

May 09, 2024

**RESULT REPORT Q4 FY24** | Sector: Pharmaceuticals & Healthcare

# Alembic Pharma

## Await US recovery and scale up; D/G to Reduce

### Result Synopsis

Q4 turned out a weak revenue quarter but was saved by rather sharp uptick in gross margin QoQ. Company guided to 25 launches in current fiscal though no exclusivity products are lined up in the near term. India growth has been affected by weak acute season and presume current year to revert to normal demand for anti-infectives which would boost Azithromycin business. With no MR addition in domestic business and new facilities being expensed imply limited rise in operating expenditure; hence any traction in US business would lead to significant operating leverage – a 10% higher US business in FY26 compared to our base case leads to 15% higher EPS. For now, we have cut FY25 and FY26 US revenue estimate to US\$225mn and US\$245mn from US\$230mn and US\$270mn respectively on lack of near-term large approvals. This results in ~13-14% cut to FY25/26 estimates each and lowering of rating to Reduce from Add earlier with revised TP Rs950 (earlier Rs1,100).

### Result Highlights

Revenues at ~8% YoY lower than expectation of +12% YoY

US revenues decline a rather sharp ~11% QoQ despite 7 launches during the quarter

India sales weak at ~3% YoY, much lower than expectation and driven by animal health growth of 34% YoY

API business up 5% YoY on higher off take and better mix

Gross margin up a surprisingly 320bps QoQ despite decline in US and India sales; Higher API sales would have help QoQ as well as increased utilization as per management

Margin at 17% better than estimate of 16% helped by better gross margin

PAT up 17% YoY aided by decline in interest cost YoY

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	15,170	15,812	15,883	-4.1	-4.5	Weak revenue showing as India revenue up 3%, US down 11% QoQ; Gross margin saves the EBIDTA
EBITDA	2,601	2,566	2,482	1.4	4.8	
EBITDA Margin (%)	17.1	16.2	15.6	92 bps	152 bps	
Adjusted PAT	1,782	1,554	1469.833	14.7	21.2	

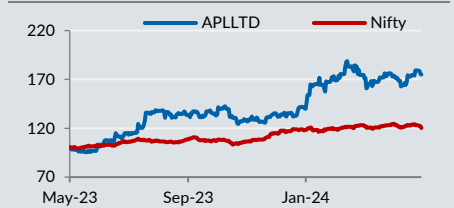
Source: Company, YES Sec

Reco	: <b>REDUCE</b>
CMP	: Rs 1,003
Target Price	: Rs 950
Potential Return	: -5%

### Stock data (as on May 09, 2024)

Nifty	21,958
52 Week h/l (Rs)	1094 / 542
Market cap (Rs/USD mn)	197310 / 2365
Outstanding Shares (mn)	197
6m Avg t/o (Rs mn):	208
Div yield (%):	0.8
Bloomberg code:	ALPM IN
NSE code:	APLLTD

### Stock performance



	1M	3M	1Y
Absolute return	1.1%	3.5%	75.0%

### Shareholding pattern (As of Mar '24 end)

Promoter	69.6%
FII+DII	19.9%
Others	10.5%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	ADD
Target Price	950	1,100

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	31.6	43.3
EPS (Old)	36.4	50.6
% change	-13.1%	-14.5%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	62,286	68,638	76,232
YoY Growth	10.2	10.2	11.1
EBIDTA	9,334	10,925	13,919
YoY Growth	31.8	17.0	27.4
PAT	6,158	6,218	8,501
YoY Growth	80.1	1.0	36.7
ROE	13.4	12.4	15.3
EPS	31.3	31.6	43.3
P/E	32.0	31.7	23.2
BV	245.1	265.8	298.0
EV/EBIDTA	21.2	17.9	14.2

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	y/y (%)	q/q (%)
Revenue	14,065	14,862	15,949	16,306	15,170	7.9	(7.0)
Expenditure	11,942	12,875	13,867	13,642	12,569	5.2	(7.9)
- RM	4,325	4,135	4,614	4,608	3,794	(12.3)	(17.7)
- Staff Cost	2,976	3,482	3,470	3,493	4,019	35.0	15.1
- Other Cost	4,642	5,258	5,783	5,542	4,757	2.5	(14.2)
Operating Profit	2,122	1,987	2,083	2,664	2,601	22.5	(2.4)
OPM(%)	15.1	13.4	13.1	16.3	17.1	205 bps	81 bps
Other Income	9	117	102	29	36	304	25
Depreciation	741	662	676	695	695	(6)	0
Interest	144	144	157	152	109	(24)	(28)
PBT	1,246	1,298	1,352	1,846	1,832	47.0	(0.8)
Tax	(364)	92	(19)	41	46	(112.7)	12.3
PAT	1,611	1,206	1,371	1,805	1,786	10.9	(1.1)
Minority Interest	85	0	5	1	4	(95.4)	680.0
Reported PAT	1,526	1,206	1,366	1,805	1,782	16.8	(1.2)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Gross margin higher on back of better utilization of capacity
- Would be happy with 70% plus gross margin and should maintain around that number.
- R&D seen at Rs5.5-6bn in FY25
- US\$50mn could be the base in US/quarter
- No exclusivity product likely in current year in US
- Outlook for US appears much better than at start of year hence see scope for substantial increase in operating leverage
- To launch 25 products in US for this fiscal on back of 27 launches in FY24: price erosion in single to low double digit
- Cumulative Rs3bn in opex added to P&L including depreciation from 4 new facilities
- Oral and respiratory baskets have been a challenge in Q4 and FY24
- Animal health – added 4 new divisions last year and operational execution going up. Impact of new divisions continued to play out in current year as well
- Added 280 people in animal health in FY24
- No MR addition to India business in current fiscal
- Maintenance capex Rs3bn and ETR of 17%

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	393	393	393	393	393
Reserves	51,982	43,312	47,789	51,845	58,184
Net worth	52,375	43,705	48,182	52,238	58,577
Debt	1,680	1,754	1,724	1,724	1,724
Deferred tax liab (net)	0	0	0	0	0
<b>Total liabilities</b>	<b>54,055</b>	<b>45,459</b>	<b>49,906</b>	<b>53,962</b>	<b>60,301</b>
Fixed Asset	41,021	29,997	30,711	30,611	30,302
Investments	1,533	1,501	1,263	1,263	1,263
Net Working Capital	11,443	12,731	16,236	20,391	27,039
Inventories	16,097	14,753	16,435	18,111	20,115
Sundry debtors	8,071	10,464	10,248	11,293	12,543
Cash	695	823	1,264	3,357	7,644
Other current assets	3,745	3,061	2,836	3,089	3,430
Sundry creditors	(7,064)	(6,798)	(7,355)	(8,105)	(9,001)
Other CL	(10,102)	(9,571)	(7,194)	(7,355)	(7,693)
Def tax assets	59	1,230	1,696	1,696	1,696
<b>Total Assets</b>	<b>54,055</b>	<b>45,459</b>	<b>49,906</b>	<b>53,962</b>	<b>60,301</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	53,058	56,526	62,286	68,638	76,232
Operating profit	8,742	7,083	9,334	10,925	13,919
Depreciation	(2,868)	(2,754)	(2,727)	(3,099)	(3,309)
Interest expense	(177)	(502)	(562)	(543)	(543)
Other income	505	27	283	300	300
Profit before tax	6,201	3,855	6,328	7,583	10,367
Taxes	(1,045)	(126)	(160)	(1,365)	(1,866)
Adj. profit	5,157	3,729	6,168	6,218	8,501
Exceptional items	300	(309)	(10)	-	-
Net profit	5,457	3,420	6,158	6,218	8,501

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	6,201	3,855	6,328	7,583	10,367
Depreciation	2,868	2,754	2,727	3,099	3,309
Def tax assets (net)	(42)	-	-	-	-
Tax paid	(1,045)	(126)	(160)	(1,365)	(1,866)
Working capital Δ	(706)	(1,160)	(3,064)	(2,062)	(2,361)
Other operating items	300	(309)	(10)	-	-
Operating cashflow	7,577	5,014	5,821	7,255	9,449
Capital expenditure	(4,179)	8,269	(3,440)	(3,000)	(3,000)
Free cash flow	<b>3,398</b>	<b>13,283</b>	<b>2,381</b>	<b>4,255</b>	<b>6,449</b>
Equity raised	(999)	(8,552)	481	(0)	(0)
Investments	68	32	238	-	-
Debt financing/disposal	(1,890)	75	(30)	-	-
Dividends paid	(2,752)	(3,538)	(2,162)	(2,162)	(2,162)
Net Δ in cash	<b>(2,175)</b>	<b>1,300</b>	<b>907</b>	<b>2,093</b>	<b>4,287</b>

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

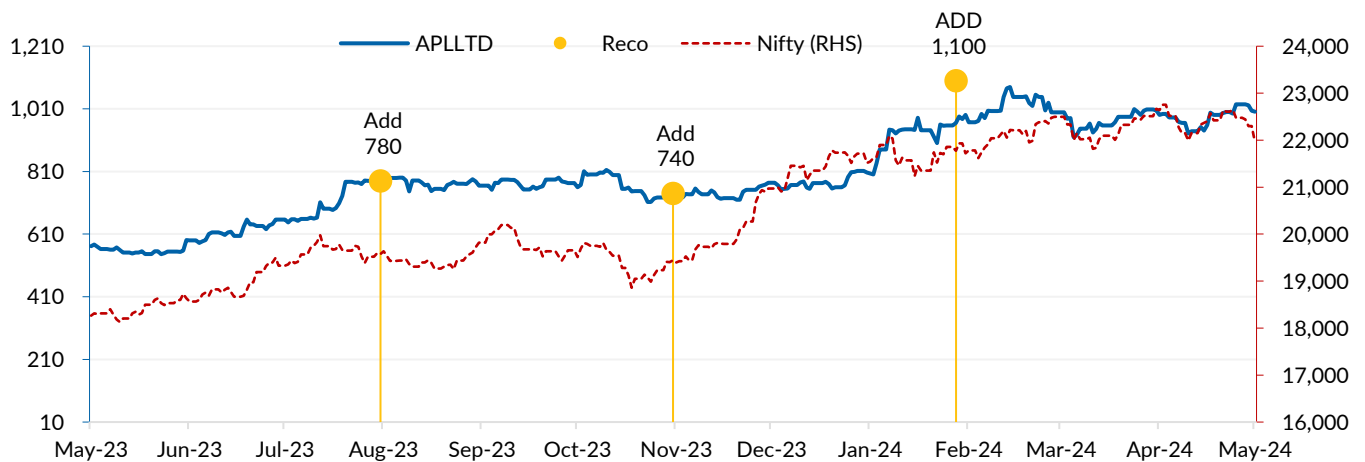
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.83	0.97	0.97	0.82	0.82
Interest burden (x)	0.97	0.88	0.92	0.93	0.95
EBIT margin (x)	0.12	0.08	0.11	0.12	0.14
Asset turnover (x)	0.77	0.86	1.01	1.05	1.07
Financial leverage (x)	1.34	1.37	1.34	1.30	1.29
RoE (%)	<b>10.0</b>	<b>7.8</b>	<b>13.4</b>	<b>12.4</b>	<b>15.3</b>

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	(1.6)	6.5	10.2	10.2	11.1
Op profit growth	(43.9)	(19.0)	31.8	17.0	27.4
EBIT growth	(53.9)	(31.7)	58.2	17.9	34.3
Net profit growth	(53.7)	(37.3)	80.1	1.0	36.7
<b>Profitability ratios (%)</b>					
OPM	16.5	12.5	15.0	15.9	18.3
EBIT margin	12.0	7.7	11.1	11.8	14.3
Net profit margin	9.7	6.6	9.9	9.1	11.2
RoCE	11.8	8.8	14.4	15.6	19.1

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoNW	10.0	7.8	13.4	12.4	15.3
RoA	7.5	5.7	10.0	9.5	11.9
<b>Per share ratios</b>					
EPS	27.8	17.4	31.3	31.6	43.3
Dividend per share	14.0	18.0	11.0	11.0	11.0
Cash EPS	40.8	33.0	45.3	47.4	60.1
Book value per share	266.5	222.4	245.1	265.8	298.0
<b>Valuation ratios</b>					
P/E	36.1	57.7	32.0	31.7	23.2
P/CEPS	3.8	4.5	4.1	3.8	3.4
P/B	3.7	3.5	3.2	2.9	2.6
EV/EBIDTA	22.7	28.0	21.2	17.9	14.2
<b>Payout (%)</b>					
Dividend payout	16.8	3.3	2.5	18.0	18.0
Tax payout	50.4	103.5	35.1	34.8	25.4
<b>Liquidity ratios</b>					
Debtor days	56	68	60	60	60
Inventory days	111	95	96	96	96
Creditor days	49	44	43	43	43

## Recommendation Tracker



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