

Alembic Pharmaceuticals | BUY

Steady quarter; margin recovery awaited

ALPM's 2Q revenue was in line with JMFe driven by non-US formulations. Domestic business dragged growth due to delayed acute season/ high base. New facility costs (c. INR 550mn) resulted in weaker EBITDA margin, leading to a 7% PAT miss. US performance was better than expectations as moderate price erosion, new launches and shortages benefited the company. As launches from new facilities ramp up, which could take a few quarters, we expect healthy operating leverage to play out as costs are now largely in the base. We expect API business to deliver steady performance on the back of a robust order book. We maintain BUY with a TP of INR 915.

- US to ramp up gradually:** US revenues grew 6%YoY/ 14%QoQ to INR 4.4bn. The management indicated that the US business continues to witness limited price erosion. In 1H, the company benefitted from shortages, particularly in the derma segment. We expect the US business to gradually ramp up on the back of increased new launches from newly commissioned facilities (injectables, oncology, ophthal). ALPM has planned 20+ launches in FY24, primarily consisting of oral solids (10-12) and the balance being ophthalmic injectable and derma. During the quarter, it filed two ANDAs and plans to file 15 in the year, and received six ANDA approvals. The pending ANDAs are a mix of injectables (12-15), Derma (5-10) and OSD.
- Domestic business to outperform:** Domestic revenue missed JMFe by 6%, growing 5% YoY to INR 5.8bn due to high base/delayed acute season during the quarter. Specialty segment grew 7% YoY whereas the Acute portfolio declined (-8% YoY). The recent launches meet the management's expectations and the company is planning new launches in 2H across key segments. Animal health business grew 32% YoY to INR 980mn. ALPM currently operates in the livestock and poultry market and has established a new division with a headcount of 350. The company is a leader in Hematinic and Antibiotic market with Sharkoferrol, Moxel, Xceft and Mceft brands. At present, it has 5,000+ MRs with 20 marketing divisions.
- Ex-US beat JMFe, API in line:** Ex-US international formulations grew at a steady 17% YoY to INR 2.5bn (7% beat). New launches and territory expansion are expected to sustain this momentum and drive growth ahead. API revenue was broadly in line with JMFe, growing 10% YoY to INR 3.2bn. The growth was mainly on account of high offtake and better product mix, and given the robust order book this should sustain. ALPM filed one DMF this quarter, taking the total to 132 DMFs.
- Key financials:** Alembic's Revenue/EBITDA/PAT of INR 15.9bn/ 2.1bn/ 1.4bn grew +8%/-11%/+2% YoY and were in line/-21%/-7% vs. our estimates and +2%/ -13%/ -2% vs. consensus estimates. Gross margin improved ~110bps YoY to c. 71.1% (JMFe: 70%), with the management guiding for levels of 70%, going forward. EBITDA margin declined 270bps YoY to 13.1% (JMFe: 16.4%) on higher other expenses. R&D expense of INR 1.2bn was 7.6% of sales. Debt to equity stood at 0.18.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	915
Upside/(Downside)	23.6%
Previous Price Target	875
Change	4.6%

Key Data – ALPM IN

Current Market Price	INR740
Market cap (bn)	INR145.5/US\$1.7
Free Float	26%
Shares in issue (mn)	196.6
Diluted share (mn)	196.6
3-mon avg daily val (mn)	INR157.3/US\$1.9
52-week range	839/462
Sensex/Nifty	64,942/19,407
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-4.3	33.4	17.8
Relative*	-2.7	25.4	11.0

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	53,070	56,530	63,538	71,565	80,153
Sales Growth (%)	-1.6	6.5	12.4	12.6	12.0
EBITDA	9,101	7,088	8,978	12,462	14,618
EBITDA Margin (%)	17.1	12.5	14.1	17.4	18.2
Adjusted Net Profit	6,919	3,424	5,255	7,816	9,304
Diluted EPS (INR)	35.2	17.4	26.7	39.8	47.3
Diluted EPS Growth (%)	-42.2	-50.5	53.5	48.7	19.0
ROIC (%)	9.5	7.9	11.2	15.5	17.8
ROE (%)	13.4	7.1	11.5	15.5	16.4
P/E (x)	21.0	42.5	27.7	18.6	15.6
P/B (x)	2.8	3.3	3.0	2.7	2.4
EV/EBITDA (x)	16.7	21.4	16.5	11.5	9.4
Dividend Yield (%)	1.9	1.4	0.7	1.4	1.4

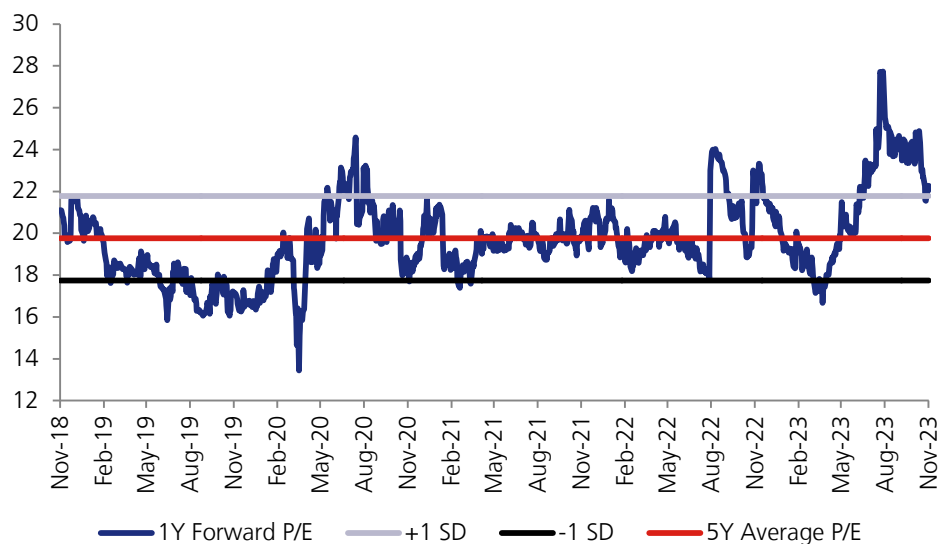
Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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Exhibit 1. Valuation



Source: Company, JM Financial

Exhibit 2. Top 11-25 brands drive growth

BRANDS	THERAPY	MAT SEP'23	% YoY	1H24	% YoY	2Q24	% YoY	SEP'23	% YoY
ALEMBIC		31,408	11%	15,487	6%	8,119	3%	2,867	7%
AZITHRAL	ANTI-INFECTIVES	4,633	11%	2,044	1%	1,139	-10%	464	4%
ALTHROCIN	ANTI-INFECTIVES	1,275	4%	663	-1%	382	-1%	130	3%
WIKORYL	RESPIRATORY	1,262	7%	523	-4%	301	-9%	116	6%
GESTOFIT	GYNAEC.	1,010	17%	522	13%	256	12%	83	8%
BROZEET-LS	RESPIRATORY	737	41%	288	11%	171	6%	76	29%
CRINA-NCR	GYNAEC.	716	16%	379	15%	194	15%	64	14%
ROXID	ANTI-INFECTIVES	670	6%	306	2%	162	-5%	60	8%
RICHAR CR	GYNAEC.	659	14%	347	6%	178	1%	60	2%
TELLZY-AM	CARDIAC	582	20%	305	20%	153	19%	50	22%
REKOOL-D	GASTRO INTESTINAL	566	1%	302	7%	155	7%	53	9%
Top 10		12,110	12%	5,677	4%	3,092	-2%	1,155	7%
Top 11-25		6,067	16%	3,080	14%	1,588	12%	550	12%
Top 26-50		5,460	7%	2,730	4%	1,418	3%	493	7%

Source: IQVIA, JM Financial

Exhibit 3. 2QFY24 review

Alembic (INR mn)	Pharma	-	P&L	2Q23A	2Q24A	% YoY	2Q24E	% Delta vs. JMFe	2Q24E (cons)	% Delta vs cons	1Q24A	% QoQ	1H23A	1H24A	% YoY
Revenue				14,750	15,949	8%	16,015	0%	15,660	2%	14,862	7%	27,372	30,811	13%
Raw Material/FG				4,430	4,614	4%	4,805	-4%			4,135	12%	8,213	8,750	7%
Gross Profit				10,320	11,335	10%	11,211	1%			10,726	6%	19,159	22,061	15%
- % of revenue				70.0%	71.1%	110 bps	70.0%	107 bps			72.2%	-111 bps	70.0%	71.6%	161 bps
Staff Cost				2,898	3,470	20%	3,443	1%			3,482	0%	5,802	6,952	20%
- % of revenue				19.6%	21.8%		21.5%				23.4%		21.2%	22.6%	
R&D*				1,680	1,211	-28%	1,300	-7%			1,186	2%	3,144	2,397	-24%
- % of revenue				11.4%	7.6%		8.1%				8.0%		11.5%	7.8%	
Other expenses				5,094	5,783	14%	5,144	12%			5,258	10%	10,883	11,040	1%
EBITDA				2,328	2,083	-11%	2,624	-21%	2,390	-13%	1,987	5%	2,474	4,069	64%
EBITDA (%)				15.8%	13.1%	-272 bps	16.4%	-333 bps	15.3%	-220 bps	13.4%	-31 bps	9.0%	13.2%	417 bps
Other Income				3	102		30				117		14	218	
Interest				124	157		140				144		212	301	
Depreciation				677	676		730				662		1,348	1,337	
Exceptional items				0	0		0				0		0	0	
PBT				1,530	1,352		1,784	-24%			1,298	4%	928	2,649	185%
Tax				180	-19		300				92		165	72	
Tax Rate (%)				11.7%	-1.4%		16.8%				7.0%		17.7%	2.7%	
Profit(loss) of associates				(17)	(5)		(20)				(0)		(89)	(5)	
Minority Interest				0	0		0				0		0	0	
PAT (Reported)				1,334	1,366	2%	1,464	-7%			1,206	13%	675	2,572	281%
PAT Margin (%)				9.0%	8.6%		9.1%				8.1%		3.8%	8.3%	
PAT (Adjusted)				360	1,366	279%	1,464	-7%	1,400	-2%	1,206	13%	1,694	2,572	52%
EPS (Reported)				6.8	6.9	2%	7.4	-7%			6.1	13%	3.4	13.1	281%
*Part of Other Expenses															
Alembic Pharma - Cost margins				2Q23A	2Q24A	% YoY	2Q24E	% Delta vs. JMFe			1Q24A	% QoQ	1H23A	1H24A	% YoY
Raw material cost/sales				30.0%	28.9%	-110 bps	30.0%	-107 bps			27.8%	111 bps	30.0%	28.4%	-161 bps
Staff cost/sales				19.6%	21.8%	211 bps	21.5%	26 bps			23.4%	-167 bps	21.2%	22.6%	136 bps
Other expenditure/sales				34.5%	36.3%	172 bps	32.1%	414 bps			35.4%	88 bps	39.8%	35.8%	-393 bps
Alembic Pharma - Revenue breakdown				2Q23A	2Q24A	% YoY	2Q24E	% Delta vs. JMFe			1Q24A	% QoQ	1H23A	1H24A	% YoY
Domestic Formulations				5,490	5,770	5%	6,149	-6%			5,240	10%	10,290	11010	7%
International Formulations				6,330	6,960	10%	6,629	5%			6,560	6%	11,820	13520	14%
- US				4,180	4,440	6%	4,264	4%			3,900	14%	7,850	8340	6%
- Non-US				2,150	2,520	17%	2,365	7%			2,660	-5%	3,970	5180	30%
API				2,940	3,220	10%	3,238	-1%			3,050	6%	5,270	6270	19%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	53,070	56,530	63,538	71,565	80,153
Sales Growth	-1.6%	6.5%	12.4%	12.6%	12.0%
Other Operating Income	0	0	0	0	0
Total Revenue	53,070	56,530	63,538	71,565	80,153
Cost of Goods Sold/Op. Exp	14,464	17,088	18,108	19,680	22,042
Personnel Cost	11,330	11,691	13,978	15,458	17,073
Other Expenses	18,174	20,663	22,473	23,965	26,420
EBITDA	9,101	7,088	8,978	12,462	14,618
EBITDA Margin	17.1%	12.5%	14.1%	17.4%	18.2%
EBITDA Growth	-41.6%	-22.1%	26.7%	38.8%	17.3%
Depn. & Amort.	2,868	2,754	2,777	3,485	3,875
EBIT	6,234	4,333	6,201	8,977	10,744
Other Income	157	27	381	429	481
Finance Cost	177	502	588	564	376
PBT before Excep. & Forex	6,213	3,859	5,995	8,843	10,849
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,213	3,859	5,995	8,843	10,849
Taxes	1,045	126	719	1,326	1,844
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-195	-309	-20	300	300
Reported Net Profit	5,469	3,424	5,255	7,816	9,304
Adjusted Net Profit	6,919	3,424	5,255	7,816	9,304
Net Margin	13.0%	6.1%	8.3%	10.9%	11.6%
Diluted Share Cap. (mn)	196.6	196.6	196.6	196.6	196.6
Diluted EPS (INR)	35.2	17.4	26.7	39.8	47.3
Diluted EPS Growth	-42.2%	-50.5%	53.5%	48.7%	19.0%
Total Dividend + Tax	2,752	1,966	1,156	2,312	2,312
Dividend Per Share (INR)	13.8	10.0	5.0	10.0	10.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	6,266	3,550	5,975	9,143	11,149
Depn. & Amort.	2,868	2,754	2,777	3,485	3,875
Net Interest Exp. / Inc. (-)	160	498	588	564	376
Inc (-) / Dec in WCap.	-3,673	-576	-263	-963	-72
Others	1,138	1,620	-361	-729	-781
Taxes Paid	-1,234	-607	-719	-1,326	-1,844
Operating Cash Flow	5,524	7,240	7,996	10,172	12,702
Capex	-4,256	-4,434	-3,000	-3,000	-5,000
Free Cash Flow	1,267	2,806	4,996	7,172	7,702
Inc (-) / Dec in Investments	477	-70	0	0	0
Others	60	28	385	433	485
Investing Cash Flow	-3,720	-4,476	-2,615	-2,567	-4,515
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-2,752	-1,966	-1,156	-2,312	-2,312
Inc / Dec (-) in Loans	-3,000	-2,000	-1,306	-1,044	-836
Others	3,578	1,346	-591	-568	-380
Financing Cash Flow	-2,174	-2,620	-3,053	-3,925	-3,528
Inc / Dec (-) in Cash	-369	144	2,328	3,681	4,659
Opening Cash Balance	982	611	755	3,083	6,763
Closing Cash Balance	612	755	3,083	6,763	11,422

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	52,375	43,705	47,804	53,308	60,300
Share Capital	393	393	393	393	393
Reserves & Surplus	51,982	43,312	47,411	52,915	59,907
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	6,450	6,528	5,222	4,178	3,342
Def. Tax Liab. / Assets (-)	-59	-1,230	-1,230	-1,230	-1,230
Total - Equity & Liab.	58,766	49,003	51,796	56,256	62,412
Net Fixed Assets	41,021	29,997	30,220	29,736	30,861
Gross Fixed Assets	26,229	34,675	39,675	44,675	49,675
Intangible Assets	1,540	0	0	0	0
Less: Depn. & Amort.	8,806	10,690	13,468	16,952	20,827
Capital WIP	22,058	6,013	4,013	2,013	2,013
Investments	1,184	963	943	1,243	1,543
Current Assets	28,957	29,638	36,561	46,316	56,639
Inventories	16,097	14,753	17,381	21,094	23,927
Sundry Debtors	8,071	10,464	12,034	13,478	14,825
Cash & Bank Balances	611	755	3,083	6,763	11,422
Loans & Advances	2,681	2,234	2,632	3,549	5,032
Other Current Assets	1,497	1,432	1,432	1,432	1,432
Current Liab. & Prov.	12,395	11,596	15,928	21,039	26,631
Current Liabilities	8,744	8,552	11,545	15,076	18,938
Provisions & Others	3,652	3,043	4,383	5,964	7,693
Net Current Assets	16,561	18,042	20,633	25,277	30,008
Total - Assets	58,766	49,003	51,796	56,256	62,412

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	13.0%	6.1%	8.3%	10.9%	11.6%
Asset Turnover (x)	0.9	1.0	1.2	1.3	1.3
Leverage Factor (x)	1.1	1.2	1.2	1.1	1.1
RoE	13.4%	7.1%	11.5%	15.5%	16.4%

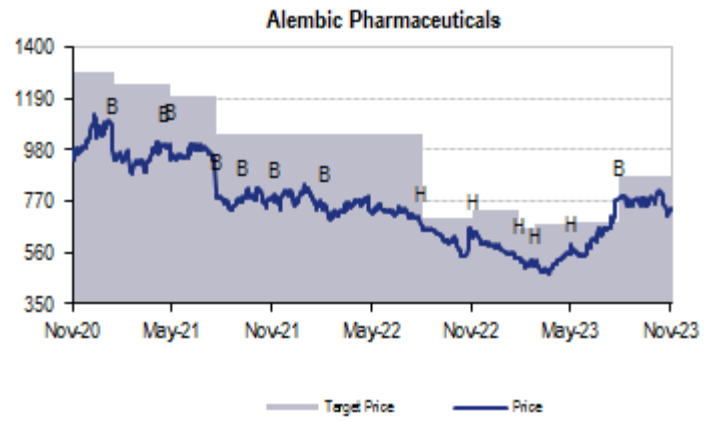
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	266.5	222.4	243.2	271.2	306.8
ROIC	9.5%	7.9%	11.2%	15.5%	17.8%
ROE	13.4%	7.1%	11.5%	15.5%	16.4%
Net Debt/Equity (x)	0.1	0.1	0.0	0.0	-0.1
P/E (x)	21.0	42.5	27.7	18.6	15.6
P/B (x)	2.8	3.3	3.0	2.7	2.4
EV/EBITDA (x)	16.7	21.4	16.5	11.5	9.4
EV/Sales (x)	2.9	2.7	2.3	2.0	1.7
Debtor days	56	68	69	69	68
Inventory days	111	95	100	108	109
Creditor days	59	50	65	82	96

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
23-Jan-20	Buy	750	
24-Apr-20	Buy	960	28.0
12-Jul-20	Buy	960	0.0
23-Jul-20	Buy	1,090	13.5
22-Oct-20	Buy	1,300	19.3
19-Jan-21	Buy	1,250	-3.8
24-Apr-21	Buy	1,250	0.0
4-May-21	Buy	1,200	-4.0
27-Jul-21	Buy	1,040	-13.3
14-Sep-21	Buy	1,040	0.0
11-Nov-21	Buy	1,040	0.0
11-Feb-22	Buy	1,040	0.0
6-Aug-22	Hold	700	-32.7
11-Nov-22	Hold	730	4.3
1-Feb-23	Hold	660	-9.6
5-Mar-23	Hold	675	2.3
7-May-23	Hold	680	0.7
6-Aug-23	Buy	875	28.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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