Motilal Oswal Investment Services

1 February 2023

3QFY23 Results Update | Sector: Healthcare

Alembic Pharma

Estimate change	↑
TP change	↑
Rating change	↑

Bloomberg	ALPM IN
Equity Shares (m)	189
M.Cap.(INRb)/(USDb)	106.1 / 1.3
52-Week Range (INR)	792 / 533
1, 6, 12 Rel. Per (%)	-3/-25/-29
12M Avg Val (INR M)	124

Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	55.0	61.7	67.9
EBITDA	7.9	10.8	12.3
Adj. PAT	4.2	6.2	7.2
EBIT Margin (%)	10.6	13.3	13.9
Cons. Adj. EPS (INR)	21.5	31.4	36.4
EPS Gr. (%)	-38.6	46.0	16.0
BV/Sh. (INR)	276.2	301.6	332.0
Ratios			
Net D:E	0.1	0.1	0.0
RoE (%)	7.4	10.8	11.4
RoCE (%)	7.8	10.5	11.1
Payout (%)	33.1	19.2	16.5
Valuations			
P/E (x)	25.5	17.5	15.0
EV/EBITDA (x)	23.8	17.1	14.9
Div. Yield (%)	0.8	1.0	1.0
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	3.4	3.0	2.7

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	69.6	69.6	69.5
DII	12.8	12.5	11.6
FII	5.0	5.3	5.9
Others	12.7	12.5	13.0

FII Includes depository receipts

CMP: INR540 TP: INR580 (+7%) Upgrade to Neutral

Efforts underway to sustain margin revival

Outperforms industry in domestic formulation segment

- Alembic Pharma (ALPM) delivered a better-than-expected performance in 3QFY23, driven by improved sales growth in the domestic formulation (DF)/API segment and controlled employee/R&D expenses.
- We raise FY23 earnings estimates by 4% to factor in higher API sales and off-take of flu-related products. While R&D spending is expected to drop YoY in FY24, it would be offset to some extent by opex related to new manufacturing facilities. Hence, we maintain estimates for FY24/FY25. We value ALPM at 17x 12M forward earnings to arrive at a TP of INR580.
- The stock has corrected 22% since we downgraded it to SELL in Aug'22 and now trades at 17.5x FY24E EPS of INR31 and 15x FY25E EPS of INR36. With ANDA launches likely to pick up pace over the medium term as facilities become compliant, we expect earnings to revive over FY23-25. While the outlook is expected to improve, **we upgrade ALPM to Neutral** as we wait for a better entry price.

Intensity of YoY EBITDA decline moderates

- ALPM sales grew 19% to INR15.1b (our est. INR 14.1b, consensus est. INR14.2b). ALPM posted significantly higher sales in the API segment at INR3.3b (up 65% YoY; 22% of sales) on account of an order from one of its customers. Adj. for the same, sales would be INR14.5b for the quarter.
- International sales grew 8.9% YoY to INR6.4b (42% of sales), led by 1) 10% YoY growth in US generics sales to INR4.3b (USD52m) and 2) 7% YoY growth in Ex-US international formulations sales to INR2.1b.
- DF sales grew 12% YoY to INR5.5b, led by 9% YoY growth in the Specialty segment to INR2.8b and 12.6% YoY growth in the Acute segment to INR2b.
- Gross margins contracted 320bp YoY to 70% due to ongoing price erosion in US generics and a change in the segmental mix.
- EBITDA margin contracted 360bp YoY to 16.5% (our est. 15%), led by lower GMs. The reduction in employee/R&D expenses (down 210bp/250bp YoY as % of sales) was offset by higher other costs (+500bp YoY as % of sales).
- EBITDA fell 3% YoY to INR2.5b (our est. INR2.1b; consensus est. INR2.3b).
- Adjusted profit declined 25% YoY to INR1.3b (our est. INR1.2b; consensus est: INR1.3b).
- In 9MFY23, revenue grew 9% YoY ot INR42b, but EBITDA/PAT declined 20%/36% YoY to INR6b/INR3.2b.

Highlights from management commentary

- While the price erosion continues to weigh on US sales, ALPM has been able to offset the impact due to strong off-take of products related to the flu season and new launches.
- ALPM has guided for a 15-20% YoY reduction in R&D expenses in FY24 on account of portfolio optimization.
- ALPM has guided for 10-15% YoY growth in the API segment in FY24.
- It launched 2 ANDAs in 3QFY23 and plans to launch 2 more in 4QFY23.

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Quarterly perf. (Consol.) (INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est
Net Sales	**13,260**	**12,923**	**12,717**	**14,157**	**12,621**	**14,750**	**15,090**	**12,553**	**53,058**	**55,015**	**14,092**	**7.1%**
YoY Change (%)	-1.1	-11.3	-3.2	10.6	-4.8	14.1	18.7	-11.3	-1.6	3.7	10.8	
Total Expenditure	10,900	10,351	10,160	11,326	11,475	12,423	12,603	10,592	43,086	47,092	11,978	
EBITDA	**2,360**	**2,572**	**2,557**	**2,831**	**1,147**	**2,328**	**2,488**	**1,960**	**9,972**	**7,922**	**2,114**	**17.7%**
YoY Change (%)	-42.1	-42.0	-30.0	-17.1	-51.4	-9.5	-2.7	-30.8	-36.0	-20.6	-17.3	
Margins (%)	17.8	19.9	20.1	20.0	9.1	15.8	16.5	15.6	18.8	14.4	15.0	148.4
Depreciation	532	546	559	581	521	517	535	539	2,218	2,112	540	
EBIT	**1,829**	**2,026**	**1,997**	**2,250**	**626**	**1,811**	**1,953**	**1,421**	**7,754**	**5,810**	**1,574**	**24.1%**
YoY Change (%)	-59.3	-58.4	-51.5	-42.7	-65.8	-10.6	-2.2	-36.8	-43.6	-25.1	-21.2	
Interest	21	46	43	67	88	124	146	137	177	495	130	
Other Income	19	22	13	103	11	3	4	9	505	28	10	
PBT before EO expense	**1,826**	**2,003**	**1,967**	**2,286**	**548**	**1,690**	**1,811**	**1,293**	**8,081**	**5,343**	**1,454**	**24.6%**
Extra-Ord expense	0	0	0	1,880	1,150	160	130	0	1,880	1,440	0	
PBT	**1,826**	**2,003**	**1,967**	**406**	**-602**	**1,530**	**1,681**	**1,293**	**6,201**	**3,903**	**1,454**	**15.6%**
Tax	342	395	325	-17	-15	180	326	251	1,045	741	276	
Rate (%)	18.7	19.7	16.5	-4.3	2.5	11.7	19.4	19.4	16.8	19.0	19.0	
MI & P/L of Asso. Cos.	-162	-86	-122	69	72	17	136	76	-300	300	12	
Reported PAT	**1,646**	**1,693**	**1,764**	**355**	**-659**	**1,334**	**1,220**	**967**	**5,457**	**2,861**	**1,166**	**4.6%**
Adj PAT	**1,646**	**1,693**	**1,764**	**1,785**	**463**	**1,475**	**1,324**	**967**	**6,889**	**4,228**	**1,166**	**13.6%**
YoY Change (%)	-45.4	-49.2	-39.7	-28.8	-71.9	-12.9	-24.9	-45.9	-41.5	-38.6	-33.9	
Margins (%)	12.4	13.1	13.9	12.6	3.7	10.0	8.8	7.7	13.0	7.7	8.3	

Key performance Indicators (Consolidated) (INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est
India	**4,810**	**5,090**	**4,880**	**4,490**	**4,800**	**5,490**	**5,450**	**4,805**	**19,260**	**20,545**	**5345**	**2%**
YoY Change (%)	57.2	22.7	16.7	25.4	(0.2)	7.9	11.7	7.0	28.7	6.7	5.0	
Exports	**5,660**	**5,450**	**5,860**	**7,450**	**5,490**	**6,330**	**6,380**	**5,731**	**24,410**	**23,931**	**6,052**	**5%**
YoY Change (%)	(26.6)	(30.0)	(14.2)	5.1	(3.0)	16.1	8.9	(23.1)	(17.0)	(2.0)	11.0	
APIs	**2,790**	**2,390**	**1,980**	**2,220**	**2,330**	**2,940**	**3,260**	**2,009**	**9,388**	**10,539**	**2,486**	**31%**
YoY Change (%)	5.7	(9.1)	(7.5)	4.0	(16.5)	23.0	64.6	(9.5)	(1.6)	12.3	4.0	
Cost Break-up							**2673**	**587**	**88.05**			
RM Cost (% of Sales)	29.0	25.8	26.9	27.3	30.0	30.0	30.2	29.8	27.3	30.0	29.5	
Staff Cost (% of Sales)	21.9	22.7	21.5	19.6	23.0	19.6	19.3	21.3	21.4	20.7	21.5	
R&D Expenses (% of Sales)	12.6	13.0	12.0	11.4	11.6	10.3	9.5	10.4	12.3	10.4	11.5	
Other Cost (% of Sales)	18.7	18.7	19.5	21.7	26.3	24.3	24.5	22.9	20.3	24.5	24.7	
Gross Margins(%)	71.0	74.2	73.1	72.7	70.0	70.0	69.8	70.2	72.7	70.0	70.5	
EBITDA Margins(%)	17.8	19.9	20.1	20.0	9.1	15.8	16.5	15.6	18.8	14.4	12.8	
EBIT Margins(%)	13.8	15.7	15.7	15.9	5.0	12.3	12.9	11.3	14.6	10.6	9.0	

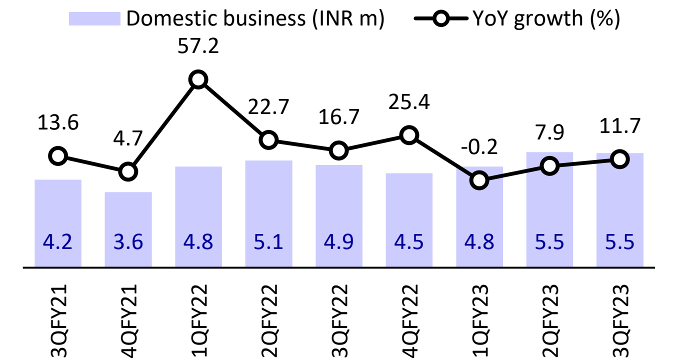
E: MOFSL Estimates

Key takeaways from the management interaction

- The company filed/received approvals for 4/9 ANDAs during the quarter.
- ALPM has witnessed a pick-up in market share of formeterol in the US.
- Post the USFDA inspection at the Onco-injectable/general oral solids facility, ALPM has received ANDA approval, implying minimal regulatory risk.
- ALPM indicated diclofenac to be launched in a couple of weeks in the US market.
- The cash expense related to facilities capitalized stands at INR2b per annum.
- Gross debt stands at INR6.9b, cash stands at INR1.4b at the end of 3QFY23.

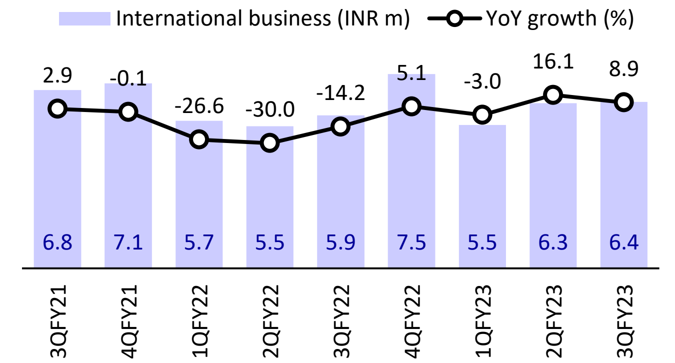
Key exhibits

Exhibit 1: DF sales grew 12% YoY in 3QFY23



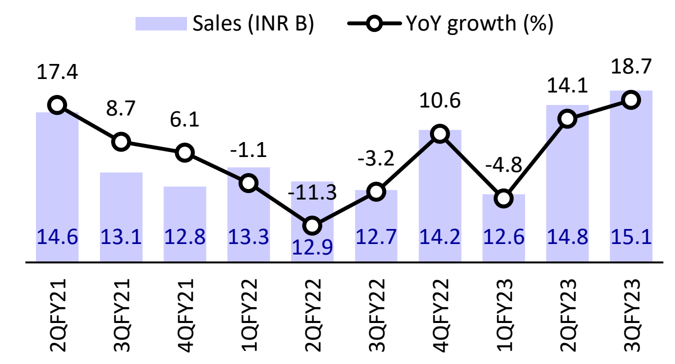
Source: MOFSL, Company

Exhibit 2: International business grew 9% YoY in 3QFY23



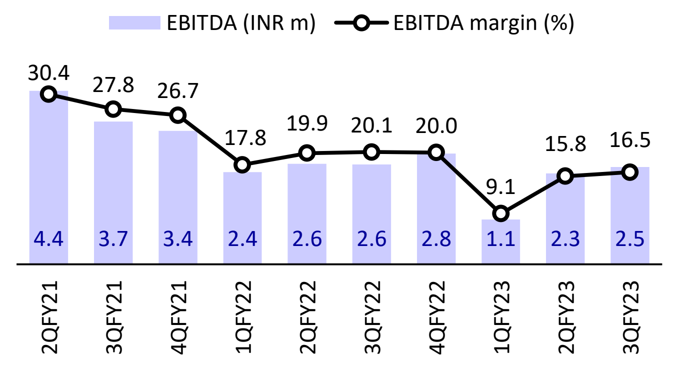
Source: MOFSL, Company

Exhibit 3: Sales grew 19% YoY in 3QFY23



Source: MOFSL, Company

Exhibit 4: EBITDA margin contracts 360bp YoY in 3QFY23



Source: MOFSL, Company

Strong performance in DF; US growth to be led by new products

Market share gain/new launches to drive US business

- In 9MFY23, ALPM's US sales grew at a modest rate of 2% YoY to USD153m, led by 12 new product launches and consistent market share gains. However, the benefit was offset by price erosion in the base portfolio and a lack of approvals from new sites.
- ALPM had 16 ANDAs filed at the end of 9MFY23.
- Considering product approval from new facilities and an improving launch pace, we expect a 21% CAGR in US sales to USD293m over FY23-25E.

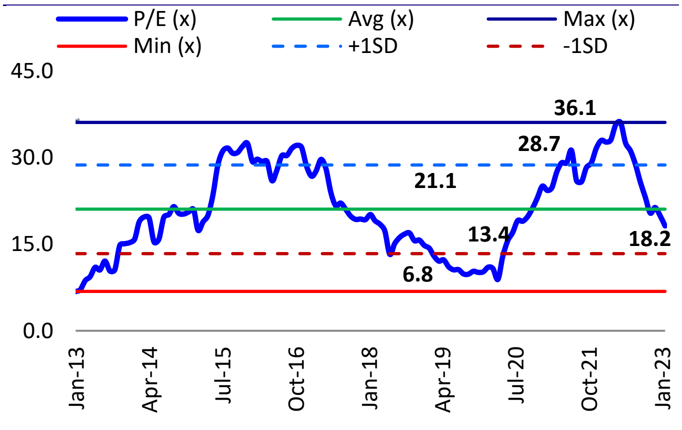
Robust performance across therapies to drive DF segment

- In 9MFY23, ALPM's DF segment grew 6% YoY to INR15.7b. Adjusting for a high base of Covid, ALPM delivered a healthy 13% YoY growth in the DF segment in 9MFY23.
- Moreover, in 9MFY23, ALPM's specialty segment grew 19% as compared to the industry specialty growth of 15% (as per IQVIA). ALPM exhibited a superior performance in the specialty segment, led by Cardiac, Dermatology, Ophthalmology, anti-diabetic, gynecology, and orthopedic therapies. The Acute business grew 48 % vs Industry growth of 46% (as per IQVIA).
- ALPM's prescription base grew 26% YoY to 95.7m in 9MFY23.
- With specialty and acute segments outperforming the IPM, we expect a 9.4% sales CAGR over FY23-25E.

Upgrade to Neutral

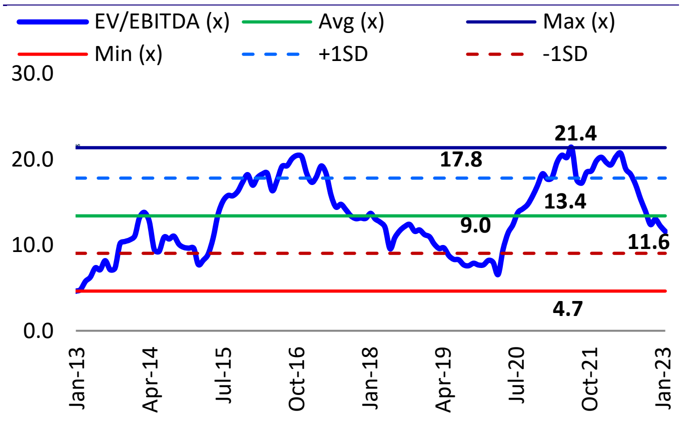
- We increase FY23 EPS estimate by 4% to factor in higher API sales and off-take of flu-related products.
- We value ALPM at 17x 12M forward earnings to arrive at a TP of INR580. While R&D spending is expected to fall YoY in FY24, it would be offset to some extent by opex related to new manufacturing facilities. Hence, we maintain estimates for FY24/FY25.
- The stock has corrected 22% since we downgraded it to SELL in Aug'22. With ANDA launches expected to pick-up pace over the medium term as facilities become compliant, we expect earnings to revive over FY23-25. While the outlook is expected to improve, we upgrade ALPM to Neutral as we wait for a better entry price.

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

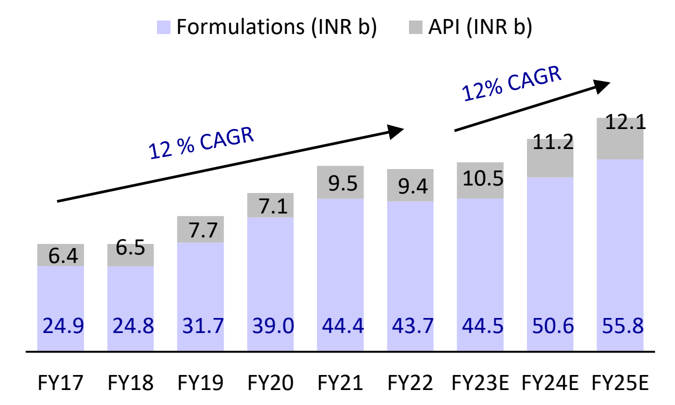
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

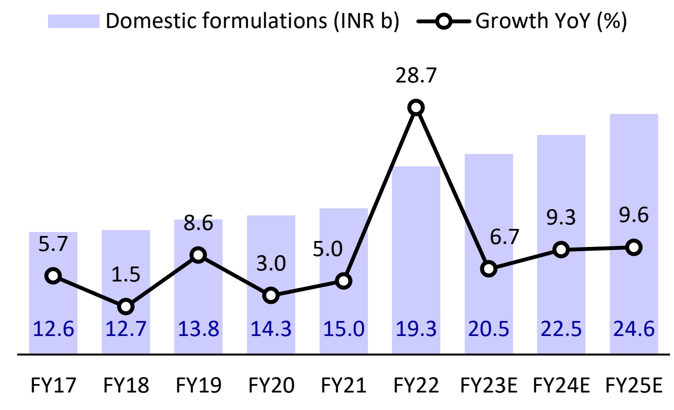
Story in charts

Exhibit 7: Formulation sales CAGR to be 12% over FY23-25E



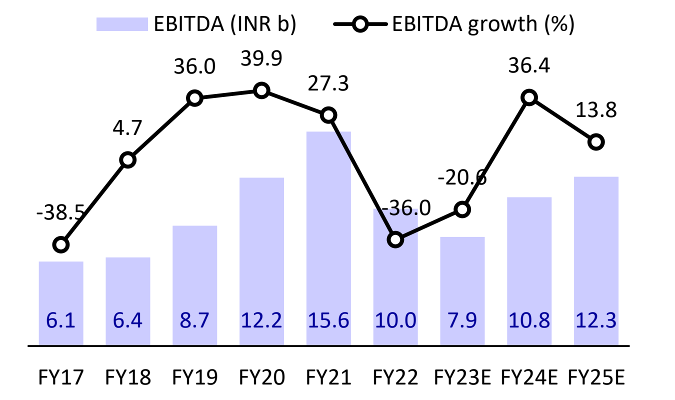
Source: MOFSL, Company

Exhibit 8: Expect DF to exhibit 9.4% CAGR over FY23-25E



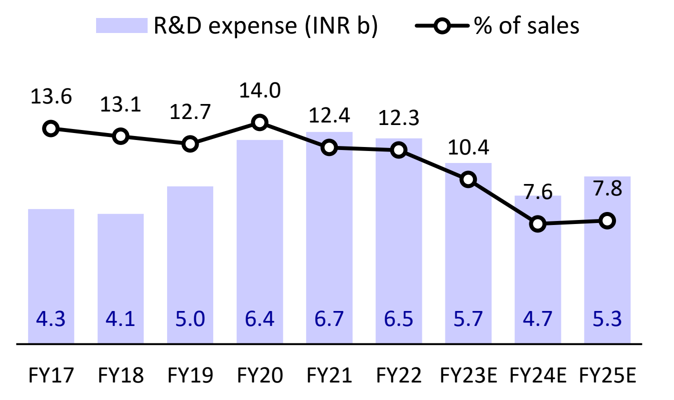
Source: MOFSL, Company

Exhibit 9: EBITDA CAGR to be 11% from FY23-25E



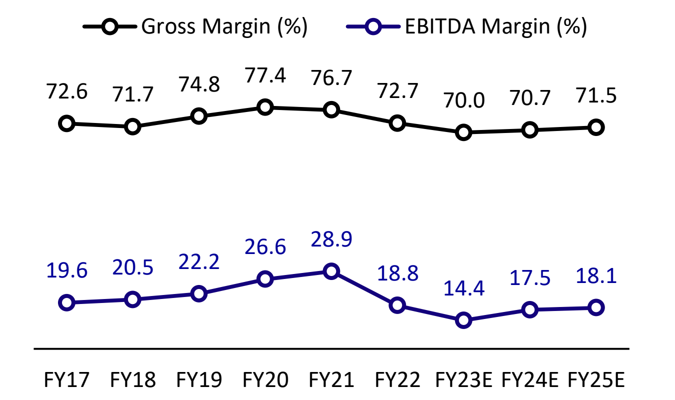
Source: MOFSL, Company

Exhibit 10: R&D expenses % sales to decline going forward



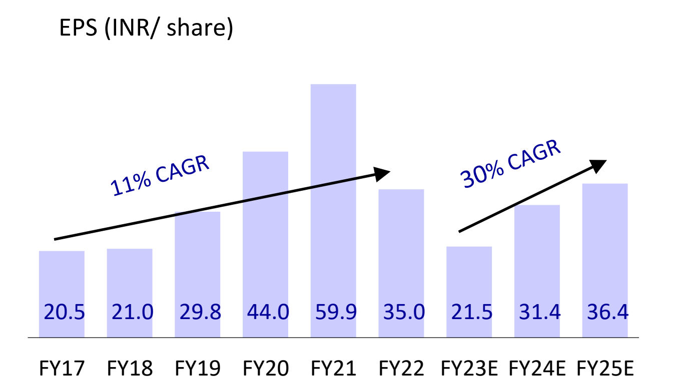
Source: MOFSL, Company

Exhibit 11: Margin to increase over FY23-25E



Source: MOFSL, Company

Exhibit 12: Earnings CAGR to be 30% over FY23-25E



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement									(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Net Sales	**31,345**	**31,310**	**39,357**	**46,060**	**53,931**	**53,058**	**55,015**	**61,748**	**67,911**
Change (%)	-0.2	-0.1	25.7	17.0	17.1	-1.6	3.7	12.2	10.0
EBITDA	**6,146**	**6,433**	**8,746**	**12,233**	**15,575**	**9,972**	**7,922**	**10,806**	**12,292**
Change (%)	-38.5	4.7	36.0	39.9	27.3	-36.0	-20.6	36.4	13.8
Margin (%)	19.6	20.5	22.2	26.6	28.9	18.8	14.4	17.5	18.1
Depreciation	830	1,055	1,152	1,573	1,835	2,218	2,112	2,584	2,862
EBIT	**5,316**	**5,378**	**7,594**	**10,660**	**13,741**	**7,754**	**5,810**	**8,222**	**9,430**
Int. and Finance Charges	51	34	184	272	160	177	495	550	542
Other Income - Rec.	25	70	94	49	100	505	28	31	34
PBT bef. EO Exp.	**5,290**	**5,415**	**7,503**	**10,437**	**13,681**	**8,081**	**5,343**	**7,703**	**8,922**
EO Expense/(Income)	0	0	0	436	0	1,880	1,440	0	0
PBT after EO Exp.	**5,290**	**5,415**	**7,503**	**10,001**	**13,681**	**6,201**	**3,903**	**7,703**	**8,922**
Current Tax	1,224	1,236	1,781	2,046	2,629	1,279	898	1,772	2,052
Deferred Tax	-2	-33	-214	-54	-96	-235	-156	-300	-357
Tax Rate (%)	23.1	22.2	20.9	19.9	18.5	16.8	19.0	19.1	19.0
MI & P/L of Asso. Cos.	39.2	82.8	82.0	-284.7	-633.5	-300.3	300.0	60.0	69.0
Reported PAT	**4,029**	**4,128**	**5,854**	**8,294**	**11,781**	**5,457**	**2,861**	**6,172**	**7,158**
PAT Adj for EO items	**4,029**	**4,128**	**5,854**	**8,643**	**11,781**	**6,889**	**4,228**	**6,172**	**7,158**
Change (%)	-14.6	2.5	41.8	47.7	36.3	-41.5	-38.6	46.0	16.0
Margin (%)	12.9	13.2	14.9	18.8	21.8	13.0	7.7	10.0	10.5

Consolidated - Balance Sheet									(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Equity Share Capital	377	377	377	377	393	393	393	393	393
Total Reserves	18,634	21,824	26,811	31,820	50,883	51,982	53,897	58,886	64,861
Net Worth	**19,011**	**22,201**	**27,188**	**32,197**	**51,276**	**52,375**	**54,290**	**59,279**	**65,254**
Minority Interest	1	3	-8	-290	-606	0	0	0	0
Deferred Liabilities	369	354	188	122	42	0	-156	-457	-813
Total Loans	802	7,078	9,284	18,208	2,715	7,021	6,921	6,822	6,724
Capital Employed	**20,184**	**29,637**	**36,652**	**50,237**	**53,426**	**59,397**	**61,055**	**65,645**	**71,165**
Gross Block	12,548	11,726	15,156	20,700	24,909	27,221	51,004	56,667	61,359
Less: Accum. Deprn.	4,554	2,456	3,608	5,181	7,016	9,234	11,346	13,930	16,792
Net Fixed Assets	**8,264**	**10,928**	**11,585**	**15,518**	**17,893**	**17,987**	**39,658**	**42,737**	**44,567**
Capital WIP	3,693	9,108	15,512	18,462	21,817	23,034	2,751	3,087	3,396
Total Investments	**502**	**416**	**488**	**179**	**2,363**	**1,184**	**1,184**	**1,184**	**1,184**
Curr. Assets, Loans&Adv.	**14,408**	**18,959**	**20,193**	**25,734**	**25,017**	**29,015**	**30,073**	**32,732**	**37,176**
Inventory	6,328	7,339	9,673	11,875	14,862	16,097	18,539	20,323	21,794
Account Receivables	3,375	5,263	4,889	8,648	3,486	8,071	6,783	4,229	4,837
Cash and Bank Balance	1,596	899	2,056	808	1,058	694	547	3,798	6,001
Loans and Advances	3,110	5,457	3,576	4,404	5,612	4,153	4,204	4,381	4,543
Curr. Liability & Prov.	**6,683**	**9,774**	**11,125**	**9,656**	**13,663**	**11,824**	**12,611**	**14,096**	**15,158**
Account Payables	5,232	7,593	6,443	6,259	6,688	7,064	8,060	8,836	9,452
Other Current Liabilities	755	1,429	3,838	2,270	5,601	3,165	3,282	3,684	4,051
Provisions	696	752	844	1,127	1,375	1,595	1,268	1,576	1,654
Net Current Assets	**7,725**	**9,185**	**9,068**	**16,078**	**11,354**	**17,192**	**17,462**	**18,636**	**22,018**
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	**20,184**	**29,637**	**36,652**	**50,238**	**53,426**	**59,397**	**61,055**	**65,645**	**71,165**

E: MOFSL Estimates; * Adjusted for treasury stocks

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	**20.5**	**21.0**	**29.8**	**44.0**	**59.9**	**35.0**	**21.5**	**31.4**	**36.4**
Cash EPS	25.8	27.5	37.2	54.2	69.3	46.3	32.3	44.5	51.0
BV/Share	100.8	117.8	144.2	170.8	260.9	266.5	276.2	301.6	332.0
DPS	4.0	4.0	5.5	10.0	10.4	10.4	4.2	5.2	5.2
Payout (%)	22.5	22.0	21.3	27.4	20.1	43.4	33.1	19.2	16.5
Valuation (x)									
P/E	26.7	26.1	18.4	12.5	9.1	15.6	25.5	17.5	15.0
Cash P/E	21.3	19.9	14.7	10.1	7.9	11.8	17.0	12.3	10.8
P/BV	5.4	4.7	3.8	3.2	2.1	2.1	2.0	1.8	1.7
EV/Sales	5.8	6.0	4.8	4.3	3.4	3.5	3.4	3.0	2.7
EV/EBITDA	29.5	29.2	21.6	16.3	11.8	18.9	23.8	17.1	14.9
Dividend Yield (%)	0.7	0.7	1.0	1.8	1.9	1.9	0.8	1.0	1.0
Return Ratios (%)									
RoE	22.8	19.6	23.4	30.1	29.7	13.9	7.4	10.8	11.4
RoCE	22.1	17.3	18.5	19.7	21.6	12.1	7.8	10.5	11.1
RoIC	30.5	24.9	31.8	34.6	38.0	20.6	10.3	11.7	12.9
Working Capital Ratios									
Asset Turnover (x)	1.6	1.1	1.1	0.9	1.0	0.9	0.9	0.9	1.0
Inventory (Days)	74	86	90	94	101	111	123	120	117
Debtor (Days)	39	61	45	69	24	56	45	25	26
Creditor (Days)	61	89	60	50	45	49	53	52	51
Leverage Ratio (x)									
Net Debt/Equity	0.0	0.3	0.3	0.5	0.0	0.1	0.1	0.1	0.0

Consolidated - Cash Flow Statement (INR M)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Profit / (Loss) Before Tax	5,291	5,413	7,493	9,998	13,681	6,201	3,903	7,703	8,922
Depreciation	830	1,055	1,152	1,573	1,835	2,868	2,112	2,584	2,862
Interest & Finance Charges	52	34	184	272	160	131	467	519	508
Direct Taxes Paid	1,180	1,351	1,665	2,361	2,454	1,234	898	1,772	2,052
(Inc)/Dec in WC	-1,656	-1,809	1,116	-5,844	2,395	-3,673	-418	2,078	-1,179
CF from Operations	**3,337**	**3,342**	**8,281**	**3,638**	**15,617**	**4,292**	**5,166**	**11,112**	**9,061**
Others	-51	-217	-161	853	-983	1,231	0	0	0
CF from Operating incl EO	**3,286**	**3,124**	**8,119**	**4,491**	**14,634**	**5,524**	**5,166**	**11,112**	**9,061**
(inc)/dec in FA	-5,101	-7,494	-6,539	-6,726	-6,592	-4,243	-3,500	-6,000	-5,000
Free Cash Flow	**-1,816**	**-4,369**	**1,580**	**-2,235**	**8,041**	**1,281**	**1,666**	**5,112**	**4,061**
(Pur)/Sale of Investments	48	14	39	23	-1,796	523	0	0	0
CF from Investments	**-4,766**	**-8,782**	**-7,556**	**-7,316**	**-8,388**	**-3,702**	**-3,472**	**-5,969**	**-4,966**
Issue of Shares	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	-386	6,194	2,206	5,919	-12,398	1,300	-400	-159	-167
Interest Paid	-52	-260	-703	-1,111	6,611	-519	-495	-550	-542
Dividend Paid	-901	-908	-909	-3,260	0	-2,752	-946	-1,183	-1,183
CF from Fin. Activity	**-1,432**	**4,961**	**592**	**1,576**	**-5,994**	**-2,186**	**-1,841**	**-1,892**	**-1,892**
Inc/Dec of Cash	**-2,912**	**-697**	**1,156**	**-1,249**	**252**	**-364**	**-147**	**3,251**	**2,203**
Add: Beginning Balance	4,508	1,596	900	2,055	807	1,059	694	547	3,798
Closing Balance	**1,596**	**900**	**2,055**	**807**	**1,058**	**694**	**547**	**3,798**	**6,001**

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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