HOLD (Maintained)

CMP: INR 881 Target Price: INR 925 (INR 1,125) ▲ 5%

ICICI Securities

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04 February 2025

India | Equity Research | Results update

Alembic Pharma

Pharma

In pursuit of a turnaround

Alembic Pharma's (Alembic) Q3FY25 result was dragged by tepid performance in India and API biz. India biz growth has been weaker (5.8% in 9MFY25) for the last couple of quarters due to pressure in acute segment even though animal health biz has been growing <20%. It is launching new products across therapies which should boost growth in human formulations biz, while traction in animal health segment will be maintained. US sales rose 8.6% YoY to USD 62mn, boosted by new launches. In Q4, it will further launch 5 products which may ensure that the momentum is US biz is unhurt. Fall in API biz could be arrested and other international market may continue to grow faster ahead. Cut FY25/26E EPS by ~9–14% on slower recovery in India. Maintain **HOLD** with lower TP of INR 925, on 24x FY26E EPS.

Tepid performance in API and India biz drags Q3 result

Revenue for the quarter grew 3.8% YoY (+2.7% QoQ) to INR 16.9bn (I-Sec: INR 18.2bn) dragged by muted performance in India and 10% sales dip in API biz. Gross margin expanded 229bps YoY (7bps QoQ) to 74% due to product mix change. R&D rose 3.8% YoY (-10.1% QoQ) to INR 1.2bn (7% of sales). EBITDA declined 2.3% YoY (+8.8% QoQ) to INR 1.2bn (I-Sec: INR 2.6bn) due to 10% surge in overhead cost. EBITDA margin contracted 96bps YoY (+85bps QoQ) to 15.4% (I-Sec: 16.2%). PAT at INR 1.4bn (I-Sec: INR 1.7bn) declined 23.3% YoY (2.8% QoQ).

Traction across key markets to pick up and improve margins

US sales were up 9.9% YoY (-11.6% QoQ) to INR 5.2bn (USD 62mn) driven by ramp up in key launches and market share gains in existing products (volumes up 30% in Q3FY25). In the US, it launched two products in Q3FY25 (cumulative count to 159 products) and plans to launch five more products in Q4. We believe US biz of Alembic may register 9.2% CAGR over FY24–27E. India business grew mere 3.0% YoY (0.8% QoQ) at INR 6.1bn. Growth was dragged by 10.4% YoY dip in acute segment (INR 1.8bn sales in Q3FY25) while specialty segment grew at a moderate pace of 6%. Momentum in animal health segment was maintained; it posted 21.9% YoY jump in sales led by new launches in poultry segment. We expect India business to grow 9.5% over FY24–27E. Other international markets were up 9.9% YoY (0.3% QoQ) to INR 3.0bn. Demand outlook for this segment remains strong. API sales dipped 10.4% YoY (-5.5% QoQ) to INR 2.6bn due to low off take from a few customers and price erosion.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	62,286	65,472	72,463	79,907
EBITDA	9,334	10,410	12,174	14,064
EBITDA Margin (%)	15.0	15.9	16.8	17.6
Net Profit	6,158	6,089	7,633	9,390
EPS (INR)	31.3	31.0	38.8	47.8
EPS % Chg YoY	80.1	(1.1)	25.3	23.0
P/E (x)	28.1	28.9	22.7	18.4
EV/EBITDA (x)	18.9	16.6	13.9	11.7
RoCE (%)	12.9	12.2	13.6	15.2
RoE (%)	13.4	11.9	13.7	15.2

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Market Data

Market Cap (INR)	178bn
Market Cap (USD)	2,046mn
Bloomberg Code	ALPM IN
Reuters Code	ALEM.BO
52-week Range (INR)	1,304 /823
Free Float (%)	28.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	(19.5)	(27.1)	(5.2)
Relative to Sensex	(16.3)	(22.4)	(12.3)

ESG Score	2022	2023	Change
ESG score	NA	68.1	NA
Environment	NA	58.0	NA
Social	NA	64.0	NA
Governance	NA	74.7	NA

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(3.0)	(4.3)
EBITDA	(7.1)	(11.1)
EPS	(8.8)	(13.6)

Previous Reports

08-11-2024: Q2FY25 results review

29-09-2024: Company Update

FY26 guidance

US – In Q4FY25, US revenue will grow over 10%. Management expects growth in US business to accelerate ahead, driven by new launches (5 targeted in Q4FY25).

India – Pain in acute division is expected to be behind; it aims to grow India biz in line with IPM growth. Momentum in animal health segment is likely to be maintained ahead.

Other international markets – In Q4FY25, the segment is likely to grow 15-20%. Demand outlook for this segment is strong and growth is expected to accelerate from hereon.

API – Revenue in Q4FY25 is likely to be flattish and growth will bounce back in FY26.

Margins – In FY26, management expects 100-150bps YoY improvement in its EBITDA margin.

Valuation

Alembic's performance in Q3FY25 was below our expectation due to drag in its API and acute segment in India. Muted revenue growth and overhead cost escalation of 10% led to drag in EBITDA (-2.3% YoY) and profits (-23.3%). Management is hopeful of a growth recovery in Q4FY25 as fall in its acute division in India and API biz is likely to be arrested. Exports could pick-up pace as the company has a good orderbook for other international markets while new launch pace for US market may improve (targeting 5 launches in Q4FY25). In India, it has reframed its growth strategy and will accelerate new launches across 4 new therapies of ophthalmology, dermatology, gynecology and anti-diabetes which should help the company grow in line with IPM growth rate. On low base, we expect EBITDA margin to surge 260bps over FY24-27E to 17.6%. We lower our FY25/26E earnings by 9%/14%. We expect revenue/EBITDA/PAT CAGR of 8.7%/14.6%/15.1% for FY24–27E, respectively. The stock currently trades at 22.7x FY26E and 18.4x FY27E earnings, and EV/EBITDA multiples of 13.9x FY26E and 11.7x FY27E. We retain **HOLD** but lower target price to INR 925 (from INR 1,125), based on 24x FY26E EPS (earlier 25x FY26E EPS).

Key upside risks: Commercialisation of high-value launches and moderation in overhead costs.

Key downside risks: Delay in launches of key products in US, regulatory issues at plants and more products under price control in India.

Exhibit 1: Quarterly review

YE 31 March (INR mn)	Q3FY25	Q3FY24	%YoY	Q2FY25	% QoQ	9MFY25	9MFY24	%YoY
Sales	16,927	16,306	3.8	16,480	2.7	49,025	47,117	4.0
Gross Profit	12,532	11,698	7.1	12,189	2.8	36,397	33,759	7.8
Gross Margin (%)	74.0	71.7	229bps	74.0	7bps	74.2	71.7	259bps
Employee expenses	3,975	3,493	13.8	3,915	1.5	11,688	10,444	11.9
Other expenses	4,770	4,400	8.4	4,563	4.5	13,750	12,979	5.9
R&D exp	1,185	1,141	3.8	1,318	(10.1)	3,597	3,603	(0.2)
EBITDA	2,602	2,664	(2.3)	2,393	8.8	7,363	6,733	9.4
EBITDA margin (%)	15.4	16.3	-96bps	14.5	85bps	15.0	14.3	73bps
Finance expenses	223	152	46.7	188	18.3	543	453	19.9
Depreciation	700	695	0.8	705	(0.7)	2,096	2,032	3.1
Other income	95	29	228.7	167	(43.2)	283	247	14.7
PBT	1,774	1,846	(3.9)	1,796	(1.2)	5,137	4,496	14.3
Tax	401	41	870.5	273	46.9	899	114	690.9
Effective tax rate (%)	22.6	2.2	2035bps	15.2	740bps	17.5	2.5	1496bps
Reported PAT	1,384	1,805	(23.3)	1,534	(9.8)	4,249	4,376	(2.9)
Adj PAT	1,384	1,805	(23.3)	1,425	(2.8)	4,143	4,376	(5.3)
EPS (INR)	7.0	9.2	(23.3)	6.6	6.8	20.4	22.3	(8.3)

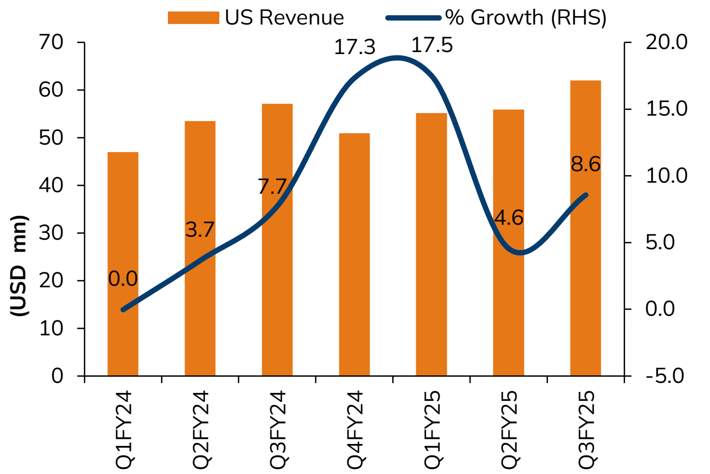
Source: I-Sec research, Company data

Exhibit 2: Business mix

Particulars (INR mn)	Q3FY25	Q3FY24	%YoY	Q2FY25	%QoQ	9MFY25	9MFY24	%YoY
Formulation	**14,340**	**13,420**	6.9	**13,740**	4.4	**41,120**	**37,950**	8.4
Domestic	6,140	5,960	3.0	6,090	0.8	17,950	16,970	5.8
% of sales	36.3	36.5		37.0		36.6	36.0	
US	5,210	4,740	9.9	4,670	11.6	14,490	13,080	10.8
% of sales	30.8	29.1		28.3		29.5	27.8	
Other international markets	2,990	2,720	9.9	2,980	0.3	8,680	7,900	9.9
% of sales	17.7	16.7		18.1		17.7	16.8	
API	**2,590**	**2,890**	(10.4)	**2,740**	(5.5)	**7,920**	**9,160**	(13.5)
% of sales	15.3	17.7		16.6		16.2	19.4	
TOTAL	**16,930**	**16,310**	3.8	**16,480**	2.7	**49,040**	**47,110**	4.1

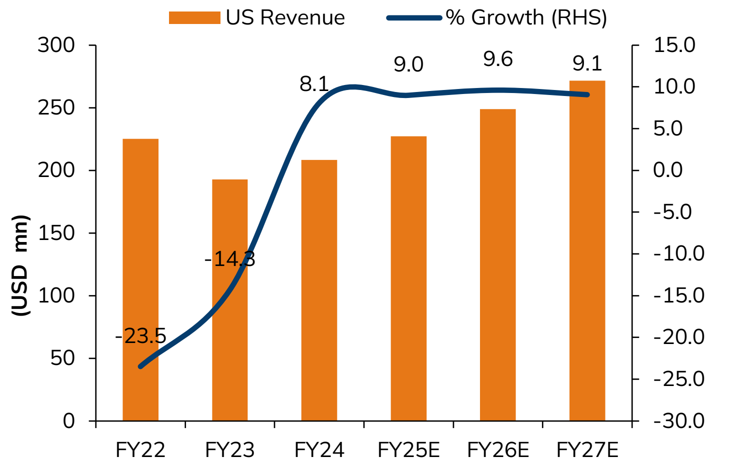
Source: I-Sec research, Company data

Exhibit 3: Launched 2 new products in Q3FY25



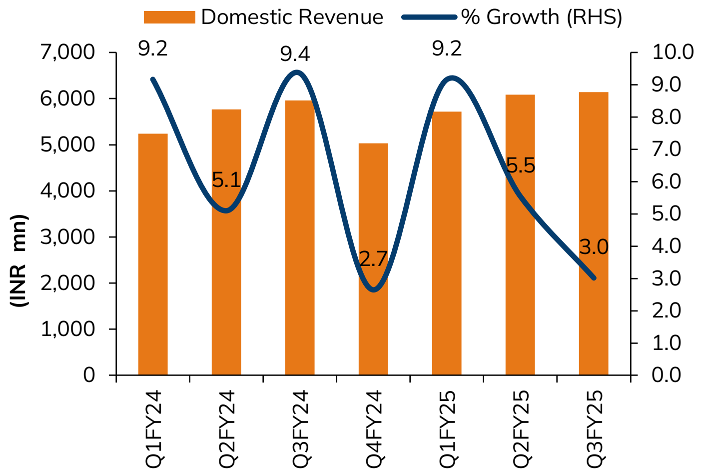
Source: I-Sec research, Company data

Exhibit 4: Launches to drive 9.2% CAGR over FY24–27E



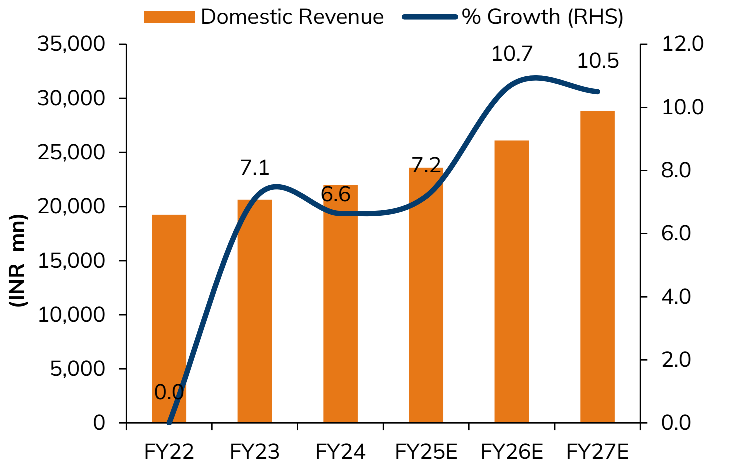
Source: I-Sec research, Company data

Exhibit 5: Domestic business grew 3% YoY



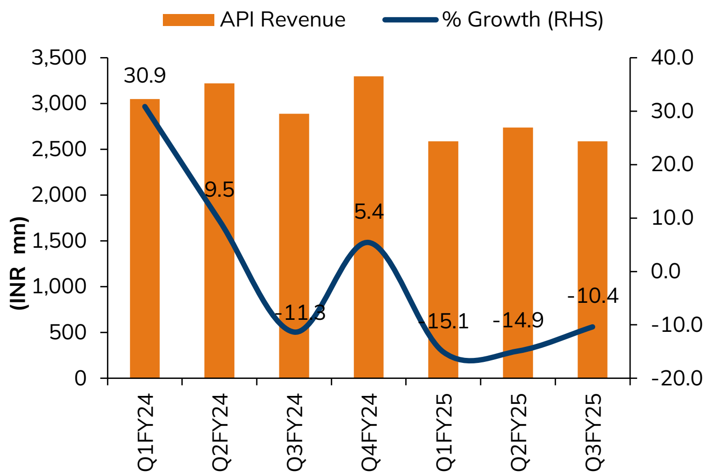
Source: I-Sec research, Company data

Exhibit 6: India biz to register 9.5% CAGR over FY24–27E



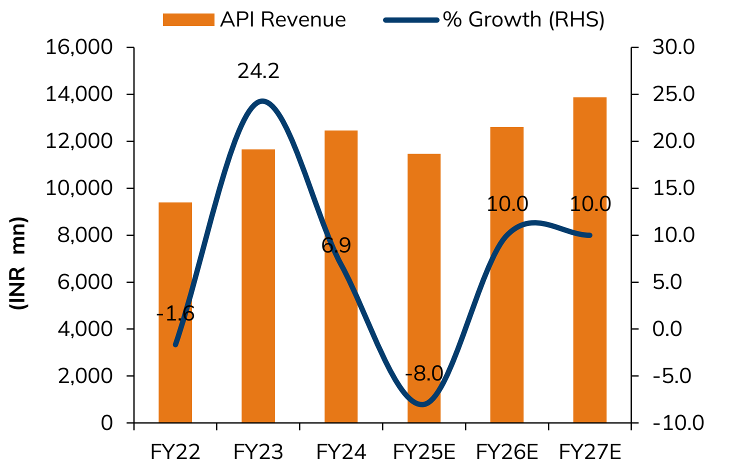
Source: I-Sec research, Company data

Exhibit 7: API business declined due to loss of customers and pricing pressure



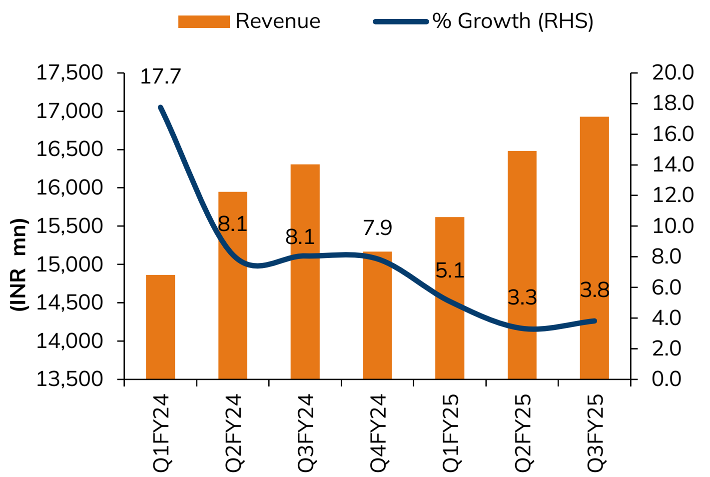
Source: I-Sec research, Company data

Exhibit 8: API biz to revert to growth path in FY26



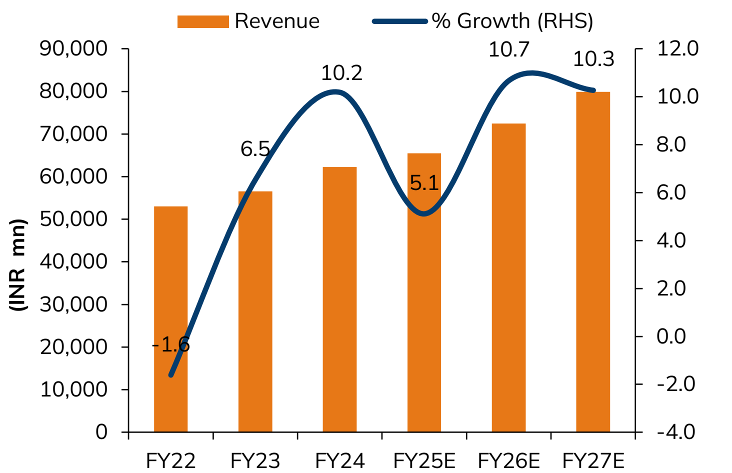
Source: I-Sec research, Company data

Exhibit 9: Growth led by traction in international markets



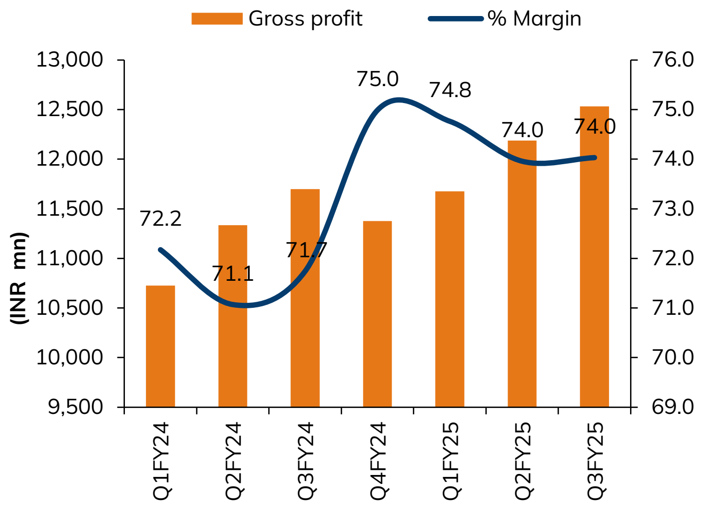
Source: I-Sec research, Company data

Exhibit 10: Revenue likely to register 8.7% CAGR over FY24–27E



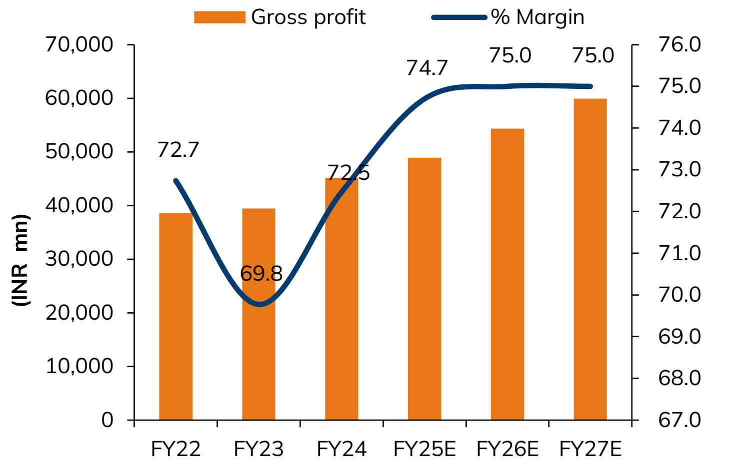
Source: I-Sec research, Company data

Exhibit 11: Gross margin expanded by 229bps YoY



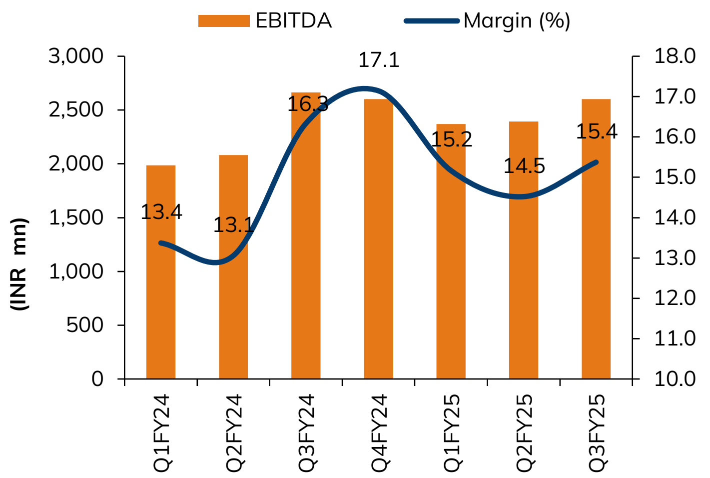
Source: I-Sec research, Company data

Exhibit 12: Traction in India and US to comfort margins



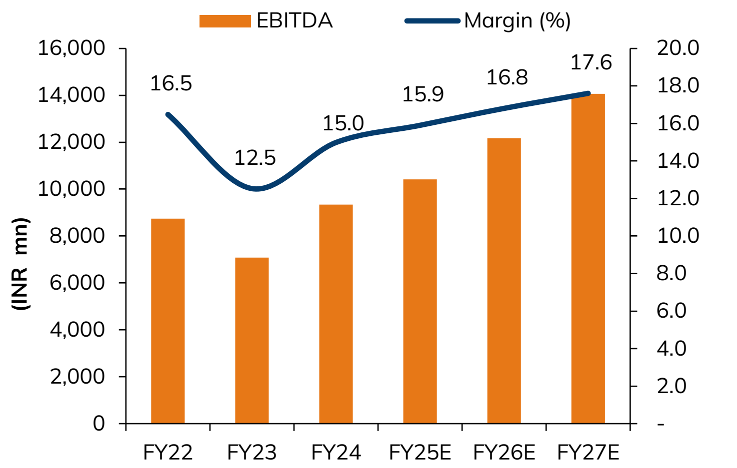
Source: I-Sec research, Company data

Exhibit 13: EBITDA margin contracted 96bps YoY



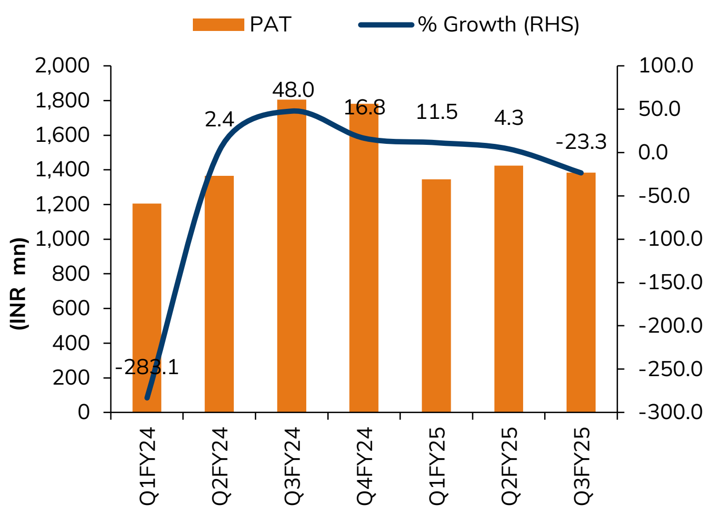
Source: I-Sec research, Company data

Exhibit 14: Cost curtailment and operating leverage to boost 260bps expansion in margins over FY24–27E



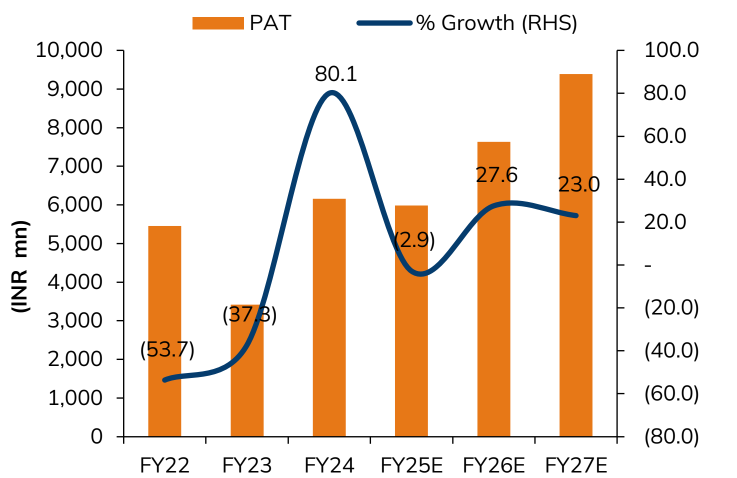
Source: I-Sec research, Company data

Exhibit 15: Muted operating performance dragged profit growth



Source: I-Sec research, Company data

Exhibit 16: Turnaround in operations may boost 14.9% PAT CAGR over FY24-27E



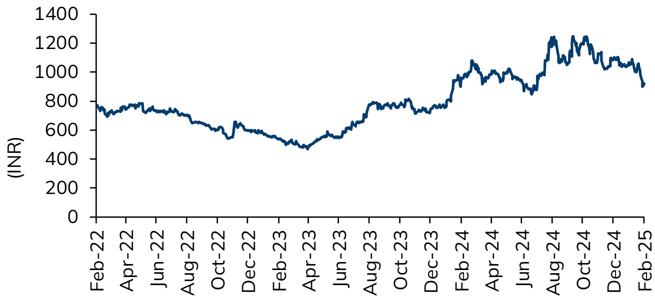
Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	69.6	69.9	69.6
Institutional investors	19.8	20.0	20.2
MFs and others	8.1	8.9	9.0
FIs/Banks	0.4	0.4	0.4
Insurance	7.0	6.7	6.7
FIIs	4.3	3.9	4.2
Others	10.6	10.1	10.2

Source: Bloomberg

Exhibit 18: Price chart



Source: Bloomberg

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**62,286**	**65,472**	**72,463**	**79,907**
Operating Expenses	52,953	55,062	60,289	65,844
EBITDA	**9,334**	**10,410**	**12,174**	**14,064**
EBITDA Margin (%)	15.0	15.9	16.8	17.6
Depreciation & Amortization	2,727	2,820	3,120	3,420
EBIT	6,607	7,590	9,054	10,643
Interest expenditure	562	763	241	189
Other Non-operating Income	283	390	393	869
Recurring PBT	**6,328**	**7,218**	**9,206**	**11,323**
Profit / (Loss) from Associates	**(10)**	**(10)**	**(10)**	**(10)**
Less: Taxes	160	1,247	1,563	1,923
PAT	6,168	5,970	7,642	9,400
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	129	-	-
Net Income (Reported)	**6,158**	**6,089**	**7,633**	**9,390**
Net Income (Adjusted)	**6,158**	**6,089**	**7,633**	**9,390**

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	30,786	33,543	38,279	46,493
of which cash & cash eqv.	1,266	2,437	3,934	8,690
Total Current Liabilities & Provisions	10,245	10,652	11,594	12,594
Net Current Assets	**20,540**	**22,891**	**26,686**	**33,899**
Investments	930	933	940	948
Net Fixed Assets	30,711	30,891	30,771	30,350
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	333	349	366	383
Other assets	1,696	1,696	1,696	1,696
Deferred Tax Assets	-	-	-	-
Total Assets	**54,210**	**56,760**	**60,460**	**67,276**
Liabilities				
Borrowings	**4,933**	**2,933**	**929**	**729**
Deferred Tax Liability	**-**	**-**	**-**	**-**
provisions	1,095	1,095	1,095	1,095
other Liabilities	-	-	-	-
Equity Share Capital	393	393	393	393
Reserves & Surplus	47,789	52,339	58,043	65,059
Total Net Worth	**48,182**	**52,732**	**58,436**	**65,452**
Minority Interest	-	-	-	-
Total Liabilities	**54,210**	**56,760**	**60,460**	**67,276**

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**7,896**	**8,086**	**8,286**	**9,657**
Working Capital Changes	2,258	770	1,196	2,315
Capital Commitments	3,440	3,000	3,000	3,000
Free Cashflow	**4,456**	**5,086**	**5,286**	**6,657**
Other investing cashflow	**433**	**2**	**7**	**8**
Cashflow from Investing Activities	(3,873)	(3,002)	(3,007)	(3,008)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(2,118)	(2,000)	(2,004)	(200)
Dividend paid	(2,602)	(1,539)	(1,929)	(2,373)
Others	1,141	(373)	152	679
Cash flow from Financing Activities	(3,579)	(3,912)	(3,781)	(1,894)
Chg. in Cash & Bank balance	**443**	**1,172**	**1,497**	**4,756**
Closing cash & balance	1,266	2,437	3,934	8,690

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	31.3	31.0	38.8	47.8
Adjusted EPS (Diluted)	31.3	31.0	38.8	47.8
Cash EPS	45.2	45.3	54.7	65.2
Dividend per share (DPS)	13.2	7.8	9.8	12.1
Book Value per share (BV)	245.1	268.3	297.3	333.0
Dividend Payout (%)	42.3	25.3	25.3	25.3
Growth (%)				
Net Sales	10.2	5.1	10.7	10.3
EBITDA	31.8	11.5	16.9	15.5
EPS (INR)	80.1	(1.1)	25.3	23.0
Valuation Ratios (x)				
P/E	28.1	28.9	22.7	18.4
P/CEPS	19.5	20.0	16.6	13.9
P/BV	3.6	3.3	3.0	2.6
EV / EBITDA	18.9	16.6	13.9	11.7
P / Sales	2.8	2.7	2.4	2.2
Dividend Yield (%)	1.5	0.9	1.1	1.3
Operating Ratios				
Gross Profit Margins (%)	72.5	74.7	75.0	75.0
EBITDA Margins (%)	15.0	15.9	16.8	17.6
Effective Tax Rate (%)	2.5	17.3	17.0	17.0
Net Profit Margins (%)	9.9	9.3	10.5	11.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.1	0.0	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.3	0.0	(0.3)	(0.6)
Profitability Ratios				
RoCE (%)	12.9	12.2	13.6	15.2
RoE (%)	13.4	11.9	13.7	15.2
RoIC (%)	13.1	12.6	14.3	16.8
Fixed Asset Turnover (x)	2.5	2.5	2.6	2.7
Inventory Turnover Days	101	99	101	101
Receivables Days	63	62	63	63
Payables Days	45	44	44	44

Source Company data, I-Sec research

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