved (two tentative approvals) and 13 products have been launched in the US market so far. The management further expects to launch around five to eight products in the next 12-18 months
- Aleor posted revenue of ~ ₹ 36 crore, with R&D expense at ₹ 40-50 crore and plant expense around ₹ 30-40 crore
- Due to current market conditions in the US generic business, Aleor has carried out a thorough review of its intangible assets (R&D development expenses) and decided to expense out additional ₹ 188 crore in the current quarter/year (₹ 65 crore higher in Amortisation expense and the balance in various heads of R&D expenses i.e. employee benefits, material cost and other expenses). Had Aleor followed previous year's practice, the company's consolidated profit before tax would have been higher by ₹ 188 crore and PAT would have been higher by ₹ 145 crore. Another ₹ 175 crore of intangible assets likely to be expensed off in FY23
- The company recommended a dividend of ₹ 10 per equity share in FY22
- FY23 guidance: R&D of ₹ 700 crore; capex of ₹ 450 crore

Exhibit 1: Variance Analysis

|                       | Q4FY22  | Q4FY22E | Q4FY21  | YoY (%)   | Q3FY22  | QoQ (%)  | Comments   |
|-----------------------|---------|---------|---------|-----------|---------|----------|--|
| Revenue               | 1,415.7 | 1,216.3 | 1,280.4 | 10.6      | 1,271.7 | 11.3     | Significant beat on revenues on back of better traction in the US driven by one-off opportunity and inventory re-stocking. |
| Raw Material Expenses | 385.8   | 327.7   | 314.6   | 22.6      | 342.7   | 12.6     |  |
| Gross Margin (%)      | 72.7    | 73.1    | 75.4    | -268 bps  | 73.1    | -30 bps  | A 5-10% price erosion in overall US portfolio on sequential basis  |
| Employee Expenses     | 277.2   | 260.9   | 237.2   | 16.8      | 272.8   | 1.6      |  |
| R&D Expenditure       | 161.8   | 152.0   | 194.9   | -17.0     | 153.6   | 5.3      |  |
| Other Expenditure     | 430.9   | 243.3   | 213.4   | 101.9     | 260.9   | 65.2     |  |
| EBITDA                | 160.1   | 232.4   | 320.2   | -50.0     | 241.7   | -33.8    | Adjusted EBITDA for Aleor's expenses in Q4FY22 was ₹ 286 crore.  |
| EBITDA (%)            | 11.3    | 19.1    | 25.0    | -1370 bps | 19.0    | -770 bps | Adjusted margins for Aleor's expenses in Q4FY22 was 20%  |
| Interest              | 6.7     | 4.3     | 2.6     | 161.7     | 4.3     | 54.7     |  |
| Depreciation          | 123.1   | 55.9    | 51.2    | 140.3     | 55.9    | 120.0    | Total ₹ 65 crore higher in amortisation expense on count of Aleor  |
| Other Income          | 10.3    | 1.3     | 25.4    | -59.6     | 15.3    | -32.7    |  |
| PBT before EO & Forex | 40.6    | 173.4   | 291.9   | -86.1     | 196.7   | -79.4    |  |
| Forex & EO            | 0.0     | 0.0     | 0.0     | NA        | 0.0     | NA       |  |
| PBT                   | 40.6    | 173.4   | 291.9   | -86.1     | 196.7   | -79.4    |  |
| Tax                   | -1.7    | 28.6    | 54.5    | -103.2    | 32.5    | -105.3   |  |
| PAT before MI         | 42.3    | 144.7   | 237.4   | -82.2     | 164.3   | -74.2    |  |
| Adjusted Net Profit   | 35.5    | 155.9   | 250.7   | -85.9     | 176.4   | -79.9    | Adjusting for ₹ 145 crore impact of Aleor, PAT was at ₹ 180.5 crore  |

Key Metrics

|                      |       |       |       |       |       |      |  |
|----------------------|-------|-------|-------|-------|-------|------|--|
| Domestic Formulation | 449.0 | 433.2 | 358.0 | 25.4  | 488.0 | -8.0 | YoY growth and beat vis-à-vis I-direct estimates mainly due to faster growth in specialty segment  |
| US                   | 557.0 | 382.7 | 475.0 | 17.3  | 393.0 | 41.7 | Significant beat mainly due to 1) one one-off opportunity, 2) restocking in US due to change in distributor and 3) market share gains in some products |
| RoW                  | 188.0 | 186.4 | 233.0 | -19.3 | 193.0 | -2.6 |  |
| APIs                 | 222.0 | 214.0 | 214.0 | 3.7   | 198.0 | 12.1 | YoY growth muted on a high base of Azithromycin  |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore)         | FY23E   |         |          | FY24E   |         |          | Comments   |
|-------------------|---------|---------|----------|---------|---------|----------|--|
|                   | Old     | New     | % Change | Old     | New     | % Change |  |
| Revenue           | 5,522.7 | 5,659.0 | 2.5      | 6,075.0 | 6,216.8 | 2.3      | Changed mainly due to better-than-expected Q4FY22                                  |
| EBITDA            | 1,090.9 | 950.1   | -12.9    | 1,230.2 | 1,212.3 | -1.5     |  |
| EBITDA Margin (%) | 19.8    | 16.8    | -296 bps | 20.3    | 19.5    | -75 bps  | Drop in FY23 margins due to likely ~ ₹ 175 crore of Aleor's R&D to be expensed off |
| PAT               | 685.3   | 583.8   | -14.8    | 759.1   | 705.6   | -7.0     |  |
| EPS (₹)           | 34.9    | 29.7    | -14.8    | 38.6    | 35.9    | -7.0     |  |

Source: ICICI Direct Research

Exhibit 3: Assumptions

| (₹ crore)            | Current |         |         |         | Earlier |         |         | Comments  |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---|
|                      | FY20    | FY21    | FY22    | FY23E   | FY24E   | FY23E   | FY24E   |   |
| Domestic Formulation | 1,425.0 | 1,497.0 | 1,927.0 | 2,056.5 | 2,303.3 | 2,058.9 | 2,264.7 | India is expected to post single digit growth in FY23 on a high base and then guidance for IPM +2% growth in FY24 |
| US                   | 1,976.0 | 2,165.0 | 1,667.0 | 1,765.5 | 1,942.1 | 1,598.0 | 1,757.8 | US new base at US\$55 million, changed on back of beat in Q4FY22  |
| RoW                  | 496.0   | 776.0   | 775.0   | 852.5   | 937.8   | 863.6   | 949.9   |   |
| APIs                 | 708.0   | 955.0   | 938.0   | 984.5   | 1,033.7 | 1,002.3 | 1,102.5 |   |

Source: ICICI Direct Research

**Exhibit 4: Revenue break-up**

| Revenue Breakup                | FY16   | FY17   | FY18   | FY19   | FY20   | FY21   | FY22   | FY23E  | FY24E  | CAGR FY17-22 | CAGR FY22-24E |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------|---------------|
| Total Formulation              | 2636.6 | 2491.6 | 2481.0 | 3165.0 | 3897.0 | 4438.0 | 4369.0 | 4674.6 | 5183.1 | 11.9         | 8.9           |
| Domestic Formulation (₹ crore) | 1186.4 | 1255.1 | 1274.0 | 1383.0 | 1425.0 | 1497.0 | 1927.0 | 2056.5 | 2303.3 | 9.0          | 9.3           |
| US Sales (₹ crore)             | 1248.1 | 917.0  | 909.5  | 1266.0 | 1976.0 | 2165.0 | 1667.0 | 1765.5 | 1942.1 | 12.7         | 7.9           |
| RoW                            | 210.2  | 319.5  | 297.5  | 516.0  | 496.0  | 776.0  | 775.0  | 852.5  | 937.8  | 19.4         | 10.0          |
| API (₹ crore)                  | 522.2  | 640.2  | 650.0  | 770.0  | 708.0  | 955.0  | 938.0  | 984.5  | 1033.7 | 7.9          | 5.0           |
| Total Sales                    | 3191.5 | 3159.0 | 3148.9 | 3935.0 | 4605.0 | 5393.0 | 5307.0 | 5659.0 | 6216.8 | 10.9         | 8.2           |

Source: ICICI Direct Research

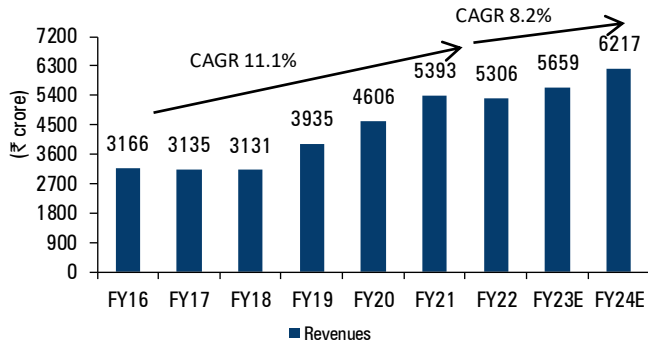
**Exhibit 5: Financial Summary**

|       | Revenues  | Growth | Adj. EPS | Growth | P/E  | EV/EBITDA | RoNW | RoCE |
|-------|-----------|--------|----------|--------|------|-----------|------|------|
|       | (₹ crore) | (%)    | (₹)      | (%)    | (x)  | (X)       | (%)  | (%)  |
| FY21  | 5393      | 17.1   | 62.8     | 41.4   | 11.5 | 9.0       | 24.1 | 25.1 |
| FY22  | 5306      | -1.6   | 27.8     | -55.8  | 26.1 | 16.3      | 10.4 | 10.6 |
| FY23E | 5659      | 6.7    | 29.7     | 7.0    | 24.4 | 14.8      | 10.3 | 11.2 |
| FY24E | 6217      | 9.9    | 35.9     | 20.9   | 20.2 | 11.2      | 11.3 | 13.8 |

Source: ICICI Direct Research

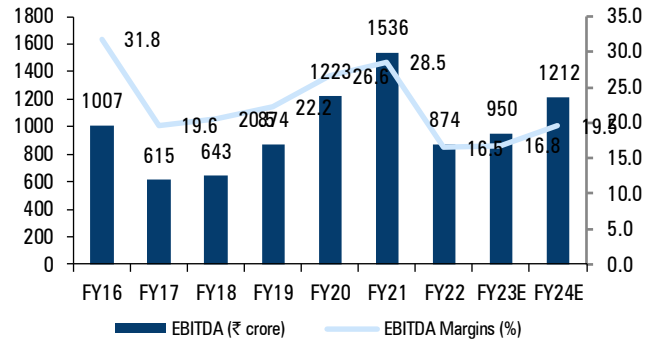
### Key Metrics

Exhibit 6: Revenues to grow at CAGR of 8.2% over FY22-24E



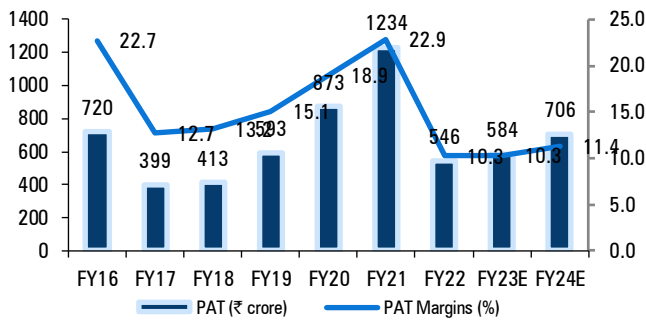
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA and EBITDA margins trend



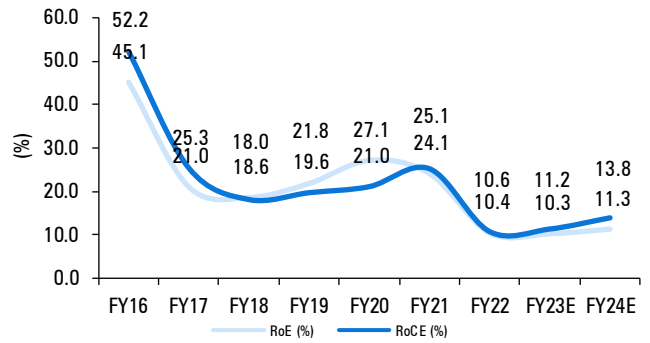
Source: ICICI Direct Research, Company

Exhibit 8: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 9: Return ratios



Source: ICICI Direct Research, Company

Exhibit 10: Trends in Quarterly Performance

| (₹ Crore)               | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | YoY (%)  | QoQ(%)   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Revenues                | 927.0  | 948.9  | 1240.9 | 1209.1 | 1206.8 | 1341.3 | 1457.1 | 1314.3 | 1280.4 | 1326.0 | 1292.3 | 1271.7 | 1415.7 | 10.6     | 11.3     |
| Raw Material Cost       | 216.7  | 204.4  | 272.6  | 298.5  | 263.9  | 337.8  | 312.0  | 293.0  | 314.6  | 385.1  | 332.9  | 342.7  | 385.8  | 22.6     | 12.6     |
| % to revenues           | 23.4   | 21.5   | 22.0   | 24.7   | 21.9   | 25.2   | 21.4   | 22.3   | 24.6   | 29.0   | 25.8   | 26.9   | 27.3   |          |          |
| Gross Profit            | 710.2  | 744.5  | 968.3  | 910.6  | 942.9  | 1003.6 | 1145.1 | 1021.4 | 965.8  | 941.0  | 959.4  | 929.0  | 1029.9 | 6.6      | 10.9     |
| Gross Profit Margin (%) | 76.6   | 78.5   | 78.0   | 75.3   | 78.1   | 74.8   | 78.6   | 77.7   | 75.4   | 71.0   | 74.2   | 73.1   | 72.7   | -268 bps | -30 bps  |
| Employee cost           | 200.7  | 214.9  | 217.8  | 226.9  | 246.9  | 275.4  | 276.1  | 262.5  | 237.2  | 289.9  | 293.2  | 272.8  | 277.2  | 16.8     | 1.6      |
| % to revenues           | 21.7   | 22.6   | 17.5   | 18.8   | 20.5   | 20.5   | 18.9   | 20.0   | 18.5   | 21.9   | 22.7   | 21.5   | 19.6   | 105 bps  | -187 bps |
| R & D                   | 119.7  | 140.3  | 173.8  | 145.7  | 185.0  | 142.6  | 185.0  | 148.0  | 194.9  | 167.2  | 167.8  | 153.6  | 161.8  |          |          |
| % to revenues           | 12.9   | 14.8   | 14.0   | 12.1   | 15.3   | 10.6   | 12.7   | 11.3   | 15.2   | 12.6   | 13.0   | 12.1   | 11.4   | -379 bps | -65 bps  |
| Other Expenditure       | 211.7  | 164.4  | 231.2  | 213.0  | 183.5  | 178.2  | 240.6  | 245.9  | 213.4  | 247.9  | 241.2  | 260.9  | 430.9  | 101.9    | 65.2     |
| % to revenues           | 22.8   | 17.3   | 18.6   | 17.6   | 15.2   | 13.3   | 16.5   | 18.7   | 16.7   | 18.7   | 18.7   | 20.5   | 30.4   | 1377 bps | 992 bps  |
| Total Expenditure       | 748.9  | 724.0  | 895.4  | 884.1  | 879.3  | 934.0  | 1013.7 | 949.3  | 960.2  | 1090.1 | 1035.1 | 1030.0 | 1255.6 | 30.8     | 21.9     |
| % to revenues           | 80.8   | 76.3   | 72.2   | 73.1   | 72.9   | 69.6   | 69.6   | 72.2   | 75.0   | 82.2   | 80.1   | 81.0   | 88.7   |          |          |
| EBIDTA                  | 178.0  | 224.9  | 345.5  | 325.1  | 327.5  | 407.4  | 443.4  | 365.1  | 320.2  | 235.9  | 257.2  | 241.7  | 160.1  | -50.0    | -33.8    |
| EBITDA Margin (%)       | 19.2   | 23.7   | 27.8   | 26.9   | 27.1   | 30.4   | 30.4   | 27.8   | 25.0   | 17.8   | 19.9   | 19.0   | 11.3   | 1370 bps | -770 bps |
| Depreciation            | 30.0   | 35.4   | 36.0   | 41.8   | 44.1   | 41.5   | 43.8   | 47.0   | 51.2   | 53.2   | 54.6   | 55.9   | 123.1  | 140.3    | 120.0    |
| Interest                | 5.1    | 5.0    | 7.1    | 7.4    | 7.8    | 6.7    | 4.5    | 2.3    | 2.6    | 2.1    | 4.6    | 4.3    | 6.7    | 161.7    | 54.7     |
| OI                      | 3.4    | 3.3    | 0.4    | 0.4    | 0.9    | 0.3    | 3.2    | 2.5    | 25.4   | 1.9    | 2.2    | 15.3   | 10.3   |          |          |
| PBT                     | 146.4  | 187.8  | 302.9  | 276.3  | 276.5  | 359.5  | 398.4  | 318.3  | 291.9  | 182.6  | 200.3  | 196.7  | 40.6   | -86.1    | -79.4    |
| Tax                     | 14.9   | 36.0   | 52.5   | 48.6   | 62.1   | 66.8   | 73.0   | 59.1   | 54.5   | 34.2   | 39.5   | 32.5   | -1.7   | -103.2   | -105.3   |
| Tax Rate (%)            | 10.2   | 19.1   | 17.3   | 17.6   | 22.5   | 18.6   | 18.3   | 18.6   | 18.7   | 18.7   | 19.7   | 16.5   | -4.3   |          |          |
| PAT                     | 131.5  | 151.9  | 250.4  | 227.7  | 214.4  | 292.7  | 325.4  | 259.2  | 237.4  | 148.4  | 160.7  | 164.3  | 42.3   | -82.2    | -74.2    |
| PAT Margin (%)          | 14.2   | 16.0   | 20.2   | 18.8   | 17.8   | 21.8   | 22.3   | 19.7   | 18.5   | 11.2   | 12.4   | 12.9   | 3.0    |          |          |
| Exceptional Items (EI)  | 0.0    | 32.8   | 0.0    | 0.0    | 10.9   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |          |          |
| Net Profit before MI    | 131.5  | 119.1  | 250.4  | 227.7  | 203.5  | 292.7  | 325.4  | 259.2  | 237.4  | 148.4  | 160.7  | 164.3  | 42.3   | -82.2    | -74.2    |
| Add/(less) MI           | -0.8   | 4.2    | 4.2    | -6.9   | -21.2  | -8.3   | -8.1   | -7.0   | -8.3   | -6.3   | -5.3   | -8.1   | -5.1   |          |          |
| Profit from Associates  | 0.1    | 0.4    | 0.1    | -0.4   | -0.1   | 0.5    | -0.2   | 26.4   | 5.1    | 9.9    | 3.3    | 4.1    | -11.9  |          |          |
| Net Profit              | 132.3  | 115.2  | 246.3  | 234.2  | 224.6  | 301.5  | 333.4  | 292.6  | 250.7  | 164.5  | 169.3  | 176.4  | 35.5   | -85.9    | -79.9    |
| Net Profit (excl.EI)    | 132.3  | 148.0  | 246.3  | 234.2  | 235.5  | 301.5  | 333.4  | 292.6  | 250.7  | 164.5  | 169.3  | 176.4  | 35.5   | -85.9    | -79.9    |

Source: ICICI Direct Research

Exhibit 11: ICICI Direct Universe Coverage (Healthcare)

| Company               | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) |       |       |       | PE(x) |       |       |       | RoCE (%) |       |       |       | RoE (%) |       |       |       |
|-----------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|-------|-------|-------|-------|----------|-------|-------|-------|---------|-------|-------|-------|
|                       |               |         |        |        |              | FY21    | FY22E | FY23E | FY24E | FY21  | FY22E | FY23E | FY24E | FY21     | FY22E | FY23E | FY24E | FY21    | FY22E | FY23E | FY24E |
| <b>Hospitals</b>      |               |         |        |        |              |         |       |       |       |       |       |       |       |          |       |       |       |         |       |       |       |
| Apollo Hospitals      | APOHOS        | 4105    | 5,480  | Buy    | 59022        | 7.9     | 67.2  | 81.3  | 105.5 | 522.2 | 61.1  | 50.5  | 38.9  | 6.3      | 16.4  | 18.2  | 20.7  | 2.5     | 17.5  | 18.1  | 19.9  |
| Narayana Hrudalaya    | NARHRU        | 700     | 765    | Buy    | 14305        | -0.7    | 17.5  | 20.1  | 22.8  | NA    | 40.1  | 34.7  | 30.7  | 1.2      | 21.2  | 22.4  | 21.5  | -1.3    | 24.5  | 22.3  | 20.3  |
| Shalby                | SHALIM        | 124     | 170    | Buy    | 1340         | 3.9     | 5.9   | 5.7   | 7.2   | 31.6  | 21.1  | 21.6  | 17.3  | 6.5      | 8.9   | 9.6   | 10.5  | 5.1     | 7.2   | 6.7   | 7.9   |
| Aster DM              | ASTDM         | 191     | 250    | Buy    | 9518         | 3.0     | 10.6  | 17.6  | NA    | 64.4  | 18.1  | 10.8  | NA    | 5.4      | 9.2   | 12.9  | NA    | 4.4     | 13.5  | 18.4  | NA    |
| Healthcare Global     | HEAGLO        | 289     | 240    | Hold   | 3622         | -21.7   | 6.0   | 3.5   | NA    | NA    | 48.2  | 81.9  | NA    | -0.9     | 5.2   | 7.7   | NA    | NA      | NA    | 3.4   | NA    |
| <b>MNC Pharma</b>     |               |         |        |        |              |         |       |       |       |       |       |       |       |          |       |       |       |         |       |       |       |
| Abbott India          | ABBIND        | 16923   | 19,840 | Buy    | 35960        | 325.0   | 370.4 | 429.0 | 496.0 | 52.1  | 45.7  | 39.4  | 34.1  | 33.8     | 35.7  | 34.4  | 33.4  | 26.5    | 28.1  | 26.8  | 25.8  |
| P&G Health            | MERLIM        | 4354    | 5,365  | Hold   | 7228         | 106.5   | 110.9 | 119.1 | 134.1 | 40.9  | 39.3  | 36.5  | 32.5  | 32.2     | 35.5  | 33.3  | 32.6  | 25.1    | 27.4  | 25.5  | 24.9  |
| Sanofi India          | SANOFI        | 6909    | 7,740  | Hold   | 15912        | 207.4   | 410.1 | 285.7 | 276.4 | 33.3  | 16.8  | 24.2  | 25.0  | 32.3     | 33.3  | 42.3  | 40.8  | 24.5    | 25.9  | 32.6  | 31.3  |
| Pfizer                | PFIZER        | 4333    | 5,350  | Buy    | 19821        | 108.8   | 135.2 | 133.0 | 148.6 | 39.8  | 32.0  | 32.6  | 29.2  | 27.6     | 27.4  | 23.6  | 22.9  | 20.8    | 21.7  | 18.6  | 18.1  |
| <b>Pharma</b>         |               |         |        |        |              |         |       |       |       |       |       |       |       |          |       |       |       |         |       |       |       |
| Ajanta Pharma         | AJAPHA        | 1796    | 2,605  | Buy    | 15537        | 74.0    | 85.4  | 87.0  | 100.4 | 24.3  | 21.0  | 20.6  | 17.9  | 29.0     | 27.0  | 23.8  | 23.6  | 21.8    | 22.4  | 19.5  | 19.2  |
| Alembic Pharma        | ALEMPHA       | 728     | 720    | Hold   | 14308        | 62.8    | 27.8  | 29.7  | 35.9  | 11.6  | 26.2  | 24.5  | 20.3  | 25.1     | 10.6  | 11.2  | 13.8  | 24.1    | 10.4  | 10.3  | 11.3  |
| Aurobindo Pharma      | AURPHA        | 630     | 765    | Hold   | 36897        | 55.0    | 44.3  | 53.4  | 61.2  | 11.4  | 14.2  | 11.8  | 10.3  | 16.9     | 12.5  | 14.3  | 15.2  | 14.7    | 10.7  | 11.5  | 11.7  |
| Biocon                | BIOCON        | 371     | 380    | Hold   | 44494        | 6.3     | 5.7   | 6.1   | 11.7  | 59.2  | 65.1  | 61.2  | 31.7  | 7.7      | 7.5   | 5.0   | 6.9   | 9.9     | 8.1   | 3.2   | 5.9   |
| Zydus Lifesciences    | CADHEA        | 342     | 475    | Hold   | 34961        | 21.5    | 21.1  | 22.4  | 25.4  | 15.9  | 16.2  | 15.2  | 13.4  | 12.6     | 13.5  | 13.7  | 14.6  | 16.9    | 14.8  | 14.0  | 14.1  |
| Cipla                 | CIPLA         | 954     | 1,100  | Buy    | 77004        | 29.9    | 35.9  | 39.3  | 43.5  | 32.0  | 26.6  | 24.3  | 21.9  | 16.3     | 18.3  | 18.0  | 18.0  | 13.1    | 14.1  | 13.8  | 13.6  |
| Dr Reddy's Labs       | DRREDD        | 4008    | 5,160  | Buy    | 66703        | 117.3   | 156.5 | 190.9 | 236.0 | 34.2  | 25.6  | 21.0  | 17.0  | 13.1     | 15.4  | 18.6  | 22.7  | 11.1    | 13.1  | 14.0  | 15.1  |
| Glenmark Pharma       | GLEPHA        | 427     | 550    | Hold   | 12034        | 32.9    | 44.2  | 44.2  | 49.1  | 13.0  | 9.6   | 9.6   | 8.7   | 13.9     | 15.5  | 15.2  | 15.4  | 13.1    | 13.1  | 11.7  | 11.6  |
| Ipca Laboratories     | IPCLAB        | 1001    | 1,175  | Buy    | 25396        | 44.9    | 36.6  | 42.4  | 48.2  | 22.3  | 27.4  | 23.6  | 20.7  | 27.1     | 19.8  | 19.1  | 18.5  | 24.2    | 16.6  | 16.1  | 15.6  |
| Jubilant Pharmova     | JUBLIF        | 450     | 490    | Hold   | 7165         | 37.4    | 28.7  | 32.5  | 40.8  | 12.0  | 15.7  | 13.8  | 11.0  | 13.7     | 10.1  | 10.4  | 12.2  | 12.6    | 8.9   | 9.2   | 10.4  |
| Lupin                 | LUPIN         | 734     | 960    | Hold   | 33352        | 26.9    | 16.0  | 29.7  | 39.4  | 27.3  | 46.0  | 24.7  | 18.6  | 9.1      | 6.0   | 10.3  | 12.6  | 8.8     | 5.7   | 9.5   | 11.3  |
| Natco Pharma          | NATPHA        | 786     | 955    | Hold   | 14335        | 24.2    | 15.1  | 19.6  | 23.1  | 32.5  | 52.0  | 40.2  | 34.1  | 13.1     | 7.3   | 9.7   | 10.7  | 10.7    | 6.4   | 7.8   | 8.5   |
| Sun Pharma            | SUNPHA        | 900     | 1,075  | Buy    | 216036       | 30.0    | 33.5  | 33.8  | 38.6  | 30.0  | 26.9  | 26.6  | 23.3  | 14.2     | 18.3  | 17.8  | 17.8  | 15.5    | 16.4  | 14.4  | 14.3  |
| Torrent Pharma        | TORPHA        | 2720    | 3,235  | Hold   | 46024        | 74.0    | 67.6  | 94.7  | 114.5 | 36.8  | 40.2  | 28.7  | 23.8  | 17.7     | 18.2  | 21.1  | 23.5  | 21.4    | 17.1  | 20.3  | 20.7  |
| Indoco Remedies       | INDREM        | 373     | 510    | Buy    | 3437         | 10.1    | 16.5  | 23.3  | 28.3  | 36.9  | 22.6  | 16.0  | 13.2  | 11.7     | 17.9  | 21.5  | 26.3  | 12.1    | 16.9  | 19.8  | 20.0  |
| Caplin Point          | CAPPOI        | 706     | 1,010  | Buy    | 5350         | 81.7    | 76.7  | 55.5  | 60.4  | 8.6   | 9.2   | 12.7  | 11.7  | 25.6     | 24.1  | 23.5  | 0.0   | 20.4    | 20.5  | 18.8  | 18.3  |
| Advanced Enzymes      | ADVENZ        | 299     | 380    | Buy    | 3340         | 13.1    | 11.3  | 13.6  | 15.8  | 22.8  | 26.5  | 22.0  | 18.9  | 19.4     | 15.4  | 16.7  | 17.2  | 15.1    | 11.6  | 12.4  | 12.7  |
| Hester Biosciences    | HESPHA        | 2491    | 2,780  | Hold   | 2119         | 44.4    | 47.2  | 52.0  | 71.4  | 56.1  | 52.8  | 47.9  | 34.9  | 16.2     | 12.8  | 14.3  | 17.3  | 16.5    | 15.5  | 15.1  | 17.8  |
| <b>API/CRAMS</b>      |               |         |        |        |              |         |       |       |       |       |       |       |       |          |       |       |       |         |       |       |       |
| Divi's Lab            | DIVLAB        | 4403    | 5,335  | Buy    | 116896       | 74.7    | 107.8 | 108.4 | 126.4 | 58.9  | 40.9  | 40.6  | 34.8  | 27.6     | 30.1  | 27.7  | 27.5  | 21.3    | 25.4  | 21.7  | 21.6  |
| Hikal                 | HIKCHE        | 378     | 500    | Buy    | 4655         | 10.8    | 14.6  | 17.1  | 22.6  | 35.0  | 25.8  | 22.0  | 16.7  | 15.1     | 15.7  | 16.0  | 19.1  | 14.3    | 16.7  | 16.8  | 18.8  |
| Syngene Int.          | SYNINT        | 603     | 730    | Buy    | 24186        | 10.1    | 9.9   | 11.4  | 15.5  | 59.6  | 61.1  | 53.1  | 39.0  | 11.5     | 11.7  | 12.2  | 15.7  | 13.5    | 12.9  | 12.3  | 14.4  |
| Granules India        | GRANUL        | 274     | 360    | Buy    | 6794         | 22.2    | 16.2  | 19.4  | 25.8  | 12.4  | 16.9  | 14.1  | 10.6  | 24.0     | 16.2  | 17.4  | 20.2  | 25.3    | 15.8  | 16.1  | 17.8  |
| Laurus Labs           | LAULAB        | 581     | 690    | Buy    | 31242        | 18.3    | 15.4  | 20.6  | 26.5  | 31.8  | 37.8  | 28.2  | 21.9  | 31.7     | 21.3  | 22.6  | 24.7  | 37.9    | 24.7  | 25.5  | 25.3  |
| Suven Pharmaceuticals | SUVPH         | 595     | 555    | Hold   | 15140        | 14.2    | 18.3  | 17.7  | 19.8  | 41.8  | 32.5  | 33.6  | 30.0  | 31.2     | 35.0  | 28.7  | 26.6  | 30.7    | 29.6  | 23.2  | 21.3  |

Source: ICICI Direct Research



## Financial Summary

| Exhibit 12: Profit and loss statement |                |                |                |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
| ₹ crore                               |                |                |                |                |
| (Year-end March) ₹ crore              | FY21           | FY22           | FY23E          | FY24E          |
| <b>Revenues</b>                       | <b>5,393.1</b> | <b>5,305.8</b> | <b>5,659.0</b> | <b>6,216.8</b> |
| Growth (%)                            | 17.1           | -1.6           | 6.7            | 9.9            |
| Raw Material Expenses                 | 1,257.3        | 1,446.4        | 1,506.3        | 1,554.2        |
| Employee Expenses                     | 1,051.2        | 1,133.0        | 1,188.4        | 1,336.6        |
| R&D Expenditure                       | 670.4          | 650.5          | 707.4          | 777.1          |
| Other Manufacturing Expenses          | 878.1          | 1,201.8        | 1,306.8        | 1,336.6        |
| Total Operating Expenditure           | 3,857.0        | 4,431.6        | 4,708.9        | 5,004.6        |
| <b>EBITDA</b>                         | <b>1,536.1</b> | <b>874.2</b>   | <b>950.1</b>   | <b>1,212.3</b> |
| Growth (%)                            | 25.6           | -43.1          | 8.7            | 27.6           |
| Interest                              | 16.0           | 17.7           | 15.9           | 9.9            |
| Depreciation                          | 183.5          | 286.8          | 275.9          | 319.4          |
| Other Income                          | 87.3           | 50.5           | 42.4           | 40.4           |
| <b>PBT</b>                            | <b>1,423.9</b> | <b>620.1</b>   | <b>700.8</b>   | <b>923.4</b>   |
| Total Tax                             | 253.3          | 104.5          | 147.2          | 193.9          |
| Tax Rate (%)                          | 17.8           | 16.8           | 21.0           | 21.0           |
| <b>Adjusted PAT</b>                   | <b>1,233.9</b> | <b>545.7</b>   | <b>583.8</b>   | <b>705.6</b>   |
| Growth (%)                            | 41.4           | -55.8          | 7.0            | 20.9           |
| <b>EPS (Adjusted)</b>                 | <b>62.8</b>    | <b>27.8</b>    | <b>29.7</b>    | <b>35.9</b>    |

Source: Company, ICICI Direct Research

| Exhibit 13: Cash flow statement     |                |               |               |               |
|-------------------------------------|----------------|---------------|---------------|---------------|
| ₹ crore                             |                |               |               |               |
| (Year-end March) ₹ crore            | FY21           | FY22          | FY23E         | FY24E         |
| Profit/(Loss) after taxation        | 1,122.6        | 496.7         | 583.8         | 705.6         |
| Depreciation                        | 183.5          | 286.8         | 275.9         | 319.4         |
| Net Increase in Current Assets      | 66.1           | -465.0        | -149.5        | -170.4        |
| Net Increase in Current Liabilities | 173.4          | 97.6          | 67.3          | 65.2          |
| <b>CF from operating activities</b> | <b>1,463.4</b> | <b>552.4</b>  | <b>777.5</b>  | <b>919.8</b>  |
| (Inc)/dec in Investments            | -181.1         | 50.6          | 0.0           | 0.0           |
| (Inc)/dec in Fixed Assets           | -659.2         | -424.3        | -450.0        | -350.0        |
| Other investing activities          | 2.1            | 7.3           | 2.5           | 1.0           |
| <b>CF from investing activities</b> | <b>-840.8</b>  | <b>-371.4</b> | <b>-444.8</b> | <b>-344.3</b> |
| Inc / (Dec) in Equity Capital       | 734.1          | 0.0           | 0.0           | 0.0           |
| Inc / (Dec) in Loan                 | -1,258.5       | 109.8         | -100.0        | -200.0        |
| Dividend & Dividend Tax             | 0.0            | -275.2        | -127.8        | -157.3        |
| Other financing activities          | -73.0          | -52.0         | 0.0           | 0.0           |
| <b>CF from financing activities</b> | <b>-597.4</b>  | <b>-217.4</b> | <b>-227.8</b> | <b>-357.3</b> |
| Net Cash flow                       | 25.1           | -36.4         | 104.9         | 218.3         |
| Opening Cash                        | 80.8           | 105.8         | 69.4          | 174.3         |
| <b>Closing Cash</b>                 | <b>105.8</b>   | <b>69.4</b>   | <b>174.3</b>  | <b>392.5</b>  |
| <b>Free Cash flow</b>               | <b>804.1</b>   | <b>128.1</b>  | <b>327.5</b>  | <b>569.8</b>  |

Source: Company, ICICI Direct Research

| Exhibit 14: Balance Sheet     |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|
| ₹ crore                       |                |                |                |                |
| (Year-end March) ₹ crore      | FY21           | FY22           | FY23E          | FY24E          |
| Equity Capital                | 39.3           | 39.3           | 39.3           | 39.3           |
| Reserve and Surplus           | 5,088.3        | 5,198.2        | 5,654.3        | 6,202.6        |
| Total Shareholders funds      | 5,127.6        | 5,237.5        | 5,693.6        | 6,242.0        |
| Minority Interest             | -60.6          | 0.0            | 0.0            | 0.0            |
| Total Debt                    | 499.8          | 630.0          | 530.0          | 330.0          |
| Deferred Tax Liability        | 4.2            | 0.0            | 0.0            | 0.0            |
| Other Non Current Liabilities | 71.5           | 72.1           | 79.4           | 87.3           |
| Long Term Provisions          | 85.5           | 95.8           | 105.4          | 115.9          |
| <b>Source of Funds</b>        | <b>5,728.0</b> | <b>6,035.5</b> | <b>6,408.3</b> | <b>6,775.2</b> |
| Gross Block - Fixed Assets    | 2,546.3        | 2,842.5        | 3,492.5        | 4,042.5        |
| Accumulated Depreciation      | 757.0          | 1,043.7        | 1,319.6        | 1,639.0        |
| Net Block                     | 1,789.3        | 1,798.7        | 2,172.8        | 2,403.5        |
| Capital WIP                   | 2,181.7        | 2,303.4        | 2,103.4        | 1,903.4        |
| Total Fixed Assets            | 3,971.0        | 4,102.1        | 4,276.2        | 4,306.8        |
| Goodwill on Consolidation     | 0.0            | 0.0            | 0.0            | 0.0            |
| Investments                   | 236.3          | 118.4          | 118.4          | 118.4          |
| Inventory                     | 1,486.2        | 1,609.7        | 1,676.4        | 1,729.6        |
| Cash                          | 105.8          | 69.4           | 174.3          | 392.5          |
| Debtors                       | 348.6          | 807.1          | 860.7          | 945.5          |
| Loans & Advances & Other CA   | 0.0            | 0.0            | 0.0            | 0.0            |
| Total Current Assets          | 2,390.9        | 2,779.4        | 3,033.8        | 3,422.4        |
| Creditors                     | 668.8          | 706.4          | 735.6          | 759.0          |
| Provisions & Other CL         | 312.2          | 380.2          | 418.2          | 460.0          |
| Total Current Liabilities     | 980.9          | 1,086.6        | 1,153.8        | 1,219.0        |
| Net Current Assets            | 1,410.0        | 1,692.8        | 1,879.9        | 2,203.4        |
| LT L&A, Other Assets          | 110.8          | 116.3          | 127.9          | 140.7          |
| Deferred Tax Assets           | 0.0            | 5.9            | 5.9            | 5.9            |
| <b>Application of Funds</b>   | <b>5,728.1</b> | <b>6,035.5</b> | <b>6,408.3</b> | <b>6,775.1</b> |

Source: Company, ICICI Direct Research

| Exhibit 15: Key ratios      |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March)            | FY21  | FY22  | FY23E | FY24E |
| <b>Per share data (₹)</b>   |       |       |       |       |
| Adjusted EPS                | 62.8  | 27.8  | 29.7  | 35.9  |
| BV per share                | 260.9 | 266.5 | 289.7 | 317.6 |
| Dividend per share          | 14.0  | 10.0  | 6.5   | 8.0   |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross margins               | 76.7  | 72.7  | 73.4  | 75.0  |
| EBITDA Margins              | 28.5  | 16.5  | 16.8  | 19.5  |
| PAT Margins                 | 22.9  | 10.3  | 10.3  | 11.4  |
| Inventory days              | 431.4 | 406.2 | 406.2 | 406.2 |
| Debtor days                 | 23.6  | 55.5  | 55.5  | 55.5  |
| Creditor days               | 194.1 | 178.3 | 178.3 | 178.3 |
| Asset Turnover              | 2.1   | 1.9   | 1.6   | 1.5   |
| EBITDA conversion Rate      | 95.3  | 63.2  | 81.8  | 75.9  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 24.1  | 10.4  | 10.3  | 11.3  |
| RoCE                        | 25.1  | 10.6  | 11.2  | 13.8  |
| RoC                         | 41.6  | 16.1  | 16.3  | 20.0  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 11.5  | 26.1  | 24.4  | 20.2  |
| EV / EBITDA                 | 9.0   | 16.3  | 14.8  | 11.2  |
| EV / Net Sales              | 2.6   | 2.7   | 2.5   | 2.2   |
| Market Cap / Sales          | 2.5   | 2.6   | 2.4   | 2.2   |
| Price to Book Value         | 2.8   | 2.7   | 2.5   | 2.3   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt / Equity               | 0.1   | 0.1   | 0.1   | 0.1   |
| Debt / EBITDA               | 0.3   | 0.7   | 0.6   | 0.3   |
| Current Ratio               | 1.9   | 2.2   | 2.2   | 2.2   |

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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