

07 August 2023

India | Equity research | Q1FY24 result review

Alembic Pharma

Pharma

Cost surge dampens margins

Alembic reported a healthy 17.7% YoY revenue growth driven by traction in the export business and APIs. Operational cost of three new plants impacted margins. Management does not expect any material escalation in overhead costs ahead. Company has launched only 5 products (15-20 filed) from the three new sites, which may not be able to improve profitability in the near term. India growth at 9% was higher than market growth and seasonality will likely play a pivotal role in driving growth for the next two quarters. We raise our FY24E / FY25E EPS by 9% / 7% to factor-in lower depreciation cost ahead. Post price run-up of 25% in last 1 month, the stock trades at an expensive 26x FY25E earnings. Downgrade to **REDUCE** with an increased target price of INR 705 (prior: INR 590) on 23x FY25E earnings of INR 31.

Revenue traction healthy; margins

Revenue for the quarter grew 17.7% YoY to INR 14.9bn (I-Sec: INR 13.7bn) led by healthy growth in the international markets. Gross margin expanded by 214bps YoY (292bps QoQ) to 72.2% led by improved product mix. EBITDA margin improved by 1,221bps YoY on a low base, but declined 172bps QoQ sequentially to 13.4% (I-Sec: 15%). Operating costs were elevated (up 28.1% YoY, 24.2% QoQ) due to commercialisation of the three new plants. Adjusted PAT stood at INR 1.2bn (I-Sec: INR 879mn) supported by higher other income (up 980% due to forex gains) and dip in depreciation.

US outlook unchanged; seasonality to drive India momentum

US sales was up 10.6% QoQ and 6.3% YoY to INR 3.9bn. Company launched 6 products in the US during the quarter. Launches from newly commissioned oncology and injectables facilities are expected to drive US business growth of 9.2% over FY23-FY25E. India revenue growth stood at 9.2% YoY (+6.9% QoQ). The business is expected to pick up in the coming quarters with onset of monsoon. Specialty, acute and animal health segments rose 7.6%, 12.7% and 11.1% respectively. We expect India business to grow 11.3% over FY23-FY25E. Other international markets were up 46.2% YoY (+6.8% QoQ) to INR 2.7bn. API sales was up 30.9% YoY (-2.6% QoQ) to INR 3bn led by higher offtake and better product mix. Company anticipates good growth in API business in FY24 led by a healthy orderbook.

Financial summary

| Y/E March (INR mn) | FY22A | FY23A | FY24E | FY25E |
|--------------------|--------|--------|--------|--------|
| Net Revenue | 53,058 | 56,526 | 63,265 | 69,689 |
| EBITDA | 8,742 | 7,083 | 9,363 | 11,290 |
| EBITDA Margin (%) | 16.5 | 12.5 | 14.8 | 16.2 |
| Net Profit | 5,457 | 3,420 | 4,739 | 6,014 |
| EPS (Rs) | 27.8 | 17.4 | 24.1 | 30.6 |
| EPS % Chg YoY | (53.7) | (27.7) | 35.7 | 25.4 |
| P/E (x) | 28.1 | 44.9 | 32.4 | 25.5 |
| EV/EBITDA (x) | 18.1 | 22.3 | 16.7 | 13.7 |
| RoCE (%) | 9.3 | 7.7 | 10.7 | 12.2 |
| RoE (%) | 10.5 | 7.1 | 10.4 | 12.2 |

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Market Data

| | |
|---------------------|-----------|
| Market Cap (INR) | 153bn |
| Market Cap (USD) | 1,855mn |
| Bloomberg Code | ALPM IN |
| Reuters Code | ALEM.BO |
| 52-week Range (INR) | 796 / 462 |
| Free Float (%) | 28.0 |
| ADTV-3M (mn) (USD) | 2.3 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| Absolute | 40.7 | 47.3 | 13.9 |
| Relative to Sensex | 7.2 | 9.0 | 14.2 |

| ESG Disclosure | 2021 | 2022 | Change |
|----------------|------|------|--------|
| ESG score | 34.1 | 34.1 | - |
| Environment | 2.1 | 2.1 | - |
| Social | 21.4 | 21.4 | - |
| Governance | 78.6 | 78.6 | - |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

| Earnings Revisions (%) | FY24E | FY25E |
|------------------------|-------|-------|
| Revenue | 1.1 | 1.1 |
| EBITDA | 1.1 | 1.1 |
| EPS | 8.9 | 6.6 |

Previous Reports

15-05-2023: [Re-initiating coverage](#)

02-02-2023: [Q3FY23 results review](#)

Valuations

Lower depreciation spend on account of the recent plant write offs and recalibration of R&D spend should partially offset pricing pressures in the US and additional costs related to plant commissioning. This will likely boost overall profitability and return ratios going forward. We expect revenue / EBITDA / PAT at CAGRs of 11% / 26.2% / 32.6% for FY23-FY25E respectively.

We raise our FY24E / FY25E EPS by 9% / 7% to factor-in lower depreciation cost ahead. The stock currently trades at 32.4x FY24E and 25.5x FY25E earnings, and EV/EBITDA multiples of 16.7x FY24E and 13.7x FY25E. Recent run-up in the stock price has made valuations expensive. Downgrade to **REDUCE** (from **Hold**) but increase the target price to INR 705/share based on 23x FY25E EPS (earlier TP: INR 590, based on 21x FY25E earnings). **Key upside risks:** Commercialisation of high-value launches, and moderation in overhead costs.

Q1FY24 concall highlights

India

- Expect to see significant momentum with onset of monsoon.

US

- F-4 plant in Jarod was inspected and received EIR. Company manufactures currently two products in this plant.
- Price erosion is still in double digits.
- Company has historically done well when there has been shortage in the market.
- Injectables is an area where there is relatively lesser competition, but disruptions continue in the market. Only 5 molecules (4 from oncology and 1 from general injectables) are currently launched in the US. 15-20 injectables have been currently filed.

API

- Reiterated guidance of 10-15% YoY growth for the business.
- Margins in the API business are currently at decent levels. Company expects to maintain these margins as raw material prices correct.

Financials and guidance

- R&D: Company is working on optimisation, and improvements on are on track. Target is of ~ INR 5bn, or lower, for FY24.
- Three plants have been capitalised. From 1st Apr'23, this has reflected on depreciation. Launched 5 products from these three plants
- Costs: Management does not foresee more cost increases with Q1 being considered the base. The cost surge in Q1 was on account of the three new plants getting approvals and product launches. Company is not capitalising any more costs and they are being charged to the P&L.
- Capex guidance is at INR4bn in FY24 largely towards maintenance capex.

Exhibit 1: Quarterly review

| INR mn | Q1FY24 | Q1FY23 | %YoY | Q4FY23 | % QoQ | FY22 | FY23 | %YoY |
|--------------------------|---------------|---------------|----------------|---------------|----------------|---------------|---------------|----------------|
| Sales | 14,862 | 12,621 | 17.7 | 14,065 | 5.7 | 53,058 | 56,526 | 6.5 |
| Gross Profit | 10,726 | 8,839 | 21.4 | 9,740 | 10.1 | 38,594 | 39,438 | 2.2 |
| Gross Margin (%) | 72.2 | 70.0 | 214bps | 69.3 | 292bps | 72.7 | 69.8 | -297bps |
| Employee expenses | 3,482 | 2,904 | 19.9 | 2,976 | 17.0 | 11,330 | 11,691 | 3.2 |
| Other expenses | 4,072 | 3,178 | 28.1 | 3,279 | 24.2 | 10,137 | 13,445 | 32.6 |
| R&D exp | 1,186 | 2,611 | (54.6) | 1,363 | (13.0) | 8,385 | 7,218 | (13.9) |
| EBITDA | 1,987 | 147 | 1,255.3 | 2,122 | (6.4) | 8,742 | 7,083 | (19.0) |
| EBITDA margin (%) | 13.4 | 1.2 | 1221bps | 15.1 | -172bps | 16.5 | 12.5 | -394bps |
| Finance expenses | 144 | 88 | 63.7 | 144 | 0.1 | 177 | 502 | 183.0 |
| Depreciation | 662 | 671 | (1.4) | 741 | (10.7) | 2,868 | 2,754 | (4.0) |
| Other income | 117 | 11 | 980.6 | 9 | 1,211.2 | 505 | 27 | (94.6) |
| PBT | 1,298 | (602) | (315.8) | 1,246 | 4.1 | 6,254 | 3,546 | (43.3) |
| Tax | 92 | (15) | (710.0) | (364) | (125.1) | 1,045 | 126 | (87.9) |
| Effective tax rate (%) | 7.0 | 2.5 | 456bps | (29.2) | 3628bps | 16.7 | 3.6 | -1315bps |
| Reported PAT | 1,206 | (659) | (283.1) | 1,526 | (21.0) | 5,457 | 3,420 | (37.3) |
| Adj PAT | 1,206 | (659) | (283.1) | 1,526 | (21.0) | 5,457 | 3,420 | (37.3) |

Source: Company data, I-Sec research

Exhibit 2: Business mix

| INR mn | Q1FY24 | Q1FY23 | % YoY | Q4FY23 | %QoQ |
|--------------------|---------------|---------------|-------------|---------------|--------------|
| Formulation | 11,800 | 10,290 | 14.7 | 10,930 | 8.0 |
| Domestic | 5,240 | 4,800 | 9.2 | 4,900 | 6.9 |
| % of sales | 35.3 | 38.0 | | 34.9 | |
| US | 3,900 | 3,670 | 6.3 | 3,540 | 10.2 |
| % of sales | 26.3 | 29.1 | | 25.2 | |
| Other exports | 2,660 | 1,820 | 46.2 | 2,490 | 6.8 |
| % of sales | 17.9 | 14.4 | | 17.7 | |
| API | 3,050 | 2,330 | 30.9 | 3,130 | (2.6) |
| % of sales | 20.5 | 18.5 | | 22.3 | |
| TOTAL | 14,850 | 12,620 | 17.7 | 14,060 | 5.6 |

Source: Company data, I-Sec research

Exhibit 3: Brand-wise breakdown

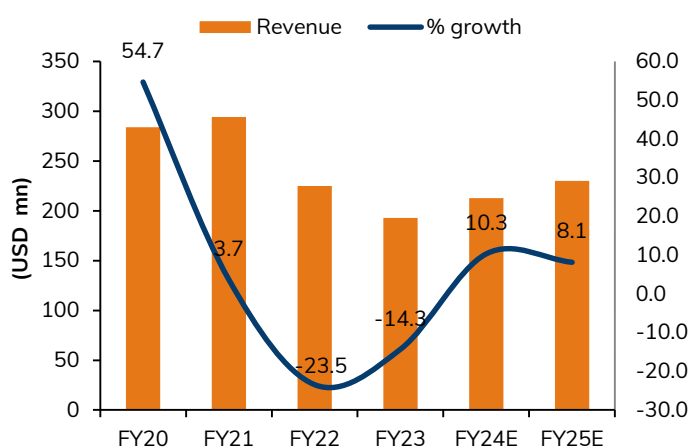
| Brands | Therapy | Q1FY23 | Q1FY24 | YoY (%) | Q4FY23 | QoQ (%) |
|------------|-------------------|--------|--------|---------|--------|---------|
| Azithral | Anti-Infectives | 1,145 | 1,279 | 11.7 | 1,279 | -2.3 |
| Wikoryl | Respiratory | 292 | 364 | 24.5 | 364 | -2.9 |
| Althrocin | Anti-Infectives | 261 | 288 | 10.4 | 288 | -11.2 |
| Gestofit | Gynaecological | 210 | 253 | 20.8 | 253 | 7.7 |
| Brozeet Ls | Respiratory | 121 | 234 | 93.9 | 234 | 9.0 |
| Crina Ncr | Gynaecological | 143 | 164 | 14.3 | 164 | -5.0 |
| Roxid | Anti-Infectives | 155 | 186 | 19.8 | 186 | 5.0 |
| Richar Cr | Gynaecological | 125 | 146 | 16.4 | 146 | -12.0 |
| Rekool D | Gastro Intestinal | 135 | 128 | -5.4 | 128 | -6.0 |
| Tellzy Am | Cardiac | 116 | 140 | 21.4 | 140 | 2.1 |

Source: IQVIA, I-Sec research

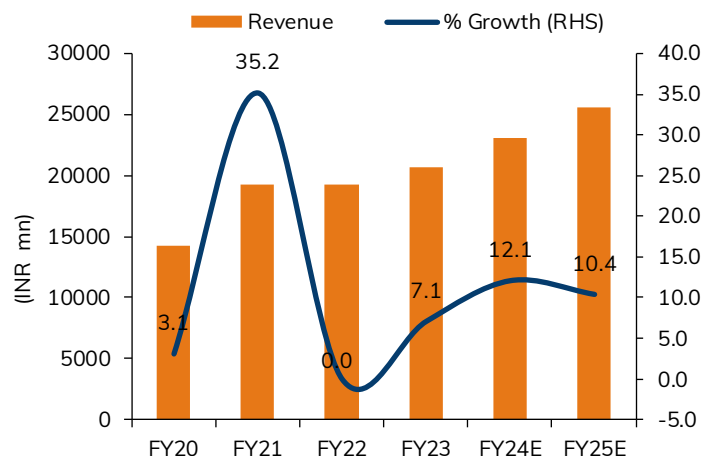
Exhibit 4: Therapy-wise breakdown

| SUPERGROUP | Q1FY23 | Q1FY24 | YoY (%) | Q4FY23 | QoQ (%) |
|-----------------------------|--------|--------|---------|--------|---------|
| Anti-Infectives | 1,229 | 1,403 | 14.2 | 1,889 | -25.7 |
| Cardiac | 1,153 | 1,230 | 6.8 | 1,157 | 6.4 |
| Respiratory | 673 | 764 | 13.5 | 1,266 | -39.7 |
| Gynaec. | 961 | 1,154 | 20.2 | 1,037 | 11.3 |
| Gastro Intestinal | 795 | 818 | 2.8 | 730 | 12.0 |
| Anti Diabetic | 582 | 604 | 3.8 | 568 | 6.4 |
| Vitamins/Minerals/Nutrients | 408 | 433 | 6.1 | 378 | 14.5 |
| Pain / Analgesics | 269 | 293 | 8.9 | 264 | 11.1 |
| Urology | 200 | 226 | 13.3 | 221 | 2.5 |
| Ophthal / Otologicals | 154 | 202 | 31.0 | 179 | 12.7 |

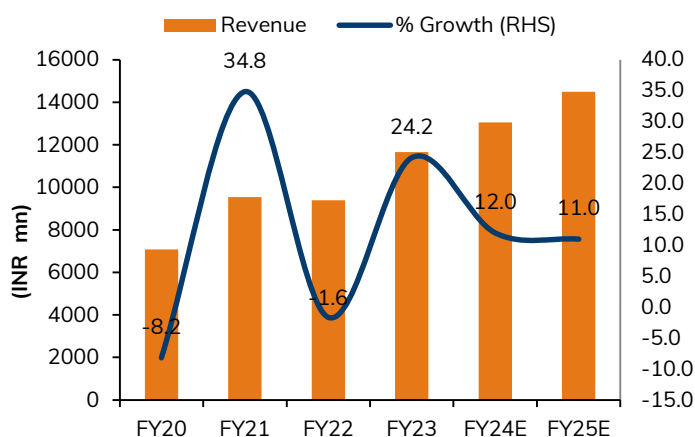
Source: IQVIA, I-Sec research

Exhibit 5: Market share loss has impacted US growth

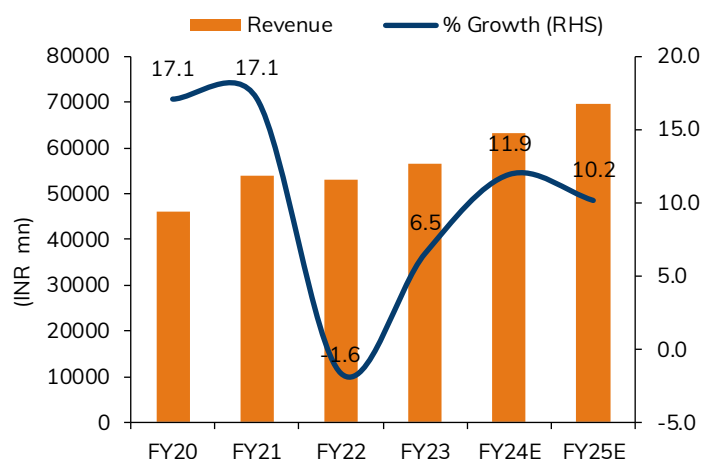
Source: Company data, I-Sec research

Exhibit 6: India growth likely to bounce back in FY24E

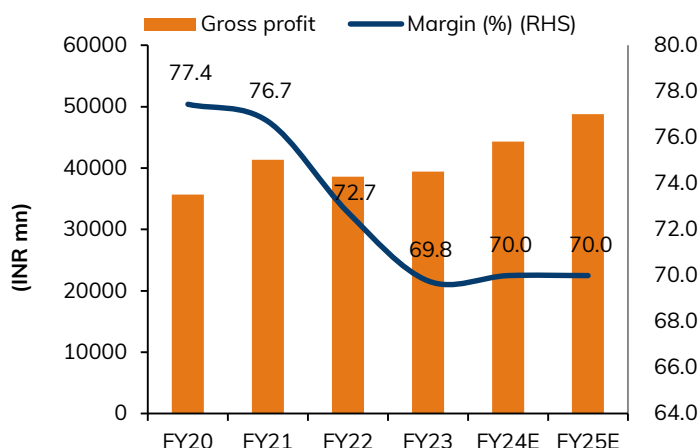
Source: Company data, I-Sec research

Exhibit 7: Healthy traction in APIs

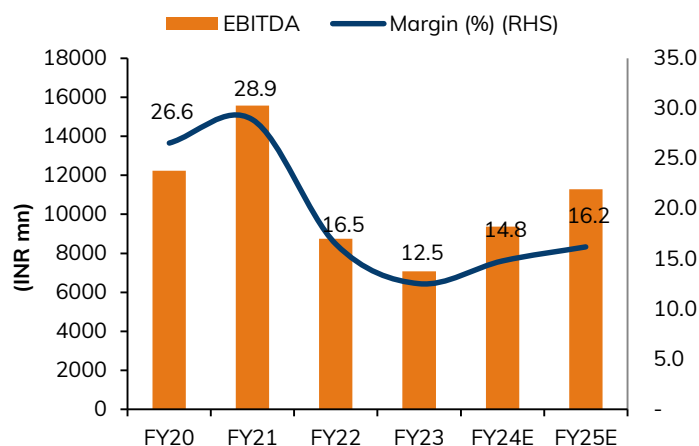
Source: Company data, I-Sec research

Exhibit 8: Revenue CAGR of 11% is expected over FY23-FY25E

Source: Company data, I-Sec research

Exhibit 9: Stability in India and US to comfort margins

Source: Company data, I-Sec research

Exhibit 10: EBITDA margin to remain range-bound with high overhead costs

Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

| % | Dec'22 | Mar'23 | Jun'23 |
|-------------------------|--------|--------|--------|
| Promoters | 69.6 | 69.6 | 69.6 |
| Institutional investors | 17.8 | 17.9 | 18.0 |
| MFs and others | 5.9 | 6.5 | 6.6 |
| FIs/Banks | 0.0 | 0.0 | 0.0 |
| Insurance | 6.6 | 6.6 | 6.7 |
| FIIIs | 5.3 | 4.8 | 4.7 |
| Others | 12.6 | 12.5 | 12.4 |

Source: Bloomberg

Exhibit 12: Price chart

Source: Bloomberg

Financial summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|
| Net Sales | 53,058 | 56,526 | 63,265 | 69,689 |
| Operating Expenses | 44,316 | 49,443 | 53,902 | 58,400 |
| EBITDA | 8,742 | 7,083 | 9,363 | 11,290 |
| EBITDA Margin (%) | 16.5 | 12.5 | 14.8 | 16.2 |
| Depreciation & Amortization | 2,868 | 2,754 | 2,815 | 3,183 |
| EBIT | 5,874 | 4,329 | 6,548 | 8,106 |
| Interest expenditure | 177 | 502 | 680 | 680 |
| Other Non-operating Income | 505 | 27 | 198 | 198 |
| Recurring PBT | 6,201 | 3,855 | 6,066 | 7,625 |
| Profit / (Loss) from Associates | 53 | (309) | (322) | (334) |
| Less: Taxes | 1,045 | 126 | 1,005 | 1,276 |
| PAT | 5,157 | 3,729 | 5,061 | 6,349 |
| Less: Minority Interest | 248 | - | - | - |
| Extraordinaries (Net) | - | - | - | - |
| Net Income (Reported) | 5,209 | 3,420 | 4,739 | 6,014 |
| Net Income (Adjusted) | 5,457 | 3,420 | 4,739 | 6,014 |

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets | 27,794 | 29,100 | 34,787 | 39,524 |
| of which cash & cash eqv. | 694 | 823 | 3,289 | 4,926 |
| Total Current Liabilities & Provisions | 10,865 | 10,011 | 12,851 | 13,869 |
| Net Current Assets | 16,929 | 19,090 | 21,936 | 25,656 |
| Investments | 1,184 | 963 | 971 | 979 |
| Net Fixed Assets | 41,021 | 29,997 | 31,182 | 31,999 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | - | - | - | - |
| Total Intangible Assets | 1,163 | 537 | 564 | 592 |
| Other assets | 59 | 1,230 | 1,230 | 1,230 |
| Deferred Tax assests | - | - | - | - |
| Total Assets | 60,355 | 51,818 | 55,883 | 60,456 |
| Liabilities | | | | |
| Borrowings | 6,300 | 6,359 | 6,800 | 6,800 |
| Deferred Tax Liability | - | - | - | - |
| provisions | 958 | 1,062 | 1,062 | 1,062 |
| other Liabilities | 721 | 692 | 775 | 854 |
| Equity Share Capital | 393 | 393 | 393 | 393 |
| Reserves & Surplus | 51,982 | 43,312 | 46,853 | 51,347 |
| Total Net Worth | 52,376 | 43,705 | 47,246 | 51,740 |
| Minority Interest | - | - | - | - |
| Total Liabilities | 60,355 | 51,818 | 55,883 | 60,456 |

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|--|----------------|---------------|--------------|--------------|
| Operating Cashflow | 4,364 | 5,408 | 7,713 | 7,647 |
| Working Capital Changes | (1,959) | 3,139 | 1,333 | 324 |
| Capital Commitments | 4,179 | (8,269) | 4,000 | 4,000 |
| Free Cashflow | 185 | 13,677 | 3,713 | 3,647 |
| Other investing cashflow | (1,120) | 951 | 8 | 8 |
| Cashflow from Investing Activities | (3,059) | 7,319 | (4,008) | (4,008) |
| Issue of Share Capital | - | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | 1,302 | 59 | 441 | - |
| Dividend paid | (1,379) | (864) | (1,198) | (1,520) |
| Others | (1,592) | (11,792) | (482) | (482) |
| Cash flow from Financing Activities | (1,669) | (12,598) | (1,238) | (2,002) |
| Chg. in Cash & Bank balance | (364) | 128 | 2,467 | 1,637 |
| Closing cash & balance | 694 | 823 | 3,289 | 4,926 |

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

| | FY22A | FY23A | FY24E | FY25E |
|-----------------------------|--------|--------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 26.2 | 19.0 | 25.7 | 32.3 |
| Adjusted EPS (Diluted) | 27.8 | 17.4 | 24.1 | 30.6 |
| Cash EPS | 42.4 | 31.4 | 38.4 | 46.8 |
| Dividend per share (DPS) | 7.0 | 4.4 | 6.1 | 7.7 |
| Book Value per share (BV) | 266.5 | 222.4 | 240.4 | 263.2 |
| Dividend Payout (%) | 26.7 | 23.2 | 23.7 | 23.9 |
| Growth (%) | | | | |
| Net Sales | (1.6) | 6.5 | 11.9 | 10.2 |
| EBITDA | (43.9) | (19.0) | 32.2 | 20.6 |
| EPS (INR) | (53.7) | (27.7) | 35.7 | 25.4 |
| Valuation Ratios (x) | | | | |
| P/E | 28.1 | 44.9 | 32.4 | 25.5 |
| P/CEPS | 18.4 | 24.8 | 20.3 | 16.7 |
| P/BV | 2.9 | 3.5 | 3.2 | 3.0 |
| EV / EBITDA | 18.1 | 22.3 | 16.7 | 13.7 |
| P / Sales | 2.9 | 2.7 | 2.4 | 2.2 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 72.7 | 69.8 | 70.0 | 70.0 |
| EBITDA Margins (%) | 16.5 | 12.5 | 14.8 | 16.2 |
| Effective Tax Rate (%) | 16.8 | 3.3 | 16.6 | 16.7 |
| Net Profit Margins (%) | 10.3 | 6.0 | 7.5 | 8.6 |
| Net Debt / Equity (x) | 0.1 | 0.1 | 0.1 | 0.0 |
| Net Debt / EBITDA (x) | 0.5 | 0.6 | 0.3 | 0.1 |
| Profitability Ratios | | | | |
| RoCE (%) | 9.3 | 7.7 | 10.7 | 12.2 |
| RoE (%) | 10.5 | 7.1 | 10.4 | 12.2 |
| RoIC (%) | 9.3 | 8.7 | 11.1 | 13.0 |
| Fixed Asset Turnover (x) | 3.1 | 2.7 | 2.5 | 2.5 |
| Inventory Turnover Days | 110 | 98 | 101 | 100 |
| Receivables Days | 55 | 70 | 71 | 71 |
| Payables Days | 48 | 45 | 57 | 56 |

Source Company data, I-Sec research

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