Equity Research

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BSE Sensex: 48254

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Q4FY21 result review and reco change

Pharmaceuticals

Target price: Rs984

Earnings revision

(%)	FY22E	FY23E
Sales	(7.8)	(7.5)
EPS	(3.8)	(3.5)

Target price revision

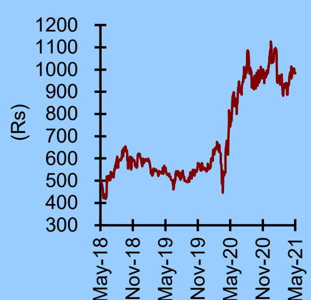
Rs984 from Rs1,009

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	69.8	69.8	69.5
Institutional investors	16.5	17.1	17.5
MFs and others	6.3	5.8	4.3
FIs/Banks	3.1	4.3	6.7
FIIs	7.1	7.0	6.6
Others	13.7	13.1	13.0

Source: BSE India

Price chart



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INDIA

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Alembic Pharmaceuticals

HOLD

Downgrade from *Add*

Rs1,007

US continues to be under pressure

Alembic Pharma (Alembic) reported Q4FY21 performance largely in line with estimates, though EBITDA margin was higher due to lower operating costs. Revenue in US was below expectation at ~US$63mn due to competitive pressure in *sartans* and the management indicated the US revenue quarterly base would be between US$55-60mn. Consolidated revenues grew 6.1% YoY to Rs12.8bn (I-Sec: Rs13.1bn), adjusted profit grew 7.6% YoY to Rs2.5bn (I-Sec: Rs2.0bn) and EBITDA margin dropped 40bps YoY to 26.7% (I-Sec: 24.7%). We remain positive on the long-term outlook considering revival in India growth, focus on complex and niche R&D, and track record of healthy return ratios. However, increased competition in sartans and start of new plants would impact earnings growth in medium term. Downgrade to HOLD with a revised target price of Rs984/share.

- **India and US were weak; ROW supports growth:** India business revenues reported a subdued growth of 4.7% YoY. Segment wise, acute declined 28.8%, specialty grew 21.0% and veterinary grew 55.2%. Sequentially, US revenues declined 7.2% to US$63mn due to increased competitive pressure in *sartans*. Management expects to launch ~10-15 products in FY22 and continue to launch 15-20 products in the US over the next few years, which would aid growth. RoW business has grown 75.2% YoY on a low base due to cessation of sales caused by serialisation in EU. Sequentially, it grew 36.3% QoQ led by strong order book. API revenue grew strong 38.1% to Rs2.1bn with continued traction in API supplies.
- **Lower staff and S,G&A expenses boosted EBITDA:** EBITDA margin at 26.7%, declined 110bps sequentially (-40bps YoY), but it was higher than our estimate of 24.7% due to lower staff and S,G&A expenses which declined 10% and 22% QoQ. We expect these costs to increase in the coming quarters as it reverts to pre-COVID levels. While, R&D expenses at 15.2% grew 390bps QoQ, it was flattish YoY. Additional costs related to new plants would restrict EBITDA margin ~23-24% over FY22E-FY23E.
- **Outlook:** We believe near-term (FY22-23E) earnings performance would be impacted by reducing sales of *sartans* in US, continuous investments in R&D and additional costs (Rs3-4bn annually) when new plants become operational. However, these costs would be absorbed over the medium term as approvals start resulting in increasing capacity utilization. We expect PAT to decline 9.4% CAGR over FY21-FY23E despite growth of 8.2% CAGR in revenue.
- **Valuations and risks:** We cut EPS estimates by 3-4% for FY22E-FY23E to factor in lower US sales with declining contribution of *sartans*. Downgrade the stock to **HOLD** from *ADD* with a revised target of Rs984/share (earlier: Rs1,009/share). Key downside risks are: regulatory hurdles and delay in new plant/product approvals. Key upside risks are faster approval of new plants and products.

Market Cap	Rs198bn/US$2.7bn
Reuters/Bloomberg	ALEM.BO/ALPM IN
Shares Outstanding (mn)	196.6
52-week Range (Rs)	1127/751
Free Float (%)	30.5
FII (%)	6.6
Daily Volume (USD/'000)	4,997
Absolute Return 3m (%)	6.4
Absolute Return 12m (%)	33.6
Sensex Return 3m (%)	(4.5)
Sensex Return 12m (%)	53.8

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	46,058	53,931	56,456	63,096
Net Income (Rs mn)	8,288	11,781	9,432	9,668
EPS (Rs)	43.9	59.9	48.0	49.2
% Chg YoY	47.8	36.4	(19.9)	2.5
P/E (x)	22.9	16.8	21.0	20.5
CEPS (Rs)	52.0	69.3	59.4	64.1
EV/E (x)	16.9	12.8	14.4	13.0
Dividend Yield (%)	1.0	1.2	1.0	1.0
RoCE (%)	20.1	22.6	16.4	15.0
RoE (%)	29.1	28.2	17.2	15.6

Q4FY21 result and concall highlights

Overall sales grew 8.7% YoY to Rs13.1bn with strong performance in India and API businesses.

- **Domestic branded formulation business** reported a subdued growth of 4.7% YoY (-14.4% QoQ) to Rs3.6bn with declining sales of the acute division. Acute segment declined 28.8% with cough and cold segments along with the paediatric segments have been underperforming for the company. Specialty segment revenues grew 21.0% YoY. Growth for the company was largely driven by traction in the cardio-diabetic segment where new product launches would ramp up and support growth in the coming quarters. Veterinary grew 55.2%. The surge in cases is pushing MR interaction to digital media again, but they are well versed with it as compared to last year.
- **International formulation** sales remained flattish YoY at Rs7.1bn. Sequentially, it grew 3.7%. US market contributed 67.1% to international formulations business and witnessed 17.8% YoY and 7.2% QoQ decline to US$63mn. The decline was largely attributed to loss of account in *sartans* with increasing competitiveness in the market. Non-US business recorded a growth of 75.2% YoY and 36.3% QoQ. Cessation of impact from serialisation in EU and strong demand in other markets aided the growth in the segment. Company expects mid-teen growth in the ROW market to continue.

  Company filed 13 ANDAs, received four final approvals and launched three products in Q4FY21. It expects to launch 10-15 products in FY22 and a total of 15-20 products over the next few years. These launches will be in the areas of oral solids, derma and opthalmics.
- **API business** grew 38.1% YoY to Rs2.1bn driven by strong demand in the industry. However, demand opportunities have started to reduce with supplies resuming from China which resulted in a flattish QoQ performance. Company is incrementally adding capacities to debottleneck its plants. Q4FY21 have seen high growth due to the lumpy CRAMS order and overall company expects low double digit growth to continue from the segment.
- **Gross margin** declined 230bps QoQ (-270bps YoY) to 75.4%. EBITDA margin declined 110bps QoQ (-40bps YoY) to 26.7% due to lower employee and S,G&A expenditure.
- **R&D investments** in Q4FY21 stands at 15.2%, higher by 390bps sequentially (flattish YoY). Company believes its R&D expense would remain elevated as it is investing in niche and complex products. Travel expenses are lower during the quarter but expect normalisation in FY22.
- **Capex** for FY21 was Rs6.7bn. Company expects to spend Rs5bn-7bn in FY22 largely towards maintenance and some capacity augmentation at existing plants. These elevated levels account for the exhibit batches and commercialisation of several plants over the next 12months.
- **Adjusted PAT** grew 7.6 YoY to Rs2.5bn led by higher operational profits, other income and lower tax rate.

Table 1: Q4FY21 performance

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	**12,804**	**12,068**	**6.1**	**13,143**	**(2.6)**
EBITDA	3,417	3,275	4.3	3,651	(6.4)
Other income	40	9	343.8	25	56.1
PBIDT	**3,457**	**3,284**	**5.3**	**3,676**	**(6.0)**
Depreciation	512	441	16.0	470	9.0
Interest	26	78	(67.0)	23	10.8
Extra ordinary income/ (exp.)	-	(109)		-	
PBT	**2,919**	**2,765**	**5.6**	**3,183**	**(8.3)**
Tax	545	621	(12.4)	591	(7.9)
Minority Interest	(133)	(211)		(334)	
Reported PAT	**2,507**	**2,355**	**6.5**	**2,926**	**(14.3)**
Adjusted PAT	**2,507**	**2,329**	**7.6**	**2,926**	**(14.3)**
EBITDA margins (%)	26.7	27.1	(40)bps	27.8	(110)bps

Source: Company data, I-Sec research

Table 2: Sales breakup

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Domestic	3,580	3,420	4.7	4,180	(14.4)
US	4,750	5,770	(17.7)	5,120	(7.2)
Other exports	2,330	1,330	75.2	1,710	36.3
APIs	2,140	1,550	38.1	2,140	-
Total	**12,800**	**12,070**	**6.0**	**13,150**	**(2.7)**

Source: Company data, I-Sec research

Revising sales and EBITDA estimates

For FY21-FY23E, we forecast net sales and PAT to CAGRs at 8.2% and (9.4)% respectively. We reduce revenue and PAT estimates by 7-8% and 3-4% respectively over FY22E-FY23E to factor-in lower sales in US with declining contribution of *sartans* partially offset by lower costs.

Table 3: Estimates revision

	FY22E	FY23E
Total sales (Rs mn)		
Sales – new	56,456	63,096
Sales – old	61,257	68,201
Change (%)	(7.8)	(7.5)
EBITDA (Rs mn)		
EBITDA – new	48.0	49.2
EBITDA – old	49.9	51.0
Change (%)	(3.8)	(3.5)

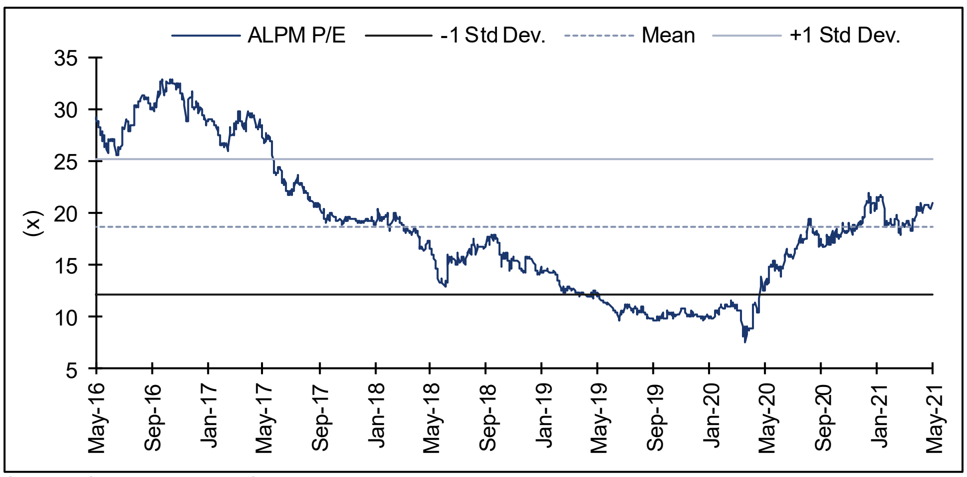
Source: I-Sec research

Valuations

We expect 8.2% revenue CAGR over FY21-FY23E but PAT would decline 9.4% over the same period. Earnings growth is muted owing to incremental costs on commercialisation of new manufacturing units. FY23 onwards, revenue growth would be driven by faster launches of newer products and improved utilisation of capacities.

The stock currently trades at valuations of 21.0xFY22E and 20.5xFY23E earnings and EV/EBITDA multiples of 14.4xFY22E and 13.0xFY23E. We downgrade to **HOLD** from *Add* on the stock on due to declining US sales with competitive pressures on *sartans* and delay in new product approval and launches with delay in plant commercialization that require USFDA inspection. We do expect pick-up in India growth FY22E onwards in the acute segment but incremental expenses towards commercialisation of new plants would restrict EBITDA margin improvement. The stock has traded at an average P/E of 18.6x 1-year forward earnings over the past five years. We value it at 20xFY23E EPS and arrive at a revised target price of Rs984/share (earlier: Rs1,009/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Summary financials (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Domestic formulations	14,250	14,970	16,758	18,426
Export formulations	24,730	29,420	29,193	33,639
APIs	7,080	9,550	10,505	11,030
Others	-	-	-	-
Total Gross Sales	**46,060**	**53,940**	**56,456**	**63,096**
Excise duty	-	-	-	-
Total Net Revenue	**46,058**	**53,931**	**56,456**	**63,096**
YoY Growth%	17.1	17.1	4.7	11.8
Total Op. Exp.	**33,827**	**38,356**	**42,780**	**48,301**
EBITDA	**12,230**	**15,576**	**13,676**	**14,794**
Margins %	26.6	28.9	24.2	23.4
YoY Growth%	40.0	27.4	(12.2)	8.2
Depreciation	1,573	1,835	2,247	2,936
EBIT	**10,657**	**13,741**	**11,429**	**11,858**
Other Income	49	100	100	100
Interest	272	160	80	120
EO Items	(436.40)	-	-	-
PBT	**9,999**	**13,681**	**11,449**	**11,838**
Tax	1,992	2,533	2,175	2,249
Tax Rate (%)	19.9	18.5	19.0	19.0
Minority Interest	(282)	(634)	(158)	(79)
Reported PAT	**8,288**	**11,781**	**9,432**	**9,668**
Adj PAT	**8,375**	**11,781**	**9,432**	**9,668**
Net Margins (%)	18.2	21.8	16.7	15.3

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	377	393	393	393
Reserves & Surplus	31,817	50,883	58,044	65,385
Total Equity	**32,194**	**51,276**	**58,437**	**65,778**
Minority Interest	(290)	(606)	(764)	(843)
Total Debt	**17,475**	**1,999**	**1,999**	**1,999**
Deferred Liabilities	122	42	42	42
Other current Liabilities	745	855	895	1,001
Capital Employed	**50,246**	**53,566**	**60,609**	**67,976**
Current Liabilities	9,644	13,524	14,705	16,182
Total Liabilities	**59,890**	**67,090**	**75,314**	**84,159**
Net Fixed Assets	**33,980**	**39,710**	**43,462**	**45,526**
Investments	486	659	659	659
Inventory	11,875	14,862	16,576	18,715
Debtors	8,648	3,486	3,649	4,078
Other Current Assets	4,094	5,446	5,625	6,095
Cash and Equivalents	808	2,928	5,343	9,085
Total Cur. Assets	**25,424**	**26,721**	**31,193**	**37,974**
Total Assets	**59,890**	**67,090**	**75,314**	**84,159**

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	9,999	13,681	11,449	11,838
Depreciation	1,573	1,835	2,247	2,936
Net Chg in WC	(5,996)	2,576	(983)	(1,845)
Taxes	(2,361)	(2,454)	(2,175)	(2,249)
Others	1,006	(1,163)	148	388
CFO	**4,220**	**14,474**	**10,686**	**11,069**
Capex	(7,343)	(6,592)	(6,000)	(5,000)
Net Investments made	9	(1,807)	-	-
Others	17	11	-	-
CFI	**(7,316)**	**(8,388)**	**(6,000)**	**(5,000)**
Change in Share capital	0	7,341	0	0
Change in Debts	5,919	(12,586)	-	-
Div. & Div Tax	(3,260)	-	(2,270)	(2,327)
Others	(835)	(578)	-	-
CFF	**1,824**	**(5,823)**	**(2,270)**	**(2,327)**
Total Cash Generated	**(1,272)**	**262**	**2,415**	**3,742**
Cash Opening Balance	**1,991**	**718**	**981**	**3,396**
Cash Closing Balance	**718**	**981**	**3,396**	**7,138**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	43.9	59.9	48.0	49.2
YoY Growth%	47.8	36.4	(19.9)	2.5
Cash EPS	52.0	69.3	59.4	64.1
EBITDA - Core (%)	26.6	28.9	24.2	23.4
NPM (%)	18.2	21.8	16.7	15.3
Net Debt to Equity (x)	0.5	0.0	(0.0)	(0.1)
P/E (x)	22.9	16.8	21.0	20.5
EV/EBITDA Core (x)	16.9	12.8	14.4	13.0
P/BV (x)	6.1	3.9	3.4	3.0
EV/Sales (x)	4.5	3.7	3.5	3.1
RoCE (%)	20.1	22.6	16.4	15.0
RoE (%)	29.1	28.2	17.2	15.6
RoIC (%)	20.7	22.8	16.9	16.2
Book Value (Rs)	163.8	260.9	297.3	334.7
DPS (Rs)	10.0	12.0	9.6	9.8
Dividend Payout (%)	22.8	20.0	20.0	20.0
Div Yield (%)	1.0	1.2	1.0	1.0
Asset Turnover Ratio	0.9	0.8	0.8	0.8
Avg Collection days	54	41	23	22
Avg Inventory days	116	127	134	133

Source: Company data, I-Sec research

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