

Estimate change



TP change



Rating change



Bloomberg	ALPM IN
Equity Shares (m)	189
M.Cap.(INRb)/(USDb)	109 / 1.3
52-Week Range (INR)	775 / 463
1, 6, 12 Rel. Per (%)	8/-15/-32
12M Avg Val (INR M)	89

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	56.5	61.9	68.0
EBITDA	8.2	10.0	11.4
Adj. PAT	4.3	6.0	6.8
EBIT Margin (%)	10.4	13.0	13.4
Cons. Adj. EPS (INR)	21.9	30.5	34.8
EPS Gr. (%)	-37.6	39.5	14.1
BV/Sh. (INR)	222.4	247.1	276.3

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	8.3	12.9	13.2
RoCE (%)	10.4	12.2	12.6
Payout (%)	27.7	19.7	17.3

Valuations

P/E (x)	25.3	18.2	15.9
EV/EBITDA (x)	23.0	18.8	16.4
Div. Yield (%)	0.8	0.9	0.9
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	3.3	3.0	2.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	69.6	69.6	69.6
DII	13.3	12.8	11.7
FII	4.6	5.0	6.0
Others	12.5	12.7	12.6

FII Includes depository receipts

CMP: INR554

TP: INR550 (-1%)

Neutral

Scale-up in US generics is the key for better earnings outlook

Good show by Ex-US segments

- Alembic Pharma (ALPM) delivered 12%/14%/7% beat on sales/EBITDA/PAT estimates for 4QFY23. Superior performance in domestic formulation (DF), Non-US exports, and the API segment led to better-than-expected operational performance for the quarter.
- We revise down our earnings estimate by 4%/2% for FY24/FY25 factoring in a) ongoing price erosion in the US generics segment and b) incremental operating expense due to commercialization of new injectable facilities. This is partly offset by robust growth momentum in the DF segment and improving outlook in the API segment.
- We value ALPM at 17x 12M forward earnings to arrive at a price target of INR550. While a) the operational cost related to new injectable facilities would be expensed in P&L and b) there would be controlled R&D spend, we await better clarity on potential product approvals for the US market to provide meaningful improvement in profitability as well as return ratios. Also, the current valuation is fair for projected earnings growth over the next two years. We reiterate our Neutral rating on the stock.

Inferior product mix drags profitability on YoY basis

- ALPM sales were flat YoY to INR14b (our est: INR12.5b).
- DF sales grew 9% YoY to INR4.9b (35% of sales). API sales grew 41% YoY to INR3.1b (22% of sales). Ex-US generic export sales grew 32% YoY to INR2.5b (18% of sales). US generics sales declined 36.4% YoY to INR3.5b (USD43m; 25% of sales) due to a high base of 4QFY22.
- Gross margin contracted 350bp YoY to 69.2% due to product mix change.
- EBITDA margin contracted at a higher rate of 410bp YoY to 15.9%, due to reduced operating leverage (employee expenses/other expenses up 160bp each YoY as % of sales). R&D spend reduced 250bp YoY as % of sales.
- EBITDA declined 21% YoY to INR2.2b (our est: INR2b)
- Adj. PAT decreased at a higher rate of 42% YoY to INR1b (our est: INR967m), due to higher depreciation/tax rate.
- For FY23, revenue grew 6.5% YoY to INR56.5b, while EBITDA/PAT declined 17.8%/38% YoY to INR8.2b/INR4.3b.

Highlights from management commentary

- ALPM guided for ~15% EBITDA margin for FY24.
- ALPM guided for 10-12% YoY growth in DF sales and 10% YoY growth in API sales for FY24.
- It guided for 20 ANDA launches in FY24.
- It continues to witness low double-digit price erosion in the US generics segment.
- It has ~15 injectable filings till date.
- Overall expense of INR650m (including depreciation) was charged to P&L from new injectable facilities.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance (Consolidated)

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	13,260	12,923	12,717	14,157	12,621	14,750	15,090	14,065	53,058	56,526	12,553	12.0%
YoY Change (%)	-1.1	-11.3	-3.2	10.6	-4.8	14.1	18.7	-0.7	-1.6	6.5	-11.3	
Total Expenditure	10,900	10,351	10,160	11,326	11,475	12,423	12,603	11,833	43,086	48,333	10,592	
EBITDA	2,360	2,572	2,557	2,831	1,147	2,328	2,488	2,232	9,972	8,194	1,960	13.8%
YoY Change (%)	-42.1	-42.0	-30.0	-17.1	-51.4	-9.5	-2.7	-21.2	-36.0	-17.8	-30.8	
Margins (%)	17.8	19.9	20.1	20.0	9.1	15.8	16.5	15.9	18.8	14.5	15.6	86.6
Depreciation	532	546	559	581	521	517	535	741	2,218	2,314	539	
EBIT	1,829	2,026	1,997	2,250	626	1,811	1,953	1,490	7,754	5,880	1,421	4.9%
YoY Change (%)	-59.3	-58.4	-51.5	-42.7	-65.8	-10.6	-2.2	-33.8	-43.6	-24.2	-36.8	
Interest	21	46	43	67	88	124	146	144	177	502	137	
Other Income	19	22	13	103	11	3	4	9	505	27	9	
PBT before EO expense	1,826	2,003	1,967	2,286	548	1,690	1,811	1,356	8,081	5,405	1,293	4.8%
Extra-Ord expense	0	0	0	1,880	1,150	160	130	110	1,880	1,550	0	
PBT	1,826	2,003	1,967	406	-602	1,530	1,681	1,246	6,201	3,855	1,293	-3.7%
Tax	342	395	325	-17	-15	180	326	-364	1,045	126	251	
Rate (%)	18.7	19.7	16.5	-4.3	2.5	11.7	19.4	-29.2	16.8	3.3	19.4	
MI & P/L of Asso. Cos.	-162	-86	-122	69	72	17	136	85	-300	309	76	
Reported PAT	1,646	1,693	1,764	355	-659	1,334	1,220	1,525	5,457	3,420	967	57.8%
Adj PAT	1,646	1,693	1,764	1,785	463	1,475	1,324	1,034	6,889	4,296	967	7.0%
YoY Change (%)	-45.4	-49.2	-39.7	-28.8	-71.9	-12.9	-24.9	-42.1	-41.5	-37.6	-45.9	
Margins (%)	12.4	13.1	13.9	12.6	3.7	10.0	8.8	7.4	13.0	7.6	7.7	

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23				FY22	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
India	4,810	5,090	4,880	4,490	4,800	5,490	5,450	4,890	19,260	20,630
YoY Change (%)	57.2	22.7	16.7	25.4	(0.2)	7.9	11.7	8.9	28.7	7.1
Exports	5,660	5,450	5,860	7,450	5,490	6,330	6,380	6,040	24,410	24,240
YoY Change (%)	(26.6)	(30.0)	(14.2)	5.1	(3.0)	16.1	8.9	(18.9)	(17.0)	(0.7)
APIs	2,790	2,390	1,980	2,220	2,330	2,940	3,260	3,130	9,388	11,660
YoY Change (%)	5.7	(9.1)	(7.5)	4.0	(16.5)	23.0	64.6	41.0	(1.6)	24.2
Cost Break-up										
RM Cost (% of Sales)	29.0	25.8	26.9	27.3	30.0	30.0	30.2	30.8	27.3	30.2
Staff Cost (% of Sales)	21.9	22.7	21.5	19.6	23.0	19.6	19.3	21.2	21.4	20.7
R&D Expenses (% of Sales)	12.6	13.0	12.0	11.4	11.6	10.3	9.5	8.9	12.3	9.8
Other Cost (% of Sales)	18.7	18.7	19.5	21.7	26.3	24.3	24.5	23.3	20.3	24.8
Gross Margins(%)	71.0	74.2	73.1	72.7	70.0	70.0	69.8	69.2	72.7	69.8
EBITDA Margins(%)	17.8	19.9	20.1	20.0	9.1	15.8	16.5	15.9	18.8	14.5
EBIT Margins(%)	13.8	15.7	15.7	15.9	5.0	12.3	12.9	10.6	14.6	10.4

E: MOFSL Estimates

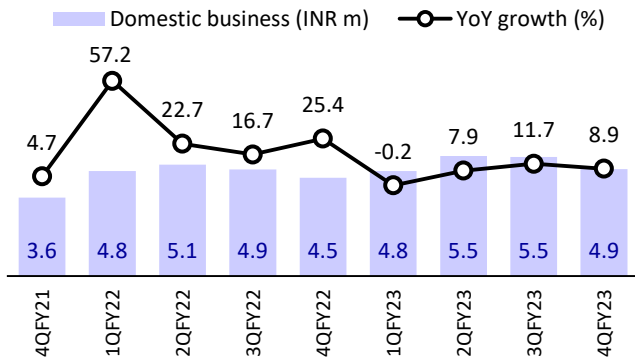


Key takeaways from the management commentary

- ALPM targets to file 15-20 ANDAs in FY24 and has about 90 ANDAs pending for approval.
- It has written off CWIP worth INR6.8b in FY23. It has also made a provision of INR4.8b for impairment/diminution in value of manufacturing assets.
- ALPM has expensed R&D cost worth INR1.5b related to Aleor.
- Adj. for Azithromycin sales in 4QFY22, the YoY growth in the DF segment would be 12%.
- The specialty segment within DF grew 13% YoY in 4QFY23.
- ALPM indicated about 10% YoY increase in operational expense in FY24.
- It has gross borrowing of INR6.4b and cash worth INR750m at the end of FY23.
- The management provided guidance for MAT tax rate for FY24.

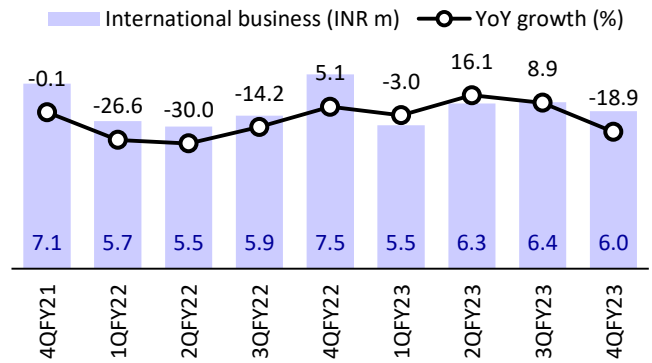
Key exhibits

Exhibit 1: DF sales grew 9% YoY in 4QFY23



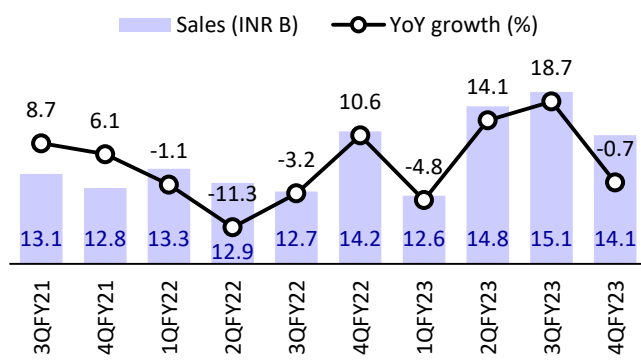
Source: MOFSL, Company

Exhibit 2: International business declined 19% YoY in 4QFY23



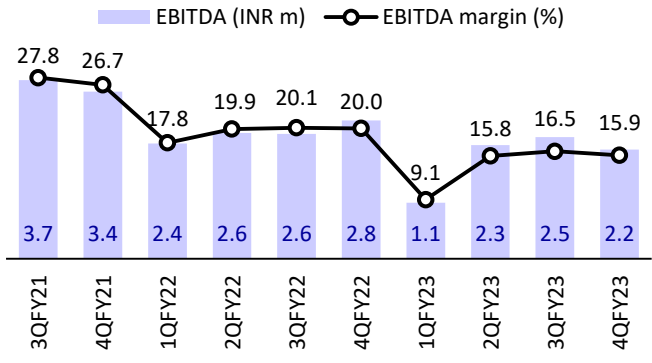
Source: MOFSL, Company

Exhibit 3: Sales was flat YoY in 4QFY23



Source: MOFSL, Company

Exhibit 4: EBITDA margin contracts 410bp YoY in 4QFY23



Source: MOFSL, Company

Scale-up in the US remains key for earnings growth recovery

US: New launches/market share gain to more than offset price erosion impact

- In FY23, ALPM’s US declined 12% YoY to USD196m, led by competitive pressures. However, this was partially offset by new product launches and market share gains.
- ALPM had 20 ANDAs filed at the end of FY23. Moreover, ALPM plans to launch 20+ products in FY24, which is expected to continue the growth path.
- Considering pick-up in injectable launches and scale-up in existing products, we expect 15% sales CAGR to USD260m over FY23-25.

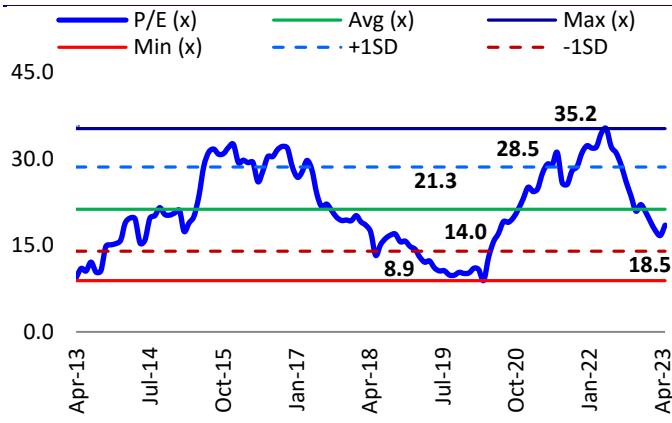
DF: On path to outperform industry, on the back of superior execution

- In FY23, ALPM’s DF segment grew 7% YoY to INR20.6b. ALPM delivered a healthy 13% YoY growth in the DF segment adjusted for sales of Azithral/Alcibute.
- Within Specialty, ALPM delivered robust 33%/29%/20% YoY growth in ophthalmology/Gynaecology/anti-diabetic segment. Even in the acute segment, the cough and cold segment grew 11% YoY for FY23.
- ALPM’s prescription base grew 18% YoY to 129m in FY23.
- With specialty and acute segments outperforming the IPM, we expect 9.3% sales CAGR over FY23-25.

Reiterate Neutral

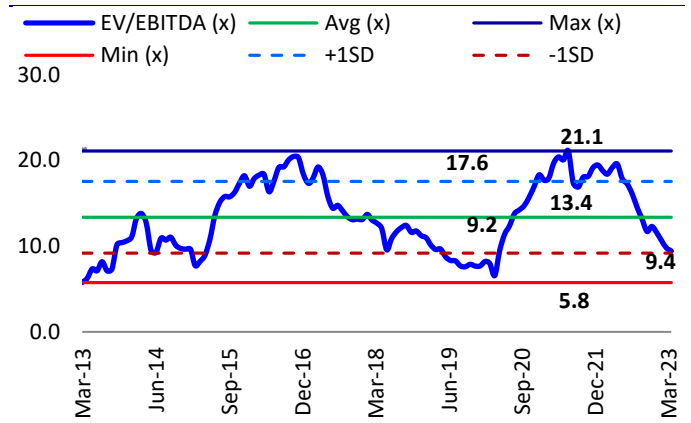
- We revise down our earnings estimate by 4%/2% for FY24/FY25 factoring a) ongoing price erosion in the US generics segment and b) incremental operating expense due to commercialization of new injectable facilities. This is partly offset by robust growth momentum in the DF segment and improving outlook in the API segment.
- We value ALPM at 17x 12M forward earnings to arrive at a price target of INR550. While a) the operational cost related to new injectable facilities would be expensed in P&L and b) there would be controlled R&D spend, we await better clarity on potential products approvals for the US market to provide meaningful improvement in profitability as well as return ratios. Also, the current valuation is fair for projected earnings growth over the next two years. We reiterate our Neutral stance on the stock.

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

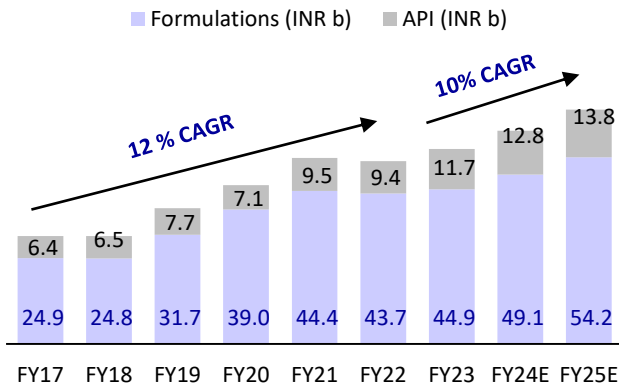
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

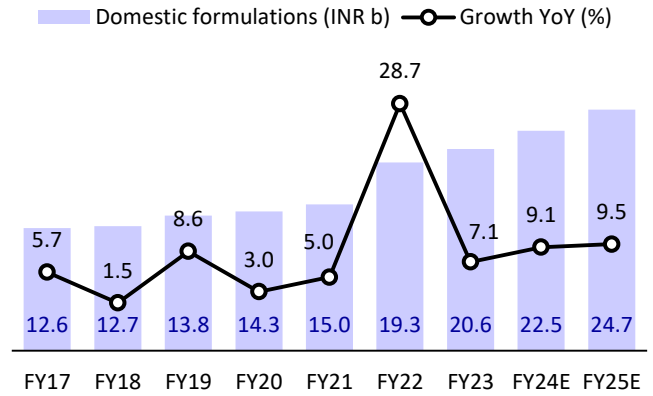
Story in charts

Exhibit 7: Formulation sales CAGR to be 10% over FY23-25E



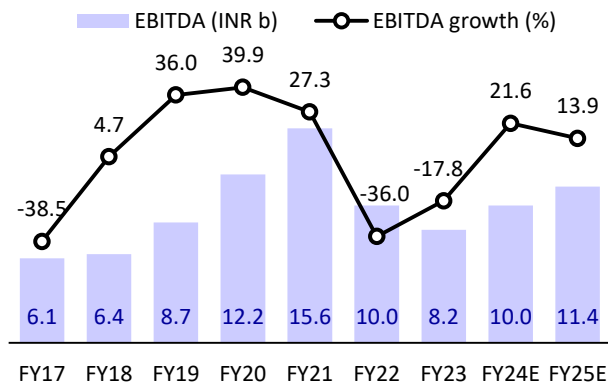
Source: MOFSL, Company

Exhibit 8: Expect DF to exhibit 9% CAGR over FY23-25E



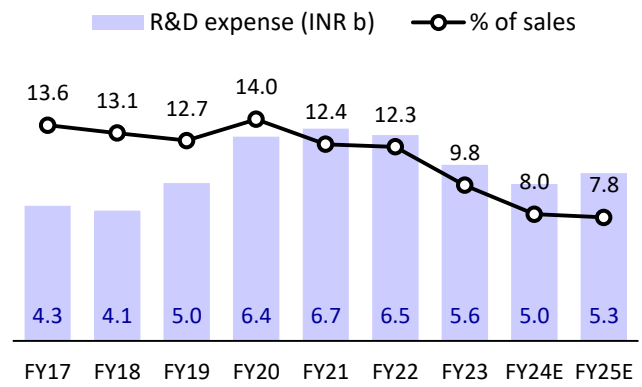
Source: MOFSL, Company

Exhibit 9: EBITDA CAGR to be 18% from FY23-25E



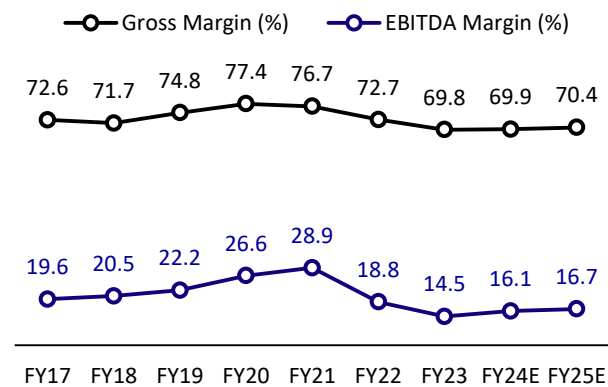
Source: MOFSL, Company

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



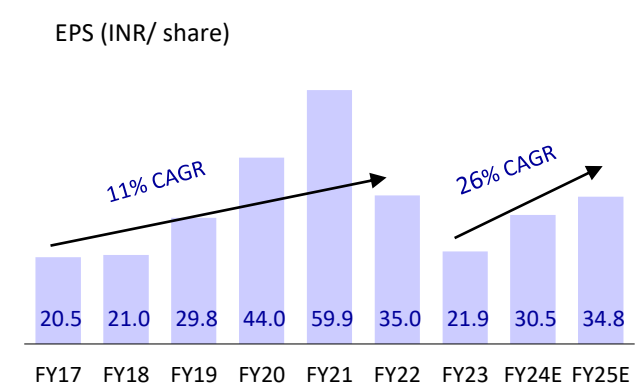
Source: MOFSL, Company

Exhibit 11: Margin to increase over FY23-25E



Source: MOFSL, Company

Exhibit 12: Earnings CAGR to be 26% over FY23-25E



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	31,416	31,345	31,310	39,357	46,060	53,931	53,058	56,526	61,884	67,979
Change (%)	53.0	-0.2	-0.1	25.7	17.0	17.1	-1.6	6.5	9.5	9.8
EBITDA	9,988	6,146	6,433	8,746	12,233	15,575	9,972	8,194	9,963	11,352
Change (%)	148.1	-38.5	4.7	36.0	39.9	27.3	-36.0	-17.8	21.6	13.9
Margin (%)	31.8	19.6	20.5	22.2	26.6	28.9	18.8	14.5	16.1	16.7
Depreciation	722	830	1,055	1,152	1,573	1,835	2,218	2,314	1,920	2,270
EBIT	9,266	5,316	5,378	7,594	10,660	13,741	7,754	5,880	8,044	9,083
Int. and Finance Charges	37	51	34	184	272	160	177	502	560	552
Other Income - Rec.	91	25	70	94	49	100	505	27	0	0
PBT bef. EO Exp.	9,320	5,290	5,415	7,503	10,437	13,681	8,081	5,405	7,484	8,530
EO Expense/(Income)	0	0	0	0	436	0	1,880	1,550	0	0
PBT after EO Exp.	9,320	5,290	5,415	7,503	10,001	13,681	6,201	3,855	7,484	8,530
Current Tax	1,986	1,224	1,236	1,781	2,046	2,629	1,279	42	1,721	1,962
Deferred Tax	174	-2	-33	-214	-54	-96	-235	84	-292	-341
Tax Rate (%)	23.2	23.1	22.2	20.9	19.9	18.5	16.8	3.3	19.1	19.0
MI & P/L of Asso. Cos.	6.0	39.2	82.8	82.0	-284.7	-633.5	-300.3	309.2	60.0	69.0
Reported PAT	7,154	4,029	4,128	5,854	8,294	11,781	5,457	3,420	5,994	6,841
PAT Adj for EO items	4,720	4,029	4,128	5,854	8,643	11,781	6,889	4,296	5,994	6,841
Change (%)	66.8	-14.6	2.5	41.8	47.7	36.3	-41.5	-37.6	39.5	14.1
Margin (%)	15.0	12.9	13.2	14.9	18.8	21.8	13.0	7.6	9.7	10.1
Less: Minority Interest	6	39.2	82.8	82	-284.7	-633.5	-300.3	309.2	60	69
Net Profit	4,714	3,989	4,046	5,772	8,928	12,414	7,189	3,987	5,934	6,772

Consolidated - Balance Sheet

(INRm)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	377	377	377	377	377	393	393	393	393	393
Total Reserves	15,628	18,634	21,824	26,811	31,820	50,883	51,982	43,312	48,183	53,910
Net Worth	16,005	19,011	22,201	27,188	32,197	51,276	52,375	43,705	48,576	54,303
Minority Interest	0	1	3	-8	-290	-606	0	0	0	0
Deferred Liabilities	501	369	354	188	122	42	0	0	-292	-633
Total Loans	1,325	802	7,078	9,284	18,208	2,715	7,021	7,051	6,952	6,854
Capital Employed	17,832	20,184	29,637	36,652	50,237	53,426	59,397	50,756	55,236	60,524
Gross Block	11,190	12,548	11,726	15,156	20,700	24,909	27,221	35,532	44,451	49,146
Less: Accum. Deprn.	3,878	4,554	2,456	3,608	5,181	7,016	9,234	11,548	13,467	15,737
Net Fixed Assets	7,748	8,264	10,928	11,585	15,518	17,893	17,987	23,985	30,984	33,409
Capital WIP	925	3,693	9,108	15,512	18,462	21,817	23,034	6,013	3,094	3,399
Total Investments	21	502	416	488	179	2,363	1,184	963	963	963
Curr. Assets, Loans&Adv.	15,900	14,408	18,959	20,193	25,734	25,017	29,015	30,868	31,931	35,432
Inventory	5,776	6,328	7,339	9,673	11,875	14,862	16,097	14,753	15,310	16,538
Account Receivables	3,505	3,375	5,263	4,889	8,648	3,486	8,071	10,464	10,173	11,175
Cash and Bank Balance	4,508	1,596	899	2,056	808	1,058	694	823	1,533	2,703
Loans and Advances	2,111	3,110	5,457	3,576	4,404	5,612	4,153	4,828	4,916	5,016
Curr. Liability & Prov.	6,762	6,683	9,774	11,125	9,656	13,663	11,824	11,073	11,736	12,679
Account Payables	5,664	5,232	7,593	6,443	6,259	6,688	7,064	6,798	7,410	8,005
Other Current Liabilities	656	755	1,429	3,838	2,270	5,601	3,165	2,512	2,750	3,021
Provisions	443	696	752	844	1,127	1,375	1,595	1,763	1,576	1,653
Net Current Assets	9,138	7,725	9,185	9,068	16,078	11,354	17,192	19,795	20,195	22,753
Misc Expenditure	0	0	0	0	0	0	0	0	0	0
Appl. of Funds	17,832	20,184	29,637	36,652	50,238	53,426	59,397	50,756	55,236	60,524

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)										
EPS	24.0	20.5	21.0	29.8	44.0	59.9	35.0	21.9	30.5	34.8
Cash EPS	28.9	25.8	27.5	37.2	54.2	69.3	46.3	33.6	40.3	46.3
BV/Share	84.9	100.8	117.8	144.2	170.8	260.9	266.5	222.4	247.1	276.3
DPS	4.0	4.0	4.0	5.5	10.0	10.4	10.4	4.2	5.2	5.2
Payout (%)	12.7	22.5	22.0	21.3	27.4	20.1	43.4	27.7	19.7	17.3
Valuation (x)										
P/E	23.1	27.0	26.4	18.6	12.6	9.2	15.8	25.3	18.2	15.9
Cash P/E	19.2	21.5	20.2	14.9	10.2	8.0	12.0	16.5	13.8	12.0
P/BV	6.5	5.5	4.7	3.8	3.2	2.1	2.1	2.5	2.2	2.0
EV/Sales	5.7	5.8	6.0	4.8	4.3	3.4	3.5	3.3	3.0	2.7
EV/EBITDA	17.9	29.5	29.2	21.6	16.3	11.8	18.9	23.0	18.8	16.4
Dividend Yield (%)	0.7	0.7	0.7	1.0	1.8	1.9	1.9	0.8	0.9	0.9
Return Ratios (%)										
RoE	37.9	22.8	19.6	23.4	30.1	29.7	13.9	8.3	12.9	13.2
RoCE	50.3	22.1	17.3	18.5	19.7	21.6	12.1	10.4	12.2	12.6
RoIC	61.1	30.5	24.9	31.8	34.6	38.0	20.6	14.7	14.1	14.3
Working Capital Ratios										
Asset Turnover (x)	1.8	1.6	1.1	1.1	0.9	1.0	0.9	1.1	1.1	1.1
Inventory (Days)	67	74	86	90	94	101	111	95	90	89
Debtor (Days)	40	39	61	45	69	24	56	68	60	60
Creditor (Days)	66	61	89	60	50	45	49	44	44	43
Leverage Ratio (x)										
Net Debt/Equity	-0.2	0.0	0.3	0.3	0.5	0.0	0.1	0.1	0.1	0.1

Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INRm)										
Net Profit / (Loss) Before Tax	9,360	5,291	5,413	7,493	9,998	13,681	6,201	3,546	7,484	8,530
Depreciation	722	830	1,055	1,152	1,573	1,835	2,868	2,754	1,920	2,270
Interest & Finance Charges	54	52	34	184	272	160	131	502	560	552
Direct Taxes Paid	1,970	1,180	1,351	1,665	2,361	2,454	1,234	607	1,721	1,962
(Inc)/Dec in WC	1,389	-1,656	-1,809	1,116	-5,844	2,395	-3,673	-576	310	-1,387
CF from Operations	9,555	3,337	3,342	8,281	3,638	15,617	4,292	5,619	8,552	8,003
Others	-79	-51	-217	-161	853	-983	1,231	1,620	0	0
CF from Operating incl EO	9,477	3,286	3,124	8,119	4,491	14,634	5,524	7,239	8,552	8,003
(inc)/dec in FA	-3,011	-5,101	-7,494	-6,539	-6,726	-6,592	-4,243	-4,434	-6,000	-5,000
Free Cash Flow	6,466	-1,816	-4,369	1,580	-2,235	8,041	1,281	2,805	2,552	3,003
(Pur)/Sale of Investments	-64	48	14	39	23	-1,796	523	-64	0	0
Others	24	287	-1,302	-1,055	-613	0	17	22	0	0
CF from Investments	-3,051	-4,766	-8,782	-7,556	-7,316	-8,388	-3,702	-4,476	-6,000	-5,000
Issue of Shares	0	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	-1,406	-386	6,194	2,206	5,919	-12,398	1,300	-172	-99	-98
Interest Paid	-52	-52	-260	-703	-1,111	6,611	-519	-497	-560	-552
Dividend Paid	-787	-901	-908	-909	-3,260	0	-2,752	-1,966	-1,183	-1,183
CF from Fin. Activity	-2,145	-1,432	4,961	592	1,576	-5,994	-2,186	-2,635	-1,842	-1,833
Inc/Dec of Cash	4,281	-2,912	-697	1,156	-1,249	252	-364	129	710	1,170
Add: Beginning Balance	228	4,508	1,596	900	2,055	807	1,059	694	823	1,533
Closing Balance	4,508	1,596	900	2,055	807	1,058	694	823	1,533	2,703

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NOTES

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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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