

Alembic Pharmaceuticals Ltd.



Alembic Pharmaceuticals Ltd. **Serious challenge in the US market persists; India business continues to perform well**

CMP INR 554	Target INR 704	Upside 27.1%	Market Cap (INR Mn) INR 108,895	Recommendation BUY	Sector Pharmaceuticals
-----------------------	--------------------------	------------------------	---	------------------------------	----------------------------------

Result Highlights of Q4FY23

- Alembic Pharmaceuticals Ltd (ALPM)'s consolidated revenue declined by 0.6% YoY/6.8% QoQ to INR 14,065mn. Net Sales for FY23 stood at INR 56,526 Mn.
- The EBITDA has seen a growth of 32.6% YoY, but declined 14.6% sequentially to INR 2,123mn, which translated into improvement in margins by 380 bps YoY to 15.1% and reduced by 140 bps on a QoQ basis.
- Alembic Pharma has reported a PAT of INR 1,527mn which grew by 25.1% on a QoQ basis. PAT margins stood at 10.8%. The EPS for Q4FY23 has improved to INR 7.7 from INR 6.2 in the previous quarter.
- The company received 7 ANDA approvals and filed 4 ANDA during the quarter.

MARKET DATA

Shares outs (Mn)	197
Mkt Cap (INR Mn)	103,560
52 Wk H/L (INR)	792/462
Volume Avg (3m K)	144.4
Face Value (INR)	2
Bloomberg Code	ALPM IN

KEY FINANCIALS

INR Millions	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	46,058	53,931	53,058	56,526	61,247	66,228
EBITDA	12,230	15,576	8,742	7,084	9,800	11,438
PAT	8,288	11,783	5,209	3,420	5,471	6,587
EPS	42.5	59.2	27.8	18.2	29.2	35.2
EBITDA Margin	26.6%	28.9%	16.5%	12.5%	16.0%	17.3%
NPM	18.0%	21.8%	9.8%	6.1%	8.9%	9.9%

Source: Company, KRChoksey Research

Revenue growth led by the API business and India Branded business:

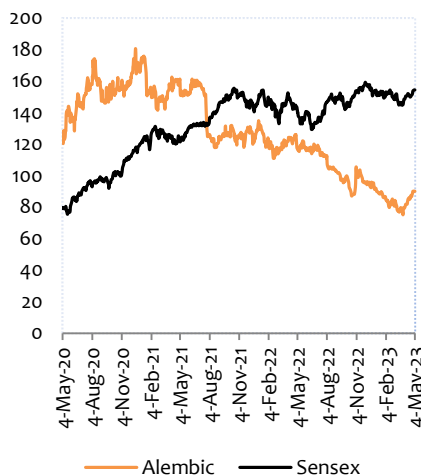
The revenue of Alembic Pharma was mainly driven by the API segment, which grew by 41% YoY to INR 3130mn, whereas declined marginally by 4% on a sequential basis. Higher offtake and better product mix helped the segment to thrive. ALPM has filed, 2 USDMFs in the current quarter, taking the total count to 131 DMF filings with the US FDA.

India Branded Business continues to outperform the market, especially on focused products/therapeutic segments. India branded business has recorded a 9.0% growth to INR 4900 mn. Ex of Azithral, the Branded Business grew 12.0%. The performance was led by both specialty and acute segments. The specialty segment grew by 4.9% to INR 2580mn during the quarter. Growth in the specialty segment was majorly driven by Gynecology, Anti Diabetic, Ophthalmology & Ortho. Alembic's Acute business improved by 14.1% during Q4FY23 to INR 1700mn. Animal Health (Vet) business witnessed a 15.1% increase over the previous year's Q4 standing at INR 610mn in Q4FY23. Alembic Pharma has a 1.5% of market share in the Indian Pharma Space and expects the market share to improve in many focus brands in the near term. The company's prescription base increased from INR 109mn in YTD Mar 22 to INR 129mn in YTD Mar 23, growing at a rate of 18%. The P/D ratio also improved from 48 to 50 YoY.

Price erosion in US market continues to effect revenue, partially offset by volume growth:

The US Generics business continues to face challenges on account of stiff competition and price erosion in the US market, the revenue witnessed a significant decline of 36% YoY and 18% QoQ to Rs. 3,540 mn in Q4FY23. Volume grew by 18% due to the new launches and market share expansion. Price erosion continues to have an adverse effect on the US revenues, and is expected to stay under pressure for the midterm. The company is continuously looking to improve efficiencies and execution in the near term. 6 products were launched in the US market during Q4FY23, taking the cumulative total to 120 products. Management has guided on 7-10 product launches in Q1FY24 and 20+ product launches during FY24. Launches from new facilities to fuel growth in the upcoming quarters.

SHARE PRICE PERFORMANCE



MARKET INFO

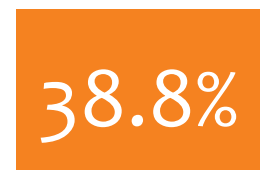
SENSEX	61,054
NIFTY	18,069

SHARE HOLDING PATTERN (%)

Particulars	Mar-23 (%)	Dec-22 (%)	Sep-22 (%)
Promoters	69.6	69.6	69.6
FIIIs	4.6	4.9	5.3
DIIIs	13.3	12.7	12.6
Others	12.5	12.6	12.5
Total	100	100	100



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

Alembic Pharmaceuticals Ltd.

Key Concall Highlights

- Strong momentum resulted in API segment's growth of 24% on an annualized basis, largely led by high off-take and better product mix. The company anticipated robust growth in the API business for FY24 backed by a strong order book. Future capacity expansion for the API business is on track.
- ISOFIT is the 2nd best launch amongst 3072 new launches in 12 months by IPM. ISOFIT achieved INR 280mn in its 1st year of launch.
- Demand outlook for the Ex-US Generics segment remains strong as it registered a sustainable growth of 10% on an annualized basis. Ex-US generic's growth was driven by partnership, delivering approximately 15% CAGR over the last 5 years, with a presence in key markets like Europe, Canada, Australia, Brazil, and South Africa. Product registrations as well as dossier extensions to new markets are on track to accelerate growth..
- 6 USDMFs were filed in FY23, taking the total cumulative DMF filings to 131 with the US FDA.
- Price erosion is still a problem in the US, and neither the firm nor industry levels have seen any significant improvement.
- 4 ANDA filings during the quarter taking the cumulative ANDA filings to 245. 7 ANDA approvals were received during the quarter; taking the total to 179 Cumulative ANDA approvals.
- The company has started commercialization of products from their injectable and oncology facilities.

Valuation and View

The company is under pressure from the US industry's intense competition, but it anticipates that the Indian market will do better moving forward led by a robust demand that is probably coming from the acute and the specialty category. Overall Q4FY23 numbers is in line with our estimate. Hence, we have not revised our estimate for FY24E/FY25E.

The company's shares are currently trading at 18.9x/15.7x its FY24E/FY25E revised EPS of INR 29.2/35.2 respectively. Applying a target P/E multiple of 20.0x on FY25E EPS of INR 35.2, we arrive at a target price of INR 704/share, which gives a potential upside of 27.1% from the CMP. Accordingly, we maintain a 'BUY' rating on the shares of Alembic Pharma.

Segment Results (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	14,160	12,620	14,760	15,090	14,060
Formulation	11,940	10,290	11,820	11,830	10,930
USA	5,570	3,670	4,180	4,320	3,540
Ex-USA	1,880	1,820	2,150	2,060	2,490
India	4,880	4,490	4,800	5,490	5,450
API	2,220	2,330	2,940	3,260	3,130

Segment Results (Sales Mix)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	100%	100%	100%	100%	100%
Formulation	84%	82%	80%	78%	78%
USA	39%	29%	28%	29%	25%
Ex-USA	13%	14%	15%	14%	18%
India	34%	36%	33%	36%	39%
API	16%	18%	20%	22%	22%

Segment Performance (%YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total	10.6%	-4.8%	14.2%	18.6%	-0.7%
Formulation	12.0%	-1.7%	12.1%	10.1%	-8.5%
USA	17.3%	-0.5%	20.1%	9.9%	-36.4%
Ex-USA	-19.3%	-7.6%	9.1%	6.7%	32.4%
India	25.4%	-0.2%	7.9%	11.7%	9.1%
API	3.7%	-16.5%	23.0%	64.6%	41.0%

Source: Company, KRChoksey Research

Alembic Pharmaceuticals Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY20	FY21	FY22E	FY23	FY24E	FY25E
Revenues	46,058	53,931	53,058	56,526	61,247	66,228
COGS	10,394	12,573	14,464	17,088	17,762	18,676
Gross profit	35,664	41,358	38,594	39,438	43,485	47,552
Employee cost	9,064	10,512	11,330	11,691	12,249	13,246
Other expenses	14,369	15,271	18,522	20,663	21,436	22,869
EBITDA	12,230	15,576	8,742	7,084	9,800	11,438
EBITDA Margin	26.6%	28.9%	16.5%	12.5%	16.0%	17.3%
Depreciation & amortization	1,573	1,835	2,868	2,754	2,756	2,980
EBIT	10,657	13,741	5,874	4,330	7,043	8,457
Interest expense	272	160	177	502	26	25
Other income	49	100	505	27	336	142
PBT	10,435	13,681	6,201	3,855	7,354	8,574
Tax	1,992	2,533	1,045	126	1,543	1,647
Share of Profit/(Loss) of Associates/Minority	155	-635	-53	-309	-340	-340
PAT	8,288	11,783	5,209	3,420	5,471	6,587
EPS (INR)	44.0	60.8	27.8	18.2	29.2	35.2

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	4,492	19,542	5,524	7,239	7,231	7,553
Net Cash Flow from/(used in) Investing Activities	(7,316)	(8,388)	(3,720)	(4,476)	(5,235)	(5,651)
Net Cash Flow from Financing Activities	1,549	(5,974)	(2,174)	(2,620)	(1,854)	(1,850)
Net Inc/Dec in cash equivalents	(1,276)	5,180	(369)	143	142	52
Opening Balance	2,056	808	1,058	694	823	896
Adjustments	27	(4,929)	5	(15)	(69)	-
Closing Balance Cash and Cash Equivalents	808	1,058	694	822	896	948

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	26.6%	28.9%	16.5%	12.5%	16.0%	17.3%
Tax rate (%)	19.9%	18.5%	16.7%	3.6%	22.0%	20.0%
Net Profit Margin (%)	18.0%	21.8%	9.8%	6.1%	8.9%	9.9%
RoE (%)	26.0%	23.3%	9.9%	7.8%	11.6%	12.7%
RoCE (%)	21.6%	26.1%	11.1%	9.8%	14.7%	16.0%
Current Ratio (x)	1.4	2.0	1.6	1.8	1.7	1.7
EPS (INR)	44.0	60.8	27.8	18.2	29.2	35.2

Source: Company, KRChoksey Research

Alembic Pharmaceuticals Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	377	393	393	393	393	393
Reserves and surplus	31,820	50,883	51,982	43,312	46,837	51,548
Shareholders' funds	31,907	50,670	52,375	43,705	47,230	51,941
Long-term borrowings	8,870	1,999	721	692	740	792
Short term borrowings	8,605	0	0	0	0	0
Total debt	17,475	1,999	721	692	740	792
Deferred tax liabilities (net)	122	42	0	0	0	0
Long-term provisions/ Other Liabilities	1,478	1,571	958	1,062	1,168	1,285
SOURCES OF FUNDS	50,982	54,282	54,055	45,459	49,139	54,018
PPE	15,249	17,037	17,423	23,985	25,945	28,064
Other Intangible Assets	269	856	564	0	0	0
Capital WIP	15,741	19,443	22,058	6,013	6,314	6,629
Intangible Assets under development	2,721	2,374	976	0	0	0
Non-current investments	176	0	0	0	0	0
Other financial assets	1,107	1,601	2,405	2,730	2,948	3,184
Non-current assets	35,263	41,311	43,426	32,728	35,207	37,878
Inventories	11,875	14,862	16,097	14,753	16,033	18,421
Trade receivables	8,648	3,486	8,071	10,464	11,746	12,701
Cash and Bank Balance	808	1,058	694	823	896	948
Other current & financial assets	3,300	6,373	2,931	3,060	5,696	6,027
Current assets	24,630	25,779	27,794	29,100	34,371	38,097
less: current liabilities and provisions	8,911	12,808	17,165	16,369	20,439	21,957
Trade payables	6,259	6,688	7,064	6,798	8,175	8,596
Other current liabilities	1,051	4,807	1,276	855	2,676	2,814
Other financial & current tax liabilities	1,219	793	8,189	8,015	8,817	9,698
Short-term provisions	382	520	636	701	771	848
Net current assets	15,719	12,971	10,629	12,731	13,932	16,140
APPLICATION OF FUNDS	50,982	54,282	54,055	45,459	49,139	54,018

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
06-May-23	554	704	BUY	Buy	More than 15%
08-Feb-23	528	704	BUY		
15-Nov-22	640	694	ACCUMULATE	Accumulate	5% – 15%
09-Aug-22	664	670	HOLD		
05-May-22	734	758	HOLD	Hold	0 – 5%
11-Feb-22	752	758	HOLD		
11-Nov-21	769	778	HOLD	Reduce	-5% – 0
27-Jul-21	793	801	HOLD		
30-Jun-21	987	995	HOLD	Sell	Less than – 5%
07-May-21	942	995	ACCUMULATE		
05-Apr-21	974	1,286	BUY		
17-Mar-21	924	1,286	BUY		
15-Dec-20	1,086	1,286	BUY		

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared, B.com), Research Analyst 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, Abhishek Agarwal (CA, CFA L3 cleared, B.com), Research Analyst 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, Abhishek Agarwal (CA, CFA L3 cleared, B.com), Research Analyst 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

Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5540

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