

# Alembic Pharmaceuticals

BUY

CMP Rs1,006

Target Rs1,280

Upside 26.7%

## Result Highlights

- ✓ Revenue grew by 6% YoY mainly led by Indian market (+4.7% YoY), ROW (+76.5% YoY) and API (+38.1% YoY),
- ✓ US declined by 18% YoY largely due to lower pricing for Sartans; US base now reset to quarterly US\$55-60mn from >US\$70mn earlier upon Sartans erosion
- ✓ Gross margin contracted by 271bps YoY to 75.4% which was offset by decrease in staff expenses translating into margin contraction of just 45bps YoY and ~100bps qoq to 26.7%
- ✓ R&D spend at the end of FY21 stands at 12.4% of sales.

**Our view:** US business would have to navigate a difficult FY22 as base is now reset to US\$55-60mn vs US\$75mn earlier; high base of Sartans would overshadow the ~15 launches expected in current fiscal. On FY22 base, expect growth to revive next fiscal as general injectables filings garner approval. We factor in 13%/25% rise in other expenses ex-R&D to factor in operating expenses that would hit P&L in FY22/23. More than revenues, margin in FY22/23 would be a function of timing of costs taken into P&L. Our margin assumption is ~24%/24.6%. Marginally tweak FY23 estimates and retain BUY based on 25x FY23 EPS. Why 25x for declining earnings over FY21-23? Believe given the sharp earnings jump expected in FY24 (>50% over FY23), a multiple in line with at least other mid-cap peers is justified to factor in some of the outsized growth. Key risk include delay in general injectables (FY22) and onco injectables (FY23) commercialization.

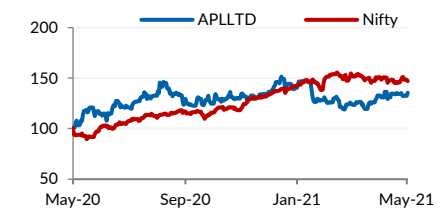
## Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
<b>Revenues</b>	<b>12,804</b>	<b>13,143</b>	(2.6)	<b>12,068</b>	6.1
RM + inventory changes	(2,396)	(2,230)	7.4	(2,289)	4.7
Purchase of goods	(751)	(700)	7.3	(350)	114.6
Staff	(2,372)	(2,625)	(9.6)	(2,469)	(3.9)
Other expenses	(3,868)	(3,938)	(1.8)	(3,685)	5.0
<b>Operating profit</b>	<b>3,417</b>	<b>3,651</b>	(6.4)	<b>3,275</b>	4.3
<b>OPM (%)</b>	<b>26.7</b>	<b>27.8</b>	<b>-109 bps</b>	<b>27.1</b>	<b>-45 bps</b>
Depreciation	(512)	(470)	9.0	(441)	16.0
Interest	(26)	(23)	10.8	(78)	(67.0)
Other income	40	25	56.1	9	343.8
<b>PBT</b>	<b>2,919</b>	<b>3,183</b>	(8.3)	<b>2,765</b>	5.6
Tax	(545)	(591)	(7.9)	(621)	(12.4)
<b>Effective tax rate (%)</b>	<b>17.8</b>	<b>16.8</b>	<b>103 bps</b>	<b>20.9</b>	<b>-302 bps</b>
<b>PAT</b>	<b>2,374</b>	<b>2,592</b>	(8.4)	<b>2,144</b>	10.8
<b>PAT margin (%)</b>	<b>18.5</b>	<b>19.7</b>	<b>-118 bps</b>	<b>17.8</b>	<b>78 bps</b>
Minority/Associate	133	334	(60.1)	214	(37.9)
Exceptional	-	-		(109)	
<b>PAT</b>	<b>2,507</b>	<b>2,926</b>	(14.3)	<b>2,249</b>	11.5

## Stock data (as on May 04, 2021)

Nifty:	14,497
52 Week h/l (Rs)	1145 /731
Market cap (Rs/USD mn)	197762/2678
Outstanding Shares	197
6m Avg t/o (Rs mn):	345
Div yield (%):	1.4
Bloomberg code:	ALPM IN
NSE code:	APLLTD

## Stock performance



	1M	3M	1Y
Absolute return	1.9%	6.4%	33.6%

## Shareholding pattern (As of Mar'21 end)

Promoter	69.8%
FII+DII	17.1%
Others	13.1%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,280	1,280

## Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	46.7	50.8	78.2
EPS (Old)	49.7	52.5	-
% change	-6%	-3%	-

## Financial Summary

	FY21	FY22	FY23
Net Revenue	53,931	54,981	61,742
YoY Growth	17%	2%	12%
EBIDTA	15,576	13,078	15,168
YoY Growth	27%	-16%	16%
PAT	11,781	9,186	9,990
YoY Growth	42%	-22%	9%
ROE	27%	16%	16%
EPS	59.9	46.7	50.8
P/E	16.7	21.5	19.7
BV	257.8	288.2	322.6
P/BV	3.9	3.5	3.1

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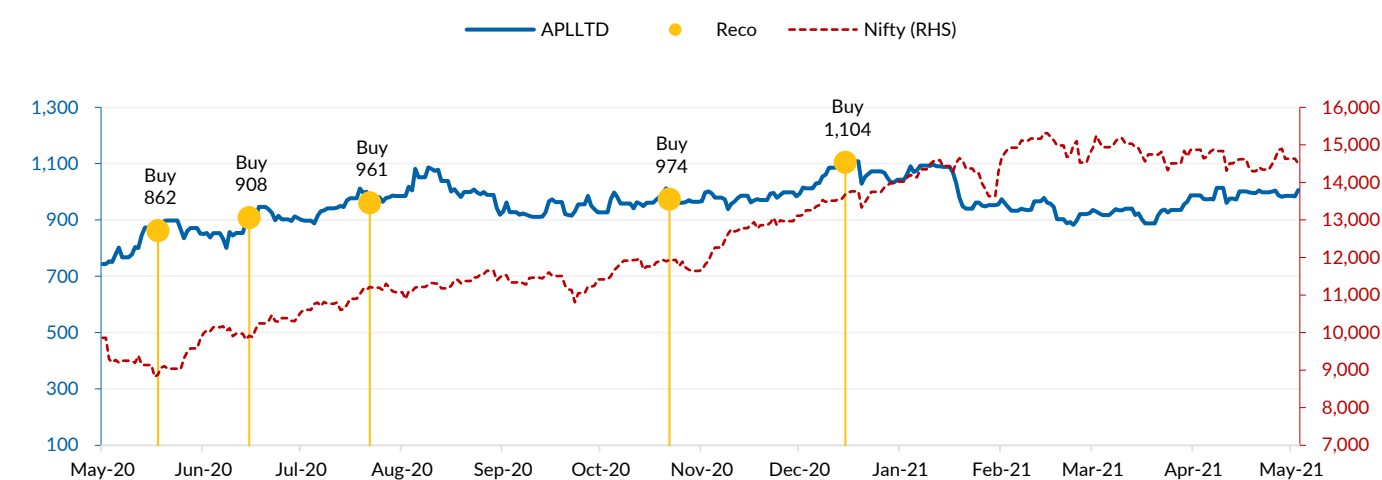
## CON-CALL HIGHLIGHTS

- ✓ The company has maintained guidance of Rs 50 EPS for FY22E.
- ✓ US business- Sartans opportunity was there till 1HFY21, after which it started to come down. The company mentioned that due to price erosion there is a decrease in market share. Sartans price erosion across all the products.
- ✓ The US business will either be muted or will report a de-growth in next few quarters.
- ✓ The company expects to launch 15 products in FY22E. will be oral solids, derma and ophthalmology products. (This doesn't include injectables launches).
- ✓ API- the company expects this segment to grow by 10% for FY22E. Have seen growth across all products and geographies.
- ✓ Capex- there will be some maintenance capex for FY22E and some project related capex (Rs 5-7 bn). Capex for the quarter is Rs 1.7 bn (FY21- Rs 6.9 bn).
- ✓ Aleor – company launched 8 products, company expects to reach cumulative product basket to be around 25 in next few years.
- ✓ India- Specialty division has grown well in the FY21, the company has reported good growth in Anti-infectives business. Expect growth to come back in acute segment in FY22E.
- ✓ General Injectables facility has got 5 observations in Feb 2021. It was a physical audit.
- ✓ Sartans prices have come down in the last 6 months, moving forward the current price will be the base price for the sartans.
- ✓ R&D expenses was Rs 1.9 bn for the quarter. (Rs 6.7 bn for FY21).
- ✓ Operations are going at normal level even during the second covid wave. The company doesn't see any issues to raw materials and supply chain issues.
- ✓ Prices of paracetamol and azithromycin have increased marginally compared to other products.
- ✓ 35% of total API volumes is for captive consumption.
- ✓ ANDA filing rate will be around 25-30 products p.a. going ahead. (even with new facility comes up).

**Exhibit 2: Financial summary**

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	39,347	46,058	53,931	54,981	61,742
yoy growth (%)	25.7	17.1	17.1	1.9	12.3
OPM (%)	22.2	26.6	28.9	23.8	24.6
yoy growth (%)	40.9	41.8	42.1	(22.0)	8.7
EPS (Rs)	31.0	44.0	59.9	46.7	50.8
P/E (x)	32.4	22.8	16.7	21.5	19.7
P/BV (x)	7.0	5.9	3.9	3.5	3.1
EV/EBITDA (x)	22.0	16.2	12.7	15.0	12.6
Debt/Equity (x)	0.2	0.3	0.1	0.1	0.1
ROE (%)	24.0	28.6	27.0	15.9	15.6
ROCE (%)	23.5	25.3	25.5	18.1	17.8

## Recommendation Tracker



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