

November 08, 2023

RESULT REPORT Q2 FY24 | Sector: Pharmaceuticals & Healthcare

Alembic Pharma

US ramp up key to margin

Result Synopsis

US business clocked robust growth on back of buoyancy in existing business and moderate price erosion though muted India (actually flat YoY ex-animal health business) and higher opex due to full expensing of 3 facilities impacted margin. With some recovery in US, we would have expected better margin profile but for higher staff costs related to 3 new facilities. Management refrained from giving any margin/revenue guidance though it did reiterate gross margin in the range of 70%. H1 performance does not warrant any major change to growth estimates across US, India and other segments though we tweak operating costs which results in 3-8% cut in FY24/25 EPS estimates. Unless revenue picks up in US from the usual US\$50-53mn range per quarter, it would be difficult for margin to move beyond 15-17% range. While we retain US\$240mn revenue for US in FY25, it does depend on nature of general/onco injectable approvals (company has netted decent ophthalmic approval like Combigan) over next 2-3 quarters. Retain ADD with unchanged 22x PE for a revise TP Rs800 (earlier Rs840).

Result Highlights

Revenue up 8% YoY, in-line with expectation driven by India (+5% YoY) and robust 6% YoY rise in US

Domestic growth increasingly supported by animal health (+32% YoY to Rs940mn, 17% of India sales vs 13% in Q2 FY23)

Ex-animal health, domestic growth flat YoY; despite acute share at 30%, growth ex-animal health appears underwhelming

US growth of 6% YoY and 14% QoQ supported by a benign pricing environment and potential gain in existing products

Margin flat QoQ and down 270bps YoY on higher opex – other expenses up 10% QoQ and 14% YoY

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	15,949	15,762	15,943	1.2	0.0	US improvement did not translate into better margin; domestic ex-animal health segment flat YoY
EBITDA	2,083	2,364	2,446	-11.9	-14.8	
EBITDA Margin (%)	13.1	15.0	15.3	-194 bps	-228 bps	
Adjusted PAT	1,366	1,327	1,416	2.9	-3.5	

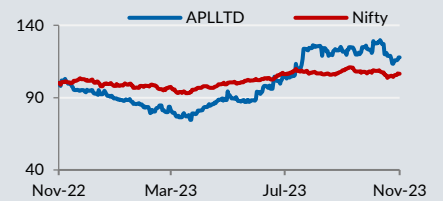
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 740
Target Price	: Rs 800
Potential Return	: 9%

Stock data (as on November 08, 2023)

Nifty	19,407
52 Week h/l (Rs)	839 / 462
Market cap (Rs/USD mn)	143599 / 1726
Outstanding Shares (mn)	197
6m Avg t/o (Rs mn):	140
Div yield (%):	1.1
Bloomberg code:	ALPM IN
NSE code:	APLLTD

Stock performance



	1M	3M	1Y
Absolute return	-4.3%	-6.4%	17.8%

Shareholding pattern (As of Sep '23 end)

Promoter	69.6%
FII+DII	18.7%
Others	11.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	800	840

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	24.3	36.5
EPS (Old)	26.1	38.0
% change	-7.0%	-3.9%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	56,526	61,098	69,108
YoY Growth	6.5	8.1	13.1
EBIDTA	8,633	8,583	12,484
YoY Growth	-18.7	-0.6	45.4
PAT	3,420	4,772	7,181
YoY Growth	(37.3)	39.5	50.5
ROE	11.0	11.2	15.1
EPS	17.4	24.3	36.5
P/E	42.5	30.5	20.3
BV	222.4	238.6	267.2
EV/EBITDA	17.0	17.0	11.5

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	y/y (%)	q/q (%)
Revenue	14,750	15,090	14,065	14,862	15,949	8.1	7.3
Expenditure	12,423	12,603	11,942	12,875	13,867	11.6	7.7
- RM	4,430	4,550	4,325	4,135	4,614	4.2	11.6
- Staff Cost	2,898	2,914	2,976	3,482	3,470	19.7	(0.3)
- Other exp	5,094	5,139	4,642	5,258	5,783	13.5	10.0
Operating Profit	2,328	2,488	2,122	1,987	2,083	(10.5)	4.8
OPM(%)	15.8	16.5	15.1	13.4	13.1	-272 bps	-31 bps
Other Income	3	4	9	117	102	2,976	(13)
Depreciation	677	665	741	662	676	(0)	2
Interest	124	146	144	144	157	26	9
PBT	1,530	1,681	1,246	1,298	1,352	(11.6)	4.1
Tax	180	326	(364)	92	(19)	-	-
PAT	1,350	1,355	1,611	1,206	1,371	1.5	13.6
Minority Interest	17	136	85	0	5	(69.1)	-
Reported PAT	1,334	1,219	1,526	1,206	1,366	2.4	13.2

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Expect high single digit to low double digit growth depending on acute season
- Q2 PAT is after charging expenses for all 3 facilities; Rs600mn would be additional expenses related to new facilities
- 70% could be the gross margin number expectation with a variation of ~200bps around that number
- Just launched 1 ophthalmic, 1 injectable and couple of onco injectables; too early to comment on performance given the limited number of launches. Erosion is not as much as in existing portfolio
- Benefited from shortages in couple of products in US
- In about 15 odd products, believe have market share which can be better subject to acceptable pricing
- In 62 filings, about 15 are injectables and 5-10 are derma products

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	393	393	393	393	393
Reserves	50,277	51,982	43,312	46,511	52,119
Net worth	50,670	52,375	43,705	46,904	52,512
Debt	3,570	1,680	1,754	1,754	1,754
Deferred tax liab (net)	42	0	0	0	0
Total liabilities	54,281	54,055	45,459	48,658	54,267
Fixed Asset	39,710	41,021	29,997	31,328	31,301
Investments	1,601	2,347	1,501	1,501	1,501
Net Working Capital	12,970	10,688	12,731	14,600	20,235
Inventories	14,862	16,097	14,753	15,946	18,036
Sundry debtors	3,486	8,071	10,464	11,310	12,793
Cash	2,928	753	823	1,332	3,036
Other current assets	4,504	2,931	3,061	3,360	3,801
Sundry creditors	(6,688)	(7,064)	(6,798)	(7,348)	(8,311)
Other CL	(6,121)	(10,102)	(9,571)	(10,001)	(9,120)
Def tax assets	-	-	1,230	1,230	1,230
Total Assets	54,281	54,055	45,459	48,658	54,267

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	53,931	53,058	56,526	61,098	69,108
Operating profit	15,576	10,622	8,633	8,583	12,484
Depreciation	(1,835)	(2,868)	(2,754)	(2,669)	(3,027)
Interest expense	(160)	(177)	(502)	(568)	(473)
Other income	100	505	27	300	150
Profit before tax	13,681	8,081	5,405	5,646	9,134
Taxes	(2,533)	(1,045)	(126)	(565)	(1,644)
Adj. profit	11,148	7,037	5,279	5,081	7,490
Exceptional	634	(1,580)	(1,859)	(309)	(309)
Net profit	11,781	5,457	3,420	4,772	7,181

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	13,681	8,081	5,405	5,646	9,134
Depreciation	1,835	2,868	2,754	2,669	3,027
Def tax assets (net)	(80)	(42)	-	-	-
Tax paid	(2,533)	(1,045)	(126)	(565)	(1,644)
Working capital Δ	(3,738)	108	(1,974)	(1,359)	(3,932)
Other operating items	634	(1,580)	(1,859)	(309)	(309)
Operating cashflow	9,798	8,391	4,200	6,082	6,276
Capital expenditure	(7,559)	(4,179)	8,269	(4,000)	(3,000)
Free cash flow	2,239	4,212	12,469	2,082	3,276
Equity raised	9,736	(1,786)	(10,518)	-	(0)
Investments	(318)	(745)	846	-	-
Debt financing/disposal	(6,778)	(1,890)	75	-	-
Dividends paid	(2,752)	(1,966)	(1,572)	(1,572)	(1,572)
Net Δ in cash	2,127	(2,175)	1,299	510	1,703

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

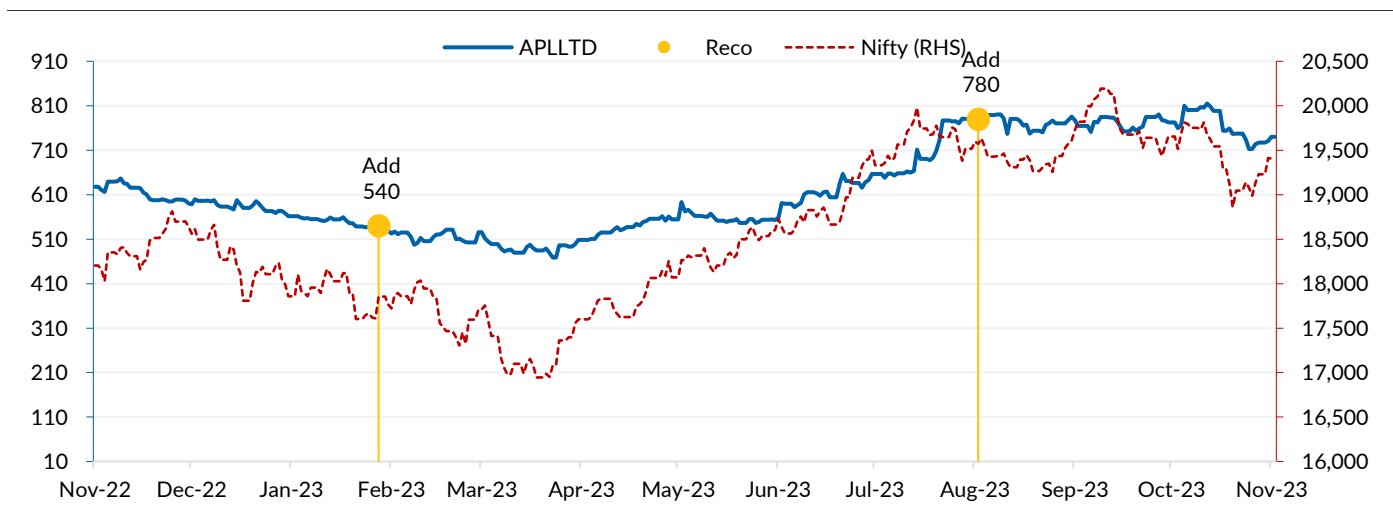
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.81	0.87	0.98	0.90	0.82
Interest burden (x)	0.99	0.98	0.92	0.91	0.95
EBIT margin (x)	0.26	0.16	0.10	0.10	0.14
Asset turnover (x)	0.85	0.77	0.86	0.97	1.02
Financial leverage (x)	1.54	1.34	1.37	1.38	1.36
RoE (%)	27.0	13.7	11.0	11.2	15.1

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	17.1	(1.6)	6.5	8.1	13.1
Op profit growth	27.4	(31.8)	(18.7)	(0.6)	45.4
EBIT growth	29.3	(40.3)	(28.5)	5.2	54.6
Net profit growth	42.1	(53.7)	(37.3)	39.5	50.5
Profitability ratios (%)					
OPM	28.9	20.0	15.3	14.0	18.1
EBIT margin	25.7	15.6	10.4	10.2	13.9
Net profit margin	20.7	13.3	9.3	8.3	10.8
RoCE	28.6	15.2	11.9	13.2	18.7

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoNW	27.0	13.7	11.0	11.2	15.1
RoA	17.6	10.2	8.0	8.1	11.1
Per share ratios					
EPS	59.9	27.8	17.4	24.3	36.5
Dividend per share	14.0	10.0	8.0	8.0	8.0
Cash EPS	66.1	50.4	40.9	39.4	53.5
Book value per share	257.8	266.5	222.4	238.6	267.2
Valuation ratios					
P/E	12.3	26.7	42.5	30.5	20.3
P/CEPS	2.9	2.8	3.3	3.1	2.8
P/B	2.7	2.7	2.6	2.4	2.1
EV/EBIDTA	9.4	13.8	17.0	17.0	11.5
Payout (%)					
Dividend payout	18.5	12.9	2.3	10.0	18.0
Tax payout	23.4	36.0	46.0	33.0	21.9
Liquidity ratios					
Debtor days	24	56	68	68	68
Inventory days	101	111	95	95	95
Creditor days	45	49	44	44	44

Recommendation Tracker



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