

# ALEMBIC PHARMA

Pharmaceuticals | 4QFY24 Result update

**ACCUMULATE**
**CMP: Rs965 | Target Price (TP): Rs981 | Downside: -2.6%**
**May 9, 2024**

## New Launches in US & capacity utilization to drive growth

### Key Points

- Alembic Pharma reported a mixed performance for 4QFY24. While revenue missed estimate, margin beat estimate on the back of softening raw material prices, capacity utilization and changes in inventory.
- US business declined by ~11% QoQ, but grew by 18% YoY. The QoQ was down on the back of some one time orders in 3QFY24; the YoY growth was supported by product launches from new plants. Like in the past, the management is hopeful of capitalizing on drug shortages in the US. India business grew by ~3% YoY, led by strong growth in Specialty and Animal Healthcare segments, largely offset by weak growth in Acute therapies. The Specialty segment grew faster than IPM growth.
- Despite continuous spending on capex and R&D for the US market, we do not see any meaningful visible large launches in the US. Additionally, there is still pricing pressure for some of the US products. Near term growth is highly dependent on the success of new launches from new US plants. We maintain ACCUMULATE on Alembic Pharma with a Target Price (TP) of Rs981, valuing it at 18x FY26E EPS.

**Business performance:** Domestic business grew by ~3% YoY to Rs5.03 bn. Prescription base increased from 129.3 million in MAT Mar 23 to 130.2 million in MAT Mar 24, up by 1%. Animal Health business grew by 34% YoY to Rs. 860 mn. In India business, Acute therapy was up by 2% YoY on account of moderate growth in Antibiotic and Respiratory therapies. The US business grew by 18.1% YoY to US\$51mn as product launches from the newly commissioned facilities propelled growth, supported by stabilization in price erosion. RoW markets grew by 5.2% YoY and API business declined by 5.4% YoY. The management has guided for 20% growth in the ROW business annually. Gross margin improved by 570 bps YoY to 75% on the back of increased sales in US, R&D cost optimization and other cost optimization. Also, EBITDA margin improved by 200bps YoY to 17.1% as there were some one off cost last year. Adjusted PAT stood at Rs1.78bn, aided by higher revenue. India Formulations, US Formulations, ROW Formulations and API contributed 35%, 28%, 17% and 20%, respectively to the topline.

**Outlook:** We expect the company's Revenue/EBITDA/PAT to clock a CAGR of 13%/31%/46% over FY23-FY26E with a PAT margin improvement of 704 bps. Revenue is expected to be driven by market-beating growth in the domestic business (in the specialty segment) and new launches in the US. However, commercialization of new US plants and pricing pressure for some products and volatility in acute portfolio are expected to put pressure on margins as well as profitability. ROE and ROCE are expected to remain subdued at 18% and 17.3%, respectively, in FY26E.

**Valuation:** We have increased our FY25E EPS estimates by 10.5%, mainly due to growth in International business, Animal Health business and strong double-digit growth in the Specialty segment (India Business). But, we remain cautiously optimistic about the company's outlook in the near to medium term given the low visibility about meaningful launches in the US market going forward. Therefore, we maintain ACCUMULATE on Alembic Pharma with a TP of Rs981, valuing it at 18x FY26E EPS.

Est Change	Downward
TP Change	Upward
Rating Change	Maintain

### Company Data and Valuation Summary

Reuters:	ALEM.BO
Bloomberg:	ALPM IN Equity
Mkt Cap (Rsbn/US\$bn):	196.8 / 2.4
52 Wk H / L (Rs):	1,094 / 542
ADTV-3M (mn) (Rs/US\$):	148.8 / 1.8
Stock performance (%) 1M/6M/1yr:	1.1 / 36.4 / 75.0
Nifty 50 performance (%) 1M/6M/1yr:	(2.1) / 0.1 / 19.9

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	69.6	69.6	69.6
DII's	14.2	14.5	15.4
FII's	4.5	4.5	4.5
Others	11.7	11.4	10.5
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net sales	56,526	62,286	73,429	81,789
EBITDA	7,083	9,334	13,669	16,036
Net profit	3,420	6,158	8,863	10,708
EPS (Rs)	17.4	31.3	45.1	54.5
EPS growth (%)	(47.2)	80.1	43.9	20.8
EBITDA margin (%)	12.5	15.0	18.6	19.6
PER (x)	57.9	32.1	22.3	18.5
P/BV (x)	4.5	4.1	3.6	3.1
EV/EBITDA (x)	29.1	21.9	14.6	12.1
RoCE (%)	7.0	12.5	16.1	17.3
RoE (%)	7.1	13.4	17.1	18.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

**Exhibit 1: 4QFY24 consolidated performance**

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24
<b>Net Sales</b>	<b>12,621</b>	<b>14,750</b>	<b>15,090</b>	<b>14,065</b>	<b>14,862</b>	<b>15,949</b>	<b>16,306</b>	<b>15,170</b>	<b>56,526</b>	<b>62,286</b>
YoY Change (%)	-4.8	14.1	18.7	-0.7	17.7	8.1	8.1	7.9	6.5	10.2
<b>Gross Profit</b>	<b>8,839</b>	<b>10,320</b>	<b>10,540</b>	<b>9,740</b>	<b>10,726</b>	<b>11,335</b>	<b>11,698</b>	<b>11,376</b>	<b>39,438</b>	<b>45,136</b>
Margin (%)	70.0	70.0	69.8	69.3	72.2	71.1	69.0	75.0	69.8	72.5
<b>EBITDA</b>	<b>147</b>	<b>2,328</b>	<b>2,488</b>	<b>2,122</b>	<b>1,987</b>	<b>2,083</b>	<b>2,664</b>	<b>2,601</b>	<b>7,084</b>	<b>9,334</b>
YoY Change (%)	-93.8	-9.5	-2.7	-25.0	1,255.3	-10.5	7.1	22.5	-31.4	31.8
Margin (%)	1.2	15.8	16.5	15.1	13.4	13.1	16.3	17.1	12.5	15.0
Depreciation	671	677	665	741	662	676	695	695	2,754	2,727
Interest	88	124	146	144	144	157	152	109	502	562
Other income	11	3	4	9	117	102	29	36	27	283
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
<b>PBT (bei)</b>	<b>-602</b>	<b>1,530</b>	<b>1,681</b>	<b>1,246</b>	<b>1,298</b>	<b>1,352</b>	<b>1,846</b>	<b>1,832</b>	<b>3,855</b>	<b>6,328</b>
<b>PBT</b>	<b>-602</b>	<b>1,530</b>	<b>1,681</b>	<b>1,246</b>	<b>1,298</b>	<b>1,352</b>	<b>1,846</b>	<b>1,832</b>	<b>3,855</b>	<b>6,328</b>
Tax	-15	180	326	-364	92	-19	41	46	126	658
ETR (%)	2.5	11.7	19.4	-29.2	7.0	-1.4	18.0	2.5	3.3	10.4
Reported PAT	-659	1,334	1,342	1,526	1,206	1,366	1,805	1,782	3,420	5,660
<b>Adj. PAT</b>	<b>-659</b>	<b>1,334</b>	<b>1,342</b>	<b>1,526</b>	<b>1,206</b>	<b>1,366</b>	<b>1,805</b>	<b>1,782</b>	<b>3,420</b>	<b>5,660</b>
YoY Change (%)	-140.0	-21.2	-24.0	-6.8	-283.1	2.4	34.5	16.8	-48.9	65.5
<b>Adj. EPS</b>	<b>-3.4</b>	<b>6.8</b>	<b>6.8</b>	<b>7.8</b>	<b>6.1</b>	<b>6.9</b>	<b>9.2</b>	<b>9.1</b>	<b>17.4</b>	<b>28.8</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Conference Call Highlights

### Financial performance

- Total revenue grew by 8% YoY to Rs16.3bn.
- PAT grew by ~35% YoY to Rs1.8bn.
- R&D expenses stood at 7% of revenue at Rs1.14bn.
- Healthy cash flow of Rs6.52bn generated over 9MFY24.
- Net cash inflow of Rs3.9bn utilized for wages and repayment of borrowings.

### Financial Highlights

- Revenue grew by ~8% YoY to Rs. 15.17 Bn
- Gross margins up by 570 bps YoY to 75% on the back of increased sales in the US, R&D cost optimization and other cost optimization. The company expects these kind of margins to sustain going forward.
- Tax rate expected for FY25 is around 17%
- No significant capex for FY25. Just a maintenance capex of Rs. 5-6 bn

### India business

- India branded business grew by 3% YoY to Rs. 5.03 bn.
- 15% of product portfolio is in NLEM.
- Key therapies like Gynecology, Gastrointestinal, Anti Diabetic and Ophthalmology outpaced market growth.

- Performed relatively better than the market in Antibiotic and Respiratory segments on high base in the previous year.
- The company aims to outperform IPM in key therapeutic areas. Also no addition of MRs.

### **Animal healthcare business**

- Animal healthcare business up by 34% to Rs. 820 mn. The basket of strong brands continues to drive outperformance.

### **US business**

- US business grew by 18% YoY to \$51 mn on the back of better capacity utilization and increased volumes.
- 7 product launches in 4QFY24. A total of 27 products were launched in FY24. 25+ product launches planned for FY25. Currently company has around 147 products launched in the US market.
- Commercialization of new facilities to drive growth in upcoming quarters.
- No major capex anticipated for the US business, but only normal maintenance capex.
- No regulatory overhang on export facilities, VAI (Voluntary Action Indicated) on oncology facility.
- The company has provided a future sales guidance of the US business of \$50 mn per quarter. (There were some one time opportunities in the US in 3QFY24).

### **ROW**

- ROW business was up by 5.2% YoY to Rs. 2.62 bn
- Row business is driven by key markets like - Europe, Canada, Australia, Brazil and South Africa.
- Future growth to be driven by new launches and territory expansions.
- The last 5 years CAGR is 20% and the company can expect the same growth going forward.

### **API**

- API business was up by 5.4% to Rs. 3.3 bn.
- Growth of 7% on an annual basis is led by a surge in volumes, partially offset by price erosion across the markets.

## Exhibit 2: Actual performance vs NBIE estimates

(Rsmn)	Actual	NBIE estimate	Var. (%)	Consensus estimate	Var. (%)
Sales	15,170	16,159	(6.1)	15,659	(3.1)
EBITDA	2,601	2,416	7.6	2,391	8.8
EBITDA margin (%)	17.1	15.0	219 bps	15.4	173 bps
PAT	1,782	1,398	27.5	1,398	27.5
PAT margin (%)	11.7	8.6	310 bps	8.9	282 bps

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Revised estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	73,429	81,789	75,886	86,873	-3.2	-5.9
EBITDA	13,669	16,036	12,731	16,217	7.4	-1.1
Margin (%)	18.6	19.6	16.8	18.7	184 bps	94 bps
PAT	8,863	10,708	8,022	10,761	10.5	-0.5
Margin (%)	12.1	13.1	10.6	12.4	150 bps	71 bps
EPS	45.1	54.5	40.8	54.7	10.5	-0.5

Source: Nirmal Bang Institutional Equities Research

## Exhibit 4: Segment revenue

Revenue Break-up (Rsmn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)
<b>International Generics</b>	<b>6,030</b>	<b>7,450</b>	<b>6,850</b>	<b>13.6</b>	<b>(8.1)</b>
US (\$ mn)	43	57	51	18.1	(10.8)
ROW	2,490	2,710	2,620	5.2	(3.3)
<b>India</b>	<b>4,900</b>	<b>5,960</b>	<b>5,030</b>	<b>2.7</b>	<b>(15.6)</b>
<b>API</b>	<b>3,130</b>	<b>2,890</b>	<b>3,300</b>	<b>5.4</b>	<b>14.2</b>

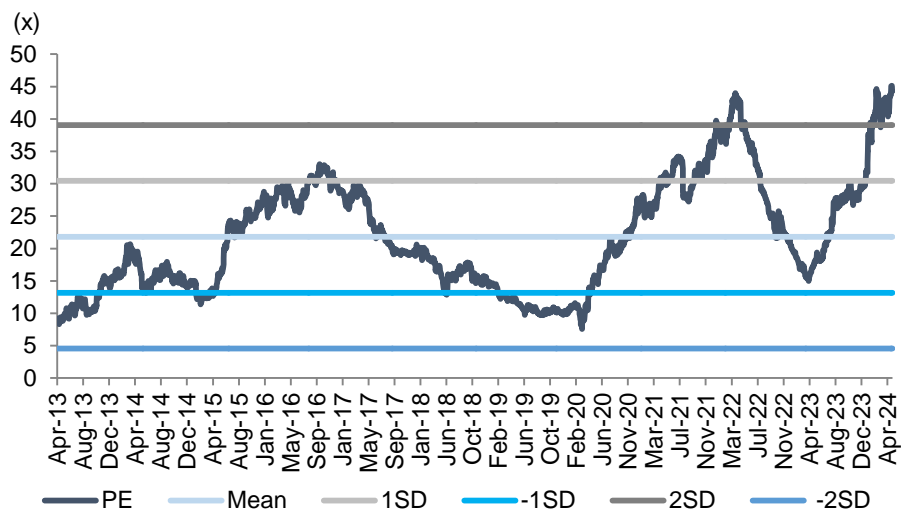
Source: Nirmal Bang Institutional Equities Research

## Valuation and Outlook

Revenue is expected to clock ~12% CAGR over FY23-FY26E, mainly driven by continuous strong growth in the domestic Specialty segment and new launches in the US. While the Domestic Formulations business is expected to clock 10.2% CAGR over FY23-FY26E, US revenue in constant currency (CC) terms is expected to clock ~19% CAGR. However, the cost of new plants and persistent pricing pressure in some products will continue to affect margins. Due to a lower base, EBITDA margin is expected to improve by 708bps over FY23-FY26E to 19.6%. Net profit is expected to clock 46% CAGR over FY23-FY26E.

Alembic Pharma is currently trading at 22.3x/18.5x PE on FY25E/FY26E and 14.6x/12.1x EV/EBITDA on FY25E/FY26E. We estimate free cash flow (FCF) generation of around Rs 6bn/8bn over FY25E/ FY26E. ROE and ROCE are expected to be at 18% and 17.3%, respectively in FY26E. Despite continuous spending on capex and R&D for the US business, we do not see any meaningful, visible large launches. Also, instability in India business due to higher reliance on the Acute portfolio, could spur some volatility in India business, further increasing the pressure on margins. Therefore, we maintain ACCUMULATE on Alembic Pharma with a TP of Rs981, valuing it at 18x FY26E EPS.

**Exhibit 5: One-year Rolling Forward P/E Chart**



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

## Financial statements

**Exhibit 6: Income statement**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>53,058</b>	<b>56,526</b>	<b>62,286</b>	<b>73,429</b>	<b>81,789</b>
% growth	-1.6	6.5	10.2	17.9	11.4
Raw material costs	14,464	17,088	17,151	21,294	23,719
Staff costs	11,330	11,691	14,463	15,909	17,500
Other expenditure	10,142	13,445	16,126	17,416	18,809
R&D Expenses	7,150	7,218	5,213	5,140	5,725
Total expenditure	43,086	49,443	52,953	59,759	65,753
<b>Gross profit</b>	<b>38,594</b>	<b>39,438</b>	<b>45,136</b>	<b>52,134</b>	<b>58,071</b>
% growth	-6.7	2.2	14.4	15.5	11.4
<b>EBITDA</b>	<b>9,972</b>	<b>7,083</b>	<b>9,334</b>	<b>13,669</b>	<b>16,036</b>
% growth	-36.0	-29.0	31.8	46.5	17.3
EBITDA margin (%)	18.8	12.5	15.0	18.6	19.6
Other income	505	27	283	198	202
Interest costs	177	502	562	347	237
Depreciation	2,868	2,754	2,727	2,831	2,931
<b>Profit before tax &amp; Exceptional Items</b>	<b>7,431</b>	<b>3,855</b>	<b>6,328</b>	<b>10,690</b>	<b>13,071</b>
Exceptional Items	-1,230	0	0	0	0
<b>Profit before tax</b>	<b>6,201</b>	<b>3,855</b>	<b>6,328</b>	<b>10,690</b>	<b>13,071</b>
% growth	-45.7	-48.1	64.2	68.9	22.3
Tax	1,045	126	160	1,817	2,353
Effective tax rate (%)	14	3	3	17	18
<b>PAT before Minority Interest</b>	<b>5,157</b>	<b>3,729</b>	<b>6,168</b>	<b>8,873</b>	<b>10,718</b>
Share of MI and Associates	300	-309	-10	-10	-10
<b>Reported PAT</b>	<b>5,457</b>	<b>3,420</b>	<b>6,158</b>	<b>8,863</b>	<b>10,708</b>
<b>Adjusted PAT</b>	<b>6,480</b>	<b>3,420</b>	<b>6,158</b>	<b>8,863</b>	<b>10,708</b>
% growth	-45.0	-47.2	80.1	43.9	20.8
<b>EPS (Rs)</b>	<b>33.0</b>	<b>17.4</b>	<b>31.3</b>	<b>45.1</b>	<b>54.5</b>
% growth	-45.0	-47.2	80.1	43.9	20.8

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Balance sheet**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Equity	393	393	393	393	393
Reserves	51,982	43,312	47,789	54,879	63,446
Net worth	52,375	43,705	48,182	55,272	63,839
Minority Interest	0	0	0	0	0
Net deferred tax liabilities	0	0	0	0	0
Total Loans	721	692	629	629	629
Other Financial Liabilities	958	1,062	1,095	1,291	1,438
Other Long Term Liabilities	0	0	0	0	0
<b>Liabilities</b>	<b>54,055</b>	<b>45,459</b>	<b>49,906</b>	<b>57,192</b>	<b>65,906</b>
Net Block	17,423	23,985	25,467	26,636	27,705
CWIP	22,058	6,013	5,244	5,244	5,244
Intangible Assets & Goodwill	564	0	0	0	0
Other Non Current Assets	2,197	1,768	2,029	2,029	2,029
Non-Current Investments	1,184	963	930	930	930
Inventories	16,097	14,753	16,435	18,548	20,408
Debtors	8,071	10,464	10,248	12,082	13,457
Cash	611	755	1,202	3,084	6,532
Other current assets	3,015	3,129	2,900	3,370	3,723
Total current assets	27,794	29,100	30,786	37,083	44,121
Creditors	7,064	6,798	7,356	9,134	10,174
Other current liabilities	10,102	9,571	7,194	5,597	3,950
Total current liabilities	17,165	16,369	14,550	14,730	14,123
Net current assets	10,629	12,731	16,236	22,353	29,997
<b>Total assets</b>	<b>54,055</b>	<b>45,459</b>	<b>49,906</b>	<b>57,192</b>	<b>65,906</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Cash flow**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PBT	6,201	3,546	6,318	10,680	13,061
Depreciation	2,868	2,754	2,727	2,831	2,931
Net Chg in WC	(3,673)	(576)	(909)	(2,169)	(2,196)
Taxes	(1,234)	(607)	(199)	(1,817)	(2,353)
Others	1,363	2,122	94	476	384
<b>CFO</b>	<b>5,524</b>	<b>7,240</b>	<b>8,032</b>	<b>10,001</b>	<b>11,827</b>
Capex	(4,243)	(4,415)	(3,159)	(4,000)	(4,000)
Net Investments made	477	(70)	0	0	0
Others	46	9	(47)	0	0
<b>CFI</b>	<b>(3,720)</b>	<b>(4,476)</b>	<b>(3,206)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Change in Share capital	0	0	0	0	0
Change in Debts	1,300	(2,000)	0	(2,000)	(2,000)
Div. & Div Tax	(2,752)	(1,966)	(1,573)	(1,773)	(2,142)
Others	(722)	1,346	(2,806)	(347)	(237)
<b>CFF</b>	<b>(2,174)</b>	<b>(2,620)</b>	<b>(4,379)</b>	<b>(4,119)</b>	<b>(4,378)</b>
Total Cash Generated	(370)	144	447	1,882	3,449
Cash Opening Balance	981	611	755	1,202	3,084
Cash Closing Balance	611	755	1,202	3,084	6,532

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Key ratios**

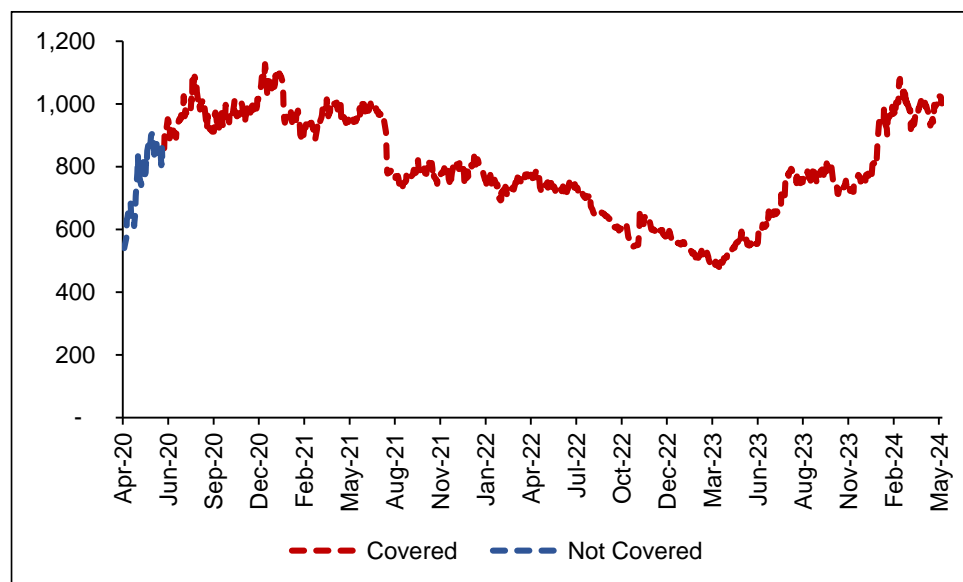
Y/E March	FY22	FY23	FY24	FY25E	FY26E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	18.8	12.5	15.0	18.6	19.6
RoIC(%)	11.5	6.8	12.5	16.5	18.6
Net profit margin (%)	10.3	6.0	9.9	12.1	13.1
RoE (%)	12.5	7.1	13.4	17.1	18.0
RoCE (%)	11.5	7.0	12.5	16.1	17.3
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	40	60	61	55	57
Inventory (days)	131	114	107	107	108
Payables (days)	58	51	49	50	54
Current ratio (x)	1.6	1.8	2.1	2.5	3.1
Quick ratio (x)	0.7	0.9	1.0	1.3	1.7
<b>Leverage ratios</b>					
Net Debt/Equity (x)	0.2	0.2	0.1	0.0	-0.1
Interest Cover (x)	40.1	8.6	11.8	31.3	55.4
Net Debt/EBITDA (x)	0.9	1.2	0.6	0.2	-0.2
<b>Valuation ratios</b>					
EV/sales (x)	3.9	3.7	3.3	2.7	2.4
EV/EBITDA (x)	20.7	29.1	21.9	14.6	12.1
P/E (x)	30.5	57.9	32.1	22.3	18.5
P/BV (x)	3.8	4.5	4.1	3.6	3.1

Source: Company, Nirmal Bang Institutional Equities Research

## Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
15 June 2020	Accumulate	854	835
23 July 2020	Sell	999	883
22 Sept 2020	Accumulate	918	898
23 Oct 2020	Accumulate	995	1,116
7 January 2021	Accumulate	1,070	1,152
20 January 2021	Accumulate	1,030	1,168
05 May 2021	Buy	1,007	1,160
27 July 2021	Accumulate	910	865
26 September 2021	Accumulate	820	791
10 November 2021	Accumulate	793	754
10 February 2022	Accumulate	761	773
21 February 2022	Accumulate	700	801
3 May 2022	Accumulate	787	752
5 August 2022	Accumulate	702	720
9 October 2022	Accumulate	618	617
13 November 2022	Accumulate	639	618
2 February 2023	Accumulate	540	614
16 March 2023	Accumulate	487	541
7 May 2023	Accumulate	554	548
5 August 2023	Accumulate	780	775
8 November 2023	Accumulate	740	797
5 February 2024	Accumulate	965	923
9 May 2024	Accumulate	1,007	981

## Rating Track Graph





## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

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SELL < -5%

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