

Alembic Pharma

Estimate change

TP change

Rating change



Bloomberg	ALPM IN
Equity Shares (m)	189
M.Cap.(INRb)/(USD\$b)	145.5 / 1.7
52-Week Range (INR)	839 / 462
1, 6, 12 Rel. Per (%)	-3/26/11
12M Avg Val (INR M)	124

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	56.5	61.7	66.4
EBITDA	8.2	8.9	10.5
Adj. PAT	4.3	5.6	6.7
EBIT Margin (%)	10.4	10.3	11.8
Cons. Adj. EPS (INR)	21.9	28.6	33.8
EPS Gr. (%)	-37.6	31.0	18.2
BV/Sh. (INR)	222.4	245.3	273.4

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	8.3	12.1	12.9
RoCE (%)	10.4	11.7	12.4
Payout (%)	27.7	21.0	17.8

Valuations

P/E (x)	33.9	25.8	21.9
EV/EBITDA (x)	23.0	21.1	17.7
Div. Yield (%)	0.6	0.7	0.7
FCF Yield (%)	1.3	-0.1	1.2
EV/Sales (x)	3.3	3.0	2.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	69.6	69.6	69.6
DII	14.2	13.7	12.5
FII	4.5	4.3	5.3
Others	11.7	12.4	12.5

FII Includes depository receipts

CMP: INR740

TP: INR710 (-4%)

Neutral

US business prospects to pick up gradually

Seasonality affects India business growth

- Alembic Pharma (ALPM) delivered a slight miss on 2QFY24 earnings. The improvement in export formulation and API segment was offset to some extent by muted performance in domestic formulation (DF) segment.
- We reduce our FY24 earnings estimate by 6%, factoring in a) weak season impact in DF segment, and b) increased marketing and promotional spending in DF segment. We value ALPM at 19x 12M forward earnings to arrive at a TP of INR710.
- While an establishment inspection report (EIR) is in place for all facilities focusing on US generics market, sales are expected to pick up with new launches in injectable/oncology products. ALPM also plans to add a division in high-growth therapies to further enhance growth prospects in DF segment. However, the current valuation adequately factors in a 24% earnings CAGR over FY23-25. Hence, we maintain **Neutral on the stock**.

Increased opex outweighs product mix benefits

- Sales grew 8% YoY to INR15.9b (our est. INR15.4b). DF sales rose 5% YoY to INR5.8b (36% of sales). API sales increased by 9.5% YoY to INR3.2b (20% of sales). Excluding US generics exports, sales grew 17.2% YoY to INR2.5b (16% of sales). US generics sales rose 6.2% YoY to INR4.4b (USD54m; 28% of sales) due to new launches and market share gain in existing products.
- Gross margin expanded 110bp YoY to 71.1% due to a superior product mix and lower RM costs.
- However, EBITDA margin contracted by 270bp YoY to 13.1%, due to higher employee costs/other expenses (+210/+440bp YoY as % of sales), offset by lower R&D expenses (down 270bp as a % of sales).
- Consequently, EBITDA declined 10.5% YoY to INR2.1b (our est. INR2.4b).
- Adj. PAT declined 7% YoY to INR1.4b (our est. INR1.4b) due to higher interest expenses.
- In 1HFY24, revenue/EBITDA/PAT grew 13%/17%/33% YoY to INR30.8b/INR4.1b/INR2.6b.

Highlights from the management commentary

- ALPM added a new division in animal health business, and its benefits would be reflected in coming quarters.
- ALPM filed two ANDAs and received six approvals in 2QFY24. ALPM launched three products in US generics segment in 2QFY24. It intends to file about 15 products on annualized basis.
- ALPM launched two general injectable products and a couple of products on the onco-injectables front.
- The shortages in dermatology products helped ALPM gain business in 2Q.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (Sumit.G@MotilalOswal.com) | Akash Manish Dobhada (Akash.Dobhada@MotilalOswal.com)

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 perf. (Consol.)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	vs Est
Net Sales	12,621	14,750	15,090	14,065	14,862	15,949	15,913	14,973	56,526	61,697	15,359	3.8%
YoY Change (%)	-4.8	14.1	18.7	-0.7	17.7	8.1	5.5	6.5	6.5	9.1	4.1	
Total Expenditure	11,475	12,423	12,603	11,833	12,874	13,867	13,590	12,481	48,333	52,812	13,132	
EBITDA	1,147	2,328	2,488	2,232	1,987	2,083	2,323	2,492	8,194	8,885	2,227	-6.5%
YoY Change (%)	-51.4	-9.5	-2.7	-21.2	73.3	-10.5	-6.6	11.7	-17.8	8.4	-4.3	
Margins (%)	9.1	15.8	16.5	15.9	13.4	13.1	14.6	16.6	14.5	14.4	14.5	-144.3
Depreciation	521	517	535	741	662	676	630	592	2,314	2,560	620	
EBIT	626	1,811	1,953	1,490	1,325	1,407	1,693	1,900	5,880	11,445	1,607	-12.5%
YoY Change (%)	-65.8	-10.6	-2.2	-33.8	111.9	-22.3	-6.5	-2.7	-24.2	94.7	156.9	
Interest	88	124	146	144	144	157	138	121	502	560	140	
Other Income	11	3	4	9	117	102	125	142	27	485	120	
PBT before EO expense	548	1,690	1,811	1,356	1,298	1,352	1,680	1,920	5,405	6,250	1,587	-14.8%
Extra-Ord expense	1,150	160	130	110	0	0	0	0	1,550	0	0	
PBT	-602	1,530	1,681	1,246	1,298	1,352	1,680	1,920	3,855	6,250	1,587	-14.8%
Tax	-15	180	326	-364	92	-19	210	280	126	562	159	
Rate (%)	2.5	11.7	19.4	-29.2	7.0	-1.4	12.5	14.6	3.3	9.0	10.0	
MI & P/L of Asso. Cos.	72	17	136	85	0	0	0	60	309	60	0	
Reported PAT	-659	1,334	1,220	1,525	1,207	1,371	1,470	1,580	3,420	5,628	1,428	-4.0%
Adj PAT	463	1,475	1,324	1,034	1,207	1,371	1,470	1,580	4,296	5,628	1,428	-4.0%
YoY Change (%)	-71.9	-12.9	-24.9	-42.1	160.8	-7.1	-0.3	19.3	-37.6	31.0	208.8	
Margins (%)	3.7	10.0	8.8	7.4	8.1	8.6	9.2	10.6	7.6	9.1	9.3	

Key performance Indicators (Consolidated)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
India	4,800	5,490	5,450	4,890	5,240	5,770	5,832	5,188	20,630	22,030
YoY Change (%)	(0.2)	7.9	11.7	8.9	9.2	5.1	7.0	6.1	7.1	6.8
Exports	5,490	6,330	6,380	6,040	6,570	6,960	6,756	6,596	24,240	26,882
YoY Change (%)	(3.0)	16.1	8.9	(18.9)	19.7	10.0	5.9	9.2	(0.7)	10.9
APIs	2,330	2,940	3,260	3,130	3,050	3,220	3,325	3,189	11,660	12,784
YoY Change (%)	(16.5)	23.0	64.6	41.0	30.9	9.5	2.0	1.9	24.2	9.6
Cost Break-up										
RM Cost (% of Sales)	30.0	30.0	30.2	30.8	27.8	28.9	28.7	28.5	30.2	28.5
Staff Cost (% of Sales)	23.0	19.6	19.3	21.2	23.4	21.8	21.4	21.5	20.7	22.0
R&D Expenses (% of Sales)	11.6	10.3	9.5	8.9	8.0	7.6	7.2	7.2	9.8	7.5
Other Cost (% of Sales)	26.3	24.3	24.5	23.3	27.4	28.7	28.1	26.1	24.8	27.6
Gross Margins(%)	70.0	70.0	69.8	69.2	72.2	71.1	71.3	71.5	69.8	71.5
EBITDA Margins(%)	9.1	15.8	16.5	15.9	13.4	13.1	14.6	16.6	14.5	14.4
EBIT Margins(%)	5.0	12.3	12.9	10.6	8.9	8.8	10.6	12.7	10.4	18.6

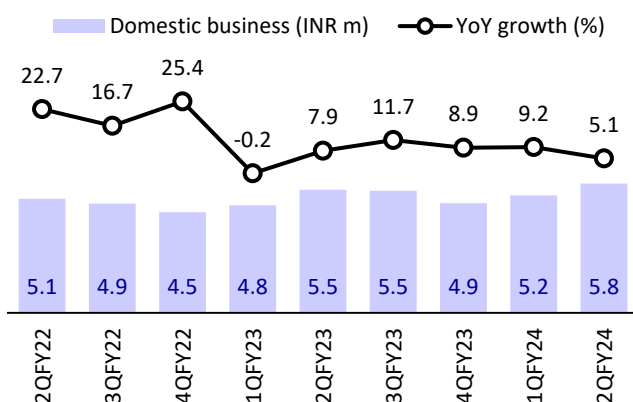


Key takeaways from the management commentary

- ALPM indicated high single digit to low double digit YoY growth in DF segment for FY24.
- 2QFY24 other expenses to be considered as the base going forward with some reduction due to lower marketing spending.
- 12MW solar plant has been commissioned and the effect to be seen in 3QFY24.
- The price erosion in injectable products is relatively lower compared to oral solids.

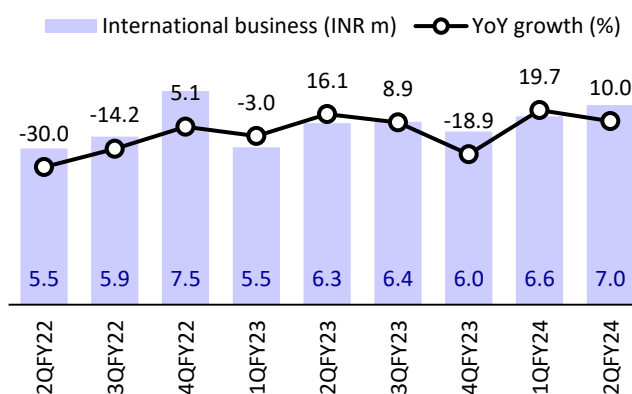
Key exhibits

Exhibit 1: DF sales grew 5.1% YoY in 2QFY24



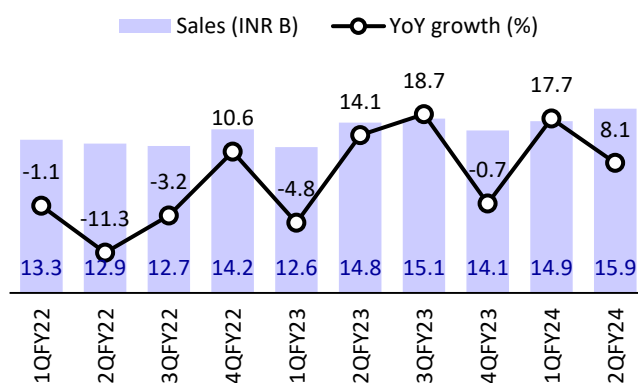
Source: MOFSL, Company

Exhibit 2: International business grew 10% YoY in 2QFY24



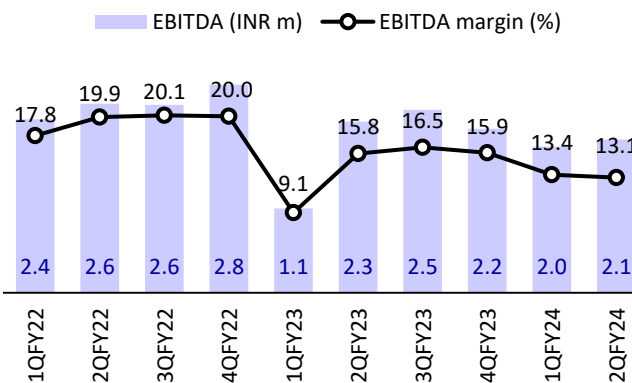
Source: MOFSL, Company

Exhibit 3: Sales increased 8.1% YoY in 2QFY24



Source: MOFSL, Company

Exhibit 4: EBITDA margin contracted 270bp YoY in 2QFY24



Source: MOFSL, Company

Work-in-progress to scale up in key markets

US: Expansion of injectable portfolio to drive growth gradually

- In 1HFY24, ALPM's US business was largely flat YoY at USD102m. This was due to continued price erosion, which was partially offset by new product launches and market share gains.
- ALPM filed seven ANDAs in 1HFY24 and launched 10 products in the US market. It plans to launch 10 products in US business in 2HFY24.
- Additionally, with the commissioning of the new facility, ALPM expects launches from the new facilities to drive growth in coming quarters.
- Further, it is witnessing strong traction in the derma portfolio due to shortages at the industry level.
- Considering new launches in injectable and a scale-up in existing products, we expect a 9.4% sales CAGR to USD235m over FY23-25.

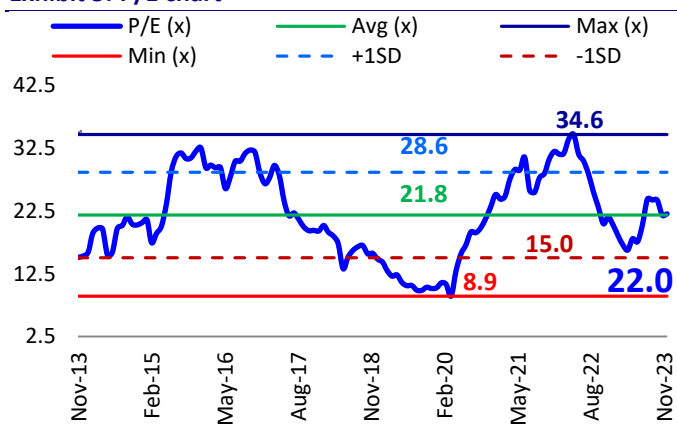
India: Strong growth in chronic/animal health to more than offset the decline in acute portfolio

- In 1HFY24, ALPM's overall India business grew 7% YoY to INR11b due a strong performance in the specialty segment, offset by a muted performance in the acute portfolio.
- In specialty, Gynae delivered a robust growth of 17.4% in 2QFY24 as its key product Isofit registered revenue of INR151m, which was offset by a decline in Anti-infective and Respiratory therapy (8.2%/3.8% YoY).
- However, there is a revival in growth of Anti-infective and respiratory therapy in Sep'23 due to an increase in infection cases.
- During MAT Sept'23, ALPM's prescription base increased by 2% to 129m. Additionally, the company plans to launch key products in 2HFY24, which would enhance growth.
- In 1HFY24 ALPM registered a growth of 22% YoY to INR1.8b in Animal health segment. The company is enhancing its efforts by establishing new division with 350 MRs.
- We expect an 8.2% sales CAGR to INR24.1b over FY23-25.

Reiterate Neutral

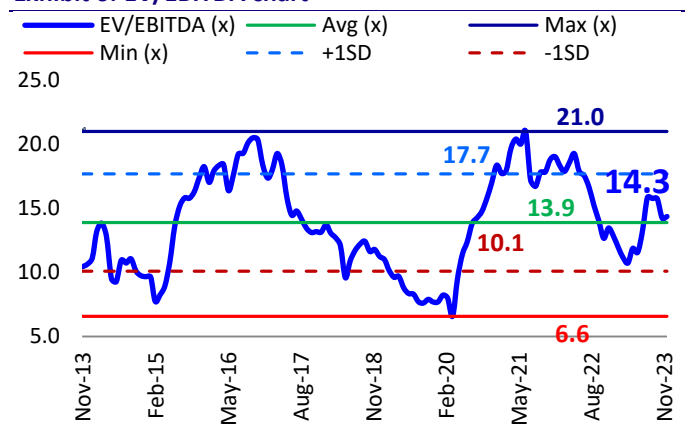
- We reduce our earnings estimate by 6% for FY24, factoring in a) weak season impact in DF segment, and b) increased marketing and promotional spend in DF segment. We value ALPM at 19x 12M forward earnings to arrive a TP of INR710.
- While an establishment inspection report (EIR) is in place for all facilities focusing on US generics, sales are expected to pick up with new launches in injectable/oncology products. ALPM also plans to add a division in high-growth therapies to further enhance growth prospects in DF segment. However, the current valuation adequately factors in a 24% earnings CAGR over FY23-25. Hence, we maintain **Neutral on the stock**.

Exhibit 5: P/E chart



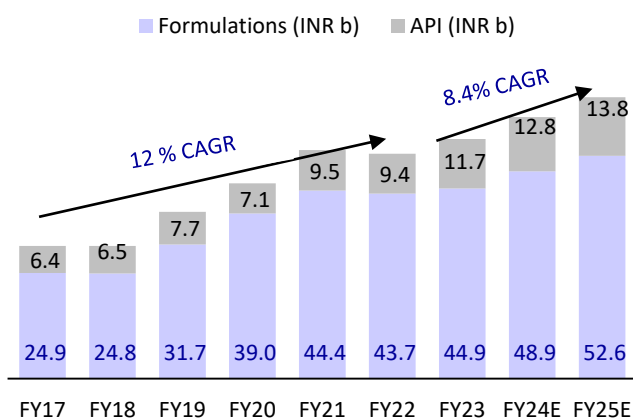
Source: MOFSL, Company, Bloomberg

Exhibit 6: EV/EBITDA chart

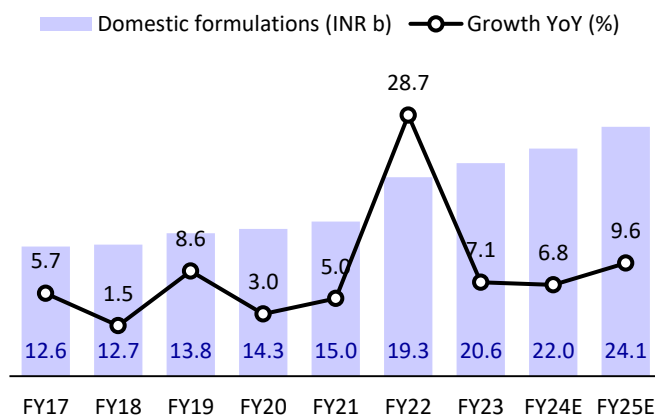


Source: MOFSL, Company, Bloomberg

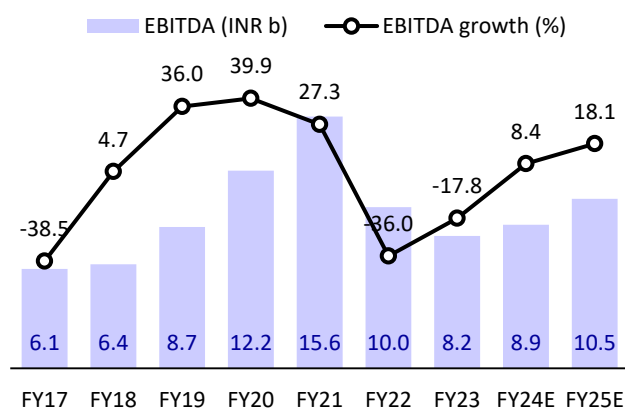
Story in charts

Exhibit 7: Formulation sales CAGR to be 8.4% over FY23-25E


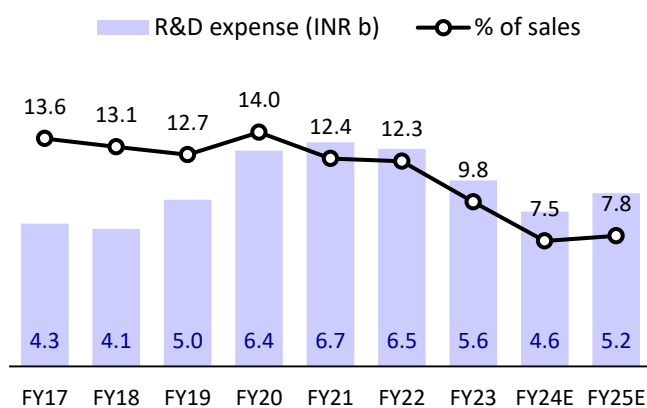
Source: MOFSL, Company

Exhibit 8: Expect DF to exhibit 8.2% CAGR over FY23-25


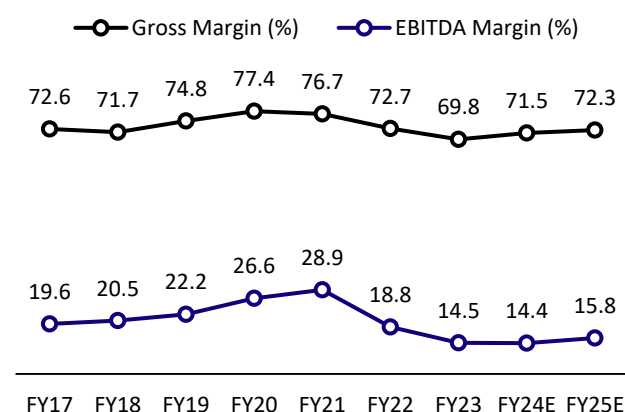
Source: MOFSL, Company

Exhibit 9: EBITDA CAGR to be 13% during FY23-25E


Source: MOFSL, Company

Exhibit 10: R&D expenses as a % of sales to decline


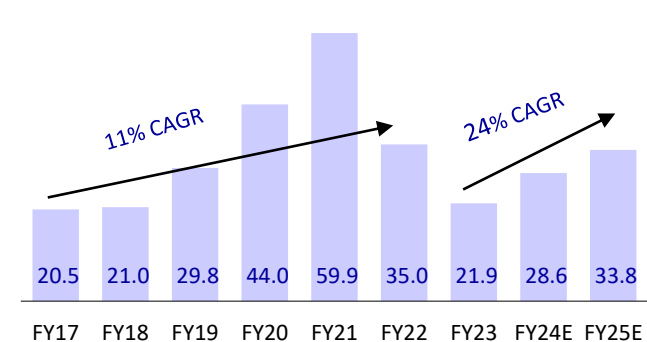
Source: MOFSL, Company

Exhibit 11: Margin to improve over FY23-25E


Source: MOFSL, Company

Exhibit 12: Earnings CAGR to be 24% over FY23-25E

EPS (INR/ share)



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	39,357	46,060	53,931	53,058	56,526	61,697	66,396
Change (%)	25.7	17.0	17.1	-1.6	6.5	9.1	7.6
EBITDA	8,746	12,233	15,575	9,972	8,194	8,885	10,491
Change (%)	36.0	39.9	27.3	-36.0	-17.8	8.4	18.1
Margin (%)	22.2	26.6	28.9	18.8	14.5	14.4	15.8
Depreciation	1,152	1,573	1,835	2,218	2,314	2,560	2,623
EBIT	7,594	10,660	13,741	7,754	5,880	6,326	7,867
Int. and Finance Charges	184	272	160	177	502	560	544
Other Income - Rec.	94	49	100	505	27	485	490
PBT bef. EO Exp.	7,503	10,437	13,681	8,081	5,405	6,250	7,813
EO Expense/(Income)	0	436	0	1,880	1,550	0	0
PBT after EO Exp.	7,503	10,001	13,681	6,201	3,855	6,250	7,813
Current Tax	1,781	2,046	2,629	1,279	42	1,437	1,797
Deferred Tax	-214	-54	-96	-235	84	-875	-703
Tax Rate (%)	20.9	19.9	18.5	16.8	3.3	9.0	14.0
MI & P/L of Asso. Cos.	82.0	-284.7	-633.5	-300.3	309.2	60.0	69.0
Reported PAT	5,854	8,294	11,781	5,457	3,420	5,628	6,650
PAT Adj for EO items	5,854	8,643	11,781	6,889	4,296	5,628	6,650
Change (%)	41.8	47.7	36.3	-41.5	-37.6	31.0	18.2
Margin (%)	14.9	18.8	21.8	13.0	7.6	9.1	10.0

Consolidated - Balance Sheet

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	377	377	393	393	393	393	393
Total Reserves	26,811	31,820	50,883	51,982	43,312	47,816	53,352
Preference Capital	0	0	0	0	0	0	0
Net Worth	27,188	32,197	51,276	52,375	43,705	48,209	53,745
Minority Interest	-8	-290	-606	0	0	0	0
Deferred Liabilities	188	122	42	0	0	-875	-1,578
Total Loans	9,284	18,208	2,715	7,021	7,051	6,952	6,854
Capital Employed	36,652	50,237	53,426	59,397	50,756	54,286	59,021
Gross Block	15,156	20,700	24,909	27,221	35,532	44,460	49,225
Less: Accum. Deprn.	3,608	5,181	7,016	9,234	11,548	14,107	16,731
Net Fixed Assets	11,585	15,518	17,893	17,987	23,985	30,353	32,495
Capital WIP	15,512	18,462	21,817	23,034	6,013	3,085	3,320
Total Investments	488	179	2,363	1,184	963	963	963
Curr. Assets, Loans&Adv.	20,193	25,734	25,017	29,015	30,868	31,195	34,162
Inventory	9,673	11,875	14,862	16,097	14,753	14,452	15,116
Account Receivables	4,889	8,648	3,486	8,071	10,464	10,142	10,914
Cash and Bank Balance	2,056	808	1,058	694	823	1,688	3,142
Loans and Advances	3,576	4,404	5,612	4,153	4,828	4,913	4,990
Curr. Liability & Prov.	11,125	9,656	13,663	11,824	11,073	11,310	11,919
Account Payables	6,443	6,259	6,688	7,064	6,798	6,995	7,317
Other Current Liabilities	3,838	2,270	5,601	3,165	2,512	2,742	2,951
Provisions	844	1,127	1,375	1,595	1,763	1,573	1,652
Net Current Assets	9,068	16,078	11,354	17,192	19,795	19,885	22,243
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	36,652	50,238	53,426	59,397	50,756	54,286	59,021

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	29.8	44.0	59.9	35.0	21.9	28.6	33.8
Cash EPS	37.2	54.2	69.3	46.3	33.6	41.6	47.2
BV/Share	144.2	170.8	260.9	266.5	222.4	245.3	273.4
DPS	5.5	10.0	10.4	10.4	4.2	5.2	5.2
Payout (%)	21.3	27.4	20.1	43.4	27.7	21.0	17.8
Valuation (x)							
P/E	24.8	16.8	12.3	21.1	33.9	25.8	21.9
Cash P/E	19.9	13.7	10.7	16.0	22.0	17.8	15.7
P/BV	5.1	4.3	2.8	2.8	3.3	3.0	2.7
EV/Sales	4.8	4.3	3.4	3.5	3.3	3.0	2.8
EV/EBITDA	21.6	16.3	11.8	18.9	23.0	21.1	17.7
Dividend Yield (%)	0.7	1.4	1.4	1.4	0.6	0.7	0.7
Return Ratios (%)							
RoE	23.4	30.1	29.7	13.9	8.3	12.1	12.9
RoCE	18.5	19.7	21.6	12.1	10.4	11.7	12.4
RoIC	31.8	34.6	38.0	20.6	14.7	12.6	13.5
Working Capital Ratios							
Asset Turnover (x)	1.1	0.9	1.0	0.9	1.1	1.1	1.1
Inventory (Days)	90	94	101	111	95	85	83
Debtor (Days)	45	69	24	56	68	60	60
Creditor (Days)	60	50	45	49	44	41	40
Leverage Ratio (x)							
Net Debt/Equity	0.3	0.5	0.0	0.1	0.1	0.1	0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INRm)							
Net Profit / (Loss) Before Tax	7,493	9,998	13,681	6,201	3,546	6,249	7,813
Depreciation	1,152	1,573	1,835	2,868	2,754	2,560	2,623
Interest & Finance Charges	184	272	160	131	502	75	54
Direct Taxes Paid	1,665	2,361	2,454	1,234	607	1,437	1,797
(Inc)/Dec in WC	1,116	-5,844	2,395	-3,673	-576	775	-905
CF from Operations	8,281	3,638	15,617	4,292	5,619	8,222	7,789
Others	-161	853	-983	1,231	1,620	0	0
CF from Operating incl EO	8,119	4,491	14,634	5,524	7,239	8,222	7,789
(inc)/dec in FA	-6,539	-6,726	-6,592	-4,243	-4,434	-6,000	-5,000
Free Cash Flow	1,580	-2,235	8,041	1,281	2,805	2,222	2,789
(Pur)/Sale of Investments	39	23	-1,796	523	-64	0	0
Others	-1,055	-613	0	17	22	485	490
CF from Investments	-7,556	-7,316	-8,388	-3,702	-4,476	-5,515	-4,510
Issue of Shares	0	0	0	0	0	0	0
(Inc)/Dec in Debt	2,206	5,919	-12,398	1,300	-172	-99	-98
Interest Paid	-703	-1,111	6,611	-519	-497	-560	-544
Dividend Paid	-909	-3,260	0	-2,752	-1,966	-1,183	-1,183
Others	-1	27	-208	-214	0	0	0
CF from Fin. Activity	592	1,576	-5,994	-2,186	-2,635	-1,842	-1,825
Inc/Dec of Cash	1,156	-1,249	252	-364	129	865	1,454
Add: Beginning Balance	900	2,055	807	1,059	694	823	1,688
Closing Balance	2,055	807	1,058	694	823	1,688	3,142
Bank balances/overdraft/others				0	0	0	0
Total Cash and Cash Eq	2,056	807	1,059	694	823	1,688	3,142

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
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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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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