

Alembic Pharma

NEUTRAL

Investment phase continues

We maintain **NEUTRAL** on ALPM following a miss on our estimates. Our TP is revised at Rs 570/sh (18x FY21E EPS) following a 4% cut in FY21 EPS to account for higher R&D.

HIGHLIGHTS OF THE QUARTER

- Despite reporting healthy double-digit growth in the US and API segments, the operational performance was weak during 4QFY19 owing to the India branded business remaining subdued and lower EU sales due to serialization.
- The domestic biz at Rs 3bn was flat YoY due to channel de-stocking (down 17% QoQ owing to seasonality). Expect recovery in FY20 on the back of normalized acute season and growing specialty biz. Model ~12% YoY growth.
- At US\$ 41mn, US remained flat QoQ, with new launches compensating the moderating shortage in Sartans. The FY19 base is elevated due to short-term opportunities. With onco and injectables filings yet to ramp up and the Aleor JV due for commercialization, growth in the US will be muted in FY20 (despite visibility on 15-20 launches for FY20). Benefits from lucrative products could be visible from FY21E.

Financial Summary (Consolidated)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Sales	9,270	8,533	8.6	10,182	(9.0)	31,308	39,347	43,577	50,632
EBITDA	1,780	1,732	2.8	2,422	(26.5)	6,431	8,736	8,672	10,716
APAT	1,240	938	32.2	1,453	(14.7)	4,126	4,864	4,740	5,951
Adj EPS (Rs)	6.6	5.0	32.2	7.7	(14.7)	21.9	25.8	25.1	31.6
P/E (x)						25.2	21.4	21.9	17.5
EV/EBITDA (x)						17.1	12.7	12.6	10.0
RoE (%)						20.0	19.7	16.4	18.1

Source: Company, HDFC sec Inst Research

- ROW sales reported strong growth of 32% YoY. The fall of 41% QoQ was on account of weaker EU sales.
- EBITDA at Rs 1.7bn, up 3% YoY (down 27% QoQ), was affected by seasonality (India) and higher other expenses due to new plants. Margin came in at 19%, down 110/460bps YoY/QoQ. Aided by lower forex loss and tax rate, PAT stood at Rs 1.2bn (+32% YoY).
- Net debt at Rs 7.2bn increased by Rs 1bn YoY due to increased capex and R&D spend (Rs 5bn in FY19P).
- Near-term outlook:** The stock to remain range bound.

STANCE

The shortage in Sartans has moderated in the US and the co is not expected to gain from this in FY20E. Sustainable growth relies upon new launches in the US.

We believe the benefits of new launches would be back-ended (post FY21E), stretching the payback period on the US\$ 450mn spent by Alembic over the last ~3 years. Meanwhile, with a majority of the new plants nearing commissioning, the incremental cost would remain unabsorbed and dent profitability as revenue growth will be delayed. The valuations seem unfavorable at current levels of 22/18x FY20/21E P/E. Maintain Neutral.

INDUSTRY	PHARMA
CMP (as on 08 May 2019)	Rs 551
Target Price	Rs 570
Nifty	11,359
Sensex	37,789
KEY STOCK DATA	
Bloomberg	ALPM IN
No. of Shares (mn)	189
MCap (Rs bn) / (\$ mn)	104/1,493
6m avg traded value (Rs mn)	27
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 664/412
	3M 6M 12M
Absolute (%)	(2.5) (6.6) 9.3
Relative (%)	(5.9) (13.9) 2.0
SHAREHOLDING PATTERN (%)	
	Dec-18 Mar-19
Promoters	72.96 72.97
FIs & Local MFs	5.56 5.48
FPIs	9.32 9.50
Public & Others	12.16 12.05
Pledged Shares	- -
Source : BSE	

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ALPM's top line grew ~9% YoY to Rs 9.3bn in 4QFY19, largely led by 12% YoY growth in international business

Gross margin improved ~100bps QoQ owing to better product mix

R&D expenses remained elevated at Rs 1.2bn in 4QFY19 (Rs 5bn for FY19P). Mgmt has guided for R&D spend at Rs 6bn for FY20E

Opex increased significantly during the quarter owing to commissioning of new facilities

While higher opex led to subdued EBITDA margin, a significantly lower tax rate boosted earnings

Net debt increased by Rs 1bn YoY to Rs 7.2bn; however, it reduced by Rs 2.8bn over Sep-18

Quarterly Financials Snapshot (Consolidated)

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Net Sales	9,270	8,533	8.6	10,182	(9.0)
Material Expenses	2,167	2,638	(17.8)	2,485	(12.8)
Employee Expenses	2,007	1,573	27.6	1,984	1.2
R&D Expenses	1,191	1,208	(1.4)	1,122	6.1
Other Expenses	2,124	1,382	53.7	2,169	(2.1)
EBITDA	1,780	1,732	2.8	2,422	(26.5)
Depreciation	300	316		291	
EBIT	1,481	1,417	4.5	2,132	(30.5)
Other Income	34	6		35	
Interest Cost	51	13		60	
PBT	1,464	1,410	3.8	2,108	(30.5)
Tax	149	385		400	
Minority Interest	75	87		9	
RPAT	1,240	938	32.2	1,698	(27.0)
EO Items (Adj For Tax)		-		245	
APAT	1,240	938	32.2	1,453	(14.7)

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Material Expenses % Net Sales	23.4	30.9	(753)	24.4	(102)
Employee Expenses % Net Sales	21.7	18.4	322	19.5	217
R&D Expenses % Net Sales	12.8	14.2	(131)	11.0	183
Other Expenses % Net Sales	22.9	16.2	672	21.3	161
EBITDA Margin (%)	19.2	20.3	(109)	23.8	(458)
Tax Rate (%)	10.2	27.3	(1,715)	19.0	(880)
APAT Margin (%)	13.4	11.0	239	14.3	(90)

Source: Company, HDFC sec Inst Research

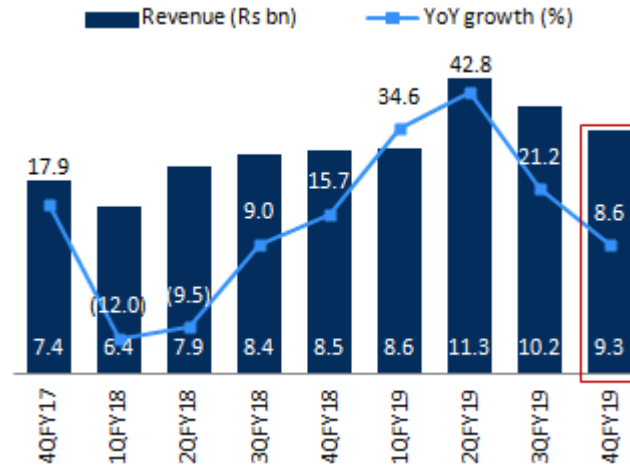
Top-line growth was subdued due to weak domestic sales, despite a strong performance in international markets YoY

Domestic sales were poor due to channel de-stocking. The mgmt. is confident in resuming growth in FY20

Strong traction in the US owing to shortages, accompanied by partnerships in ROW markets drove growth in international formulations

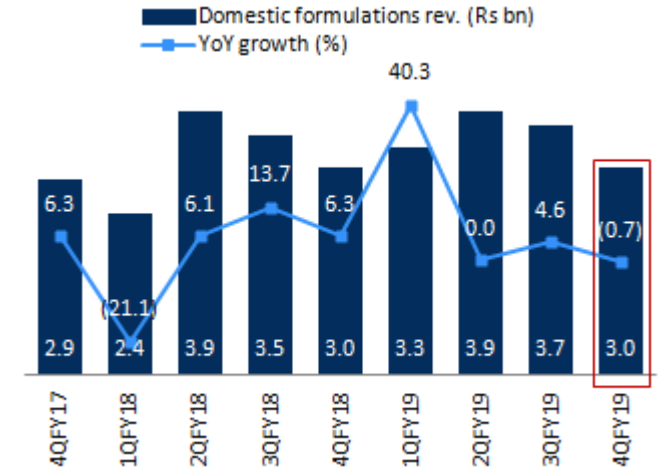
As was expected, the incremental cost from new facilities has started to dent operating profitability. As the incremental revenue from lucrative onco and injectable products seem a couple years away, we expect the margins to remain subdued

Revenue: Weak Domestic Sales Subdued Growth



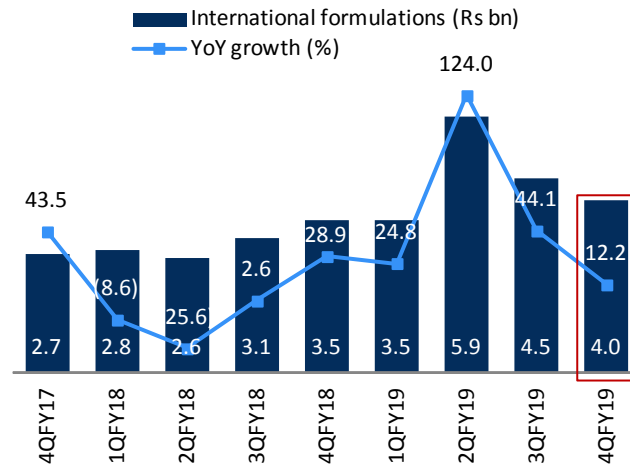
Source: Company, HDFC sec Inst Research

Domestic Biz: Flat YoY Due To Channel Stocking



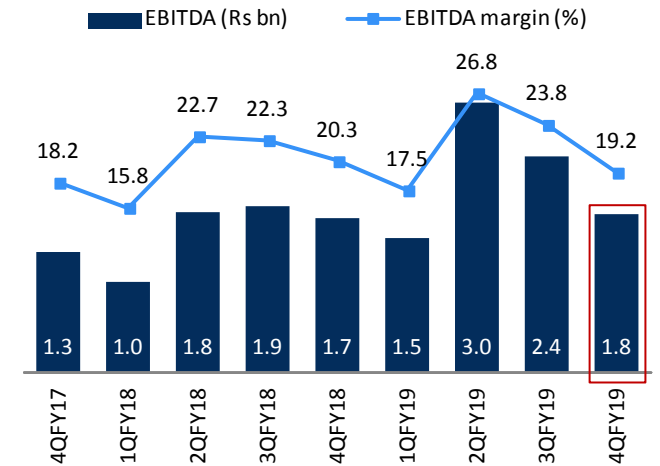
Source: Company, HDFC sec Inst Research

International Biz: Growth Driven By US



Source: Company, HDFC sec Inst Research

EBITDA Margin: Dragged By Higher Opex



Source: Company, HDFC sec Inst Research

While domestic business was muted, the specialty segment has reported modest growth, which would improve profitability

The short-term opportunities in the US (Sartans) have moderated, which is evident in the sequential decline

While facilities are nearing commissioning, filings and approvals would take time to materialize, which would delay incremental revenues

ROW markets have performed well with the help of partnerships in FY19

The new JV in China will commercialize products manufactured by Alembic and require minimum capex for now. The co plans to develop a manufacturing facility in China in the future

Segmental Quarterly Performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Domestic Formulations	3,020	3,040	(0.7)	3,650	(17.3)
International Business	3,950	3,520	12.2	4,480	(11.8)
API	2,300	1,980	16.2	2,050	12.2
Total	9,270	8,540	8.5	10,180	(8.9)

Source: HDFC sec Inst Research

Assumptions

	FY17	FY18	FY19P	FY20E	FY21E
Domestic formulations	12,550	12,740	13,820	15,547	17,099
Growth (%)	5.7	1.5	8.5	12.5	10.0
International Business	12,360	12,060	17,820	19,175	23,678
Growth (%)	(15.6)	(2.4)	47.8	7.6	23.5
API Business	6,400	6,510	7,710	8,855	9,855
Growth (%)	21.1	1.7	18.4	14.9	11.3
Total	31,310	31,310	39,350	43,577	50,632
Growth (%)	(1.5)	-	25.7	10.7	16.2

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP/FV	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Sun Pharma	1,054	439	BUY	640	13.0	15.3	20.7	27.2	33.9	28.8	21.2	16.1	8.3	9.3	11.7	13.7
Dr Reddy's Labs	482	2,901	BUY	3,400	59.2	109.7	124.4	151.3	49.0	26.4	23.3	19.2	7.8	13.6	13.6	14.3
Cipla	449	558	BUY	630	18.6	16.8	21.1	28.6	30.1	33.2	26.4	19.5	11.2	9.1	10.6	12.9
Aurobindo Pharma	448	765	NEU	800	41.4	42.2	54.1	53.2	18.5	18.1	14.1	14.4	23.0	19.2	20.4	16.8
Divi's Labs	443	1,669	SELL	1,445	32.4	52.4	56.8	65.7	51.5	31.9	29.4	25.4	15.2	21.6	20.2	20.4
Lupin	385	851	BUY	1,060	38.0	15.4	32.5	48.5	22.4	55.2	26.2	17.5	12.7	5.0	10.0	13.6
Cadila Healthcare	293	287	BUY	470	13.0	14.8	17.2	21.4	22.0	19.4	16.6	13.4	17.0	16.0	16.1	17.3
Torrent Pharma	287	1,695	NEU	1,920	40.1	45.8	63.8	87.2	42.3	37.0	26.6	19.4	15.1	15.8	19.2	22.3
Alkem Laboratories	202	1,687	BUY	2,240	57.6	63.4	80.9	101.9	29.3	26.6	20.9	16.6	14.8	14.7	16.6	18.3
Glenmark	170	604	BUY	835	17.5	27.0	33.9	43.7	34.6	22.4	17.8	13.8	9.4	12.7	14.0	15.7
Alembic Pharma	104	551	NEU	570	21.9	25.8	25.1	31.6	25.2	21.4	21.9	17.5	20.0	19.7	16.4	18.1
Jubilant Life Sciences	98	614	BUY	1,005	45.5	58.8	68.6	83.7	13.5	10.4	9.0	7.3	19.3	20.8	20.2	20.5
Strides Shasun	44	489	BUY	620	12.7	5.8	30.8	39.3	38.5	84.9	15.9	12.4	4.4	2.0	9.7	11.4
Laurus Labs	40	380	BUY	535	15.8	10.7	17.0	29.4	24.0	35.6	22.3	12.9	11.9	6.2	10.8	16.7
Dishman Carbogen Amcis	33	204	BUY	400	13.2	15.7	20.9	26.7	15.4	13.0	9.7	7.6	14.6	15.0	16.7	18.1
Suven Life Sciences	33	256	NR	465	9.7	5.6	9.8	11.3	26.4	45.9	26.1	22.8	17.2	8.9	14.2	14.5
J B Chemicals & Pharmaceuticals	29	364	NR	470	16.6	23.8	28.4	33.6	22.0	15.3	12.8	10.8	9.9	13.2	14.8	15.4
Granules India	28	109	BUY	170	5.2	9.2	11.3	14.2	20.8	11.8	9.6	7.7	12.0	16.8	17.8	19.2
Neuland Labs	9	672	BUY	930	10.8	10.8	37.5	66.5	62.2	62.1	17.9	10.1	2.2	2.2	6.7	11.0

Source: HDFC sec Inst Research

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
Net Sales	40,084	43,244	51,400	39,347	43,577	50,632	(1.8)	0.8	(1.5)
EBITDA	8,699	8,648	11,206	8,736	8,672	10,716	0.4	0.3	(4.4)
APAT	4,542	4,610	6,207	4,864	4,740	5,951	7.1	2.8	(4.1)

Source: HDFC sec Inst Research

The cut in our estimates accounts for higher R&D spend

Income Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Net Revenues	31,346	31,308	39,347	43,577	50,632
Growth (%)	0.4	(0.1)	25.7	10.8	16.2
Material Expenses	8,581	8,856	9,927	11,330	12,658
Employee Expenses	5,588	6,228	7,467	8,280	9,367
SG&A Expenses	6,760	5,683	8,236	9,413	11,309
R&D Expenses	4,270	4,110	4,982	5,883	6,582
EBITDA	6,147	6,431	8,736	8,672	10,716
EBITDA Margin (%)	19.6	20.5	22.2	19.9	21.2
EBITDA Growth (%)	(38.9)	4.6	35.8	(0.7)	23.6
Depreciation	830	1,055	1,152	1,700	2,200
EBIT	5,318	5,376	7,584	6,972	8,516
Other Income (Including EO Items)	25	70	94	100	105
Interest	51	34	184	685	618
PBT	5,291	5,413	7,493	6,387	8,003
Tax (Incl Deferred)	1,222	1,204	1,568	1,597	2,001
Minority Interest	(37)	(83)	(82)	(50)	(51)
RPAT	4,032	4,126	5,844	4,740	5,951
EO (Loss) / Profit (Net Of Tax)	-	-	980	-	-
APAT	4,032	4,126	4,864	4,740	5,951
APAT Growth (%)	28.3	2.3	17.9	(2.5)	25.6
Adjusted EPS (Rs)	21.4	21.9	25.8	25.1	31.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	377	377	377	377	377
Reserves	18,634	21,824	26,811	30,194	34,788
Total Shareholders' Funds	19,011	22,201	27,188	30,571	35,165
Minority Interest	1	3	(8)	1	1
Long Term Debt	-	5,000	4,993	4,493	3,993
Short Term Debt	802	2,078	4,291	4,291	3,541
Total Debt	802	7,078	9,284	8,784	7,534
Net Deferred Taxes	369	354	188	369	370
Other Non-current Liabilities & Provns	698	617	520	624	749
TOTAL SOURCES OF FUNDS	20,882	30,253	37,173	40,350	43,820
APPLICATION OF FUNDS					
Net Block	7,994	9,308	11,585	20,385	25,185
CWIP	4,660	10,551	15,512	8,500	4,500
Investments	502	416	488	488	488
Other Non-current Assets	501	888	616	677	745
Total Non-current Assets	13,656	21,163	28,200	30,050	30,917
Cash & Equivalent	1,596	899	2,056	3,439	4,653
Inventories	6,328	7,339	9,673	9,933	10,404
Debtors	3,375	5,263	4,889	6,566	8,323
Other Current Assets	1,912	4,746	2,960	3,050	3,544
Total Current Assets	11,615	17,348	17,521	19,550	22,271
Creditors	5,232	7,593	7,023	8,692	9,363
Other Current Liabilities & Provns	753	1,564	3,582	3,997	4,659
Total Current Liabilities	5,985	9,157	10,605	12,689	14,022
Net Current Assets	5,629	8,191	6,916	6,862	8,249
TOTAL APPLICATION OF FUNDS	20,882	30,253	37,173	40,350	43,820

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	5,291	5,413	7,493	6,387	8,003
Non-operating & EO items	(39)	(204)	-	-	-
Interest expenses	40	20	90	585	513
Depreciation	830	1,055	1,152	1,700	2,200
Working Capital Change	(1,656)	(1,809)	1,451	97	(1,330)
Tax Paid	(1,180)	(1,351)	(1,734)	(1,415)	(2,000)
OPERATING CASH FLOW (a)	3,286	3,124	8,452	7,354	7,386
Capex	(4,907)	(8,074)	(8,390)	(3,488)	(3,000)
Free cash flow (FCF)	(1,622)	(4,949)	62	3,866	4,386
Non-operating Income	12	(770)	94	100	105
INVESTING CASH FLOW (b)	(4,859)	(8,844)	(8,368)	(3,388)	(2,895)
Debt Issuance/(Repaid)	(386)	6,191	2,207	(500)	(1,250)
Interest Expenses	(52)	(260)	(184)	(685)	(618)
FCFE	(2,059)	981	2,084	2,681	2,518
Share Capital Issuance	-	-	-	-	-
Dividend	(901)	(908)	(1,244)	(1,357)	(1,357)
Others	(50)	(4)	52	41	51
FINANCING CASH FLOW (c)	(1,289)	5,026	726	(2,583)	(3,276)
NET CASH FLOW (a+b+c)	(2,862)	(693)	811	1,383	1,215
EO Items, Others	65	(3)	346	-	-
Closing Cash & Equivalents	1,596	899	2,056	3,439	4,653

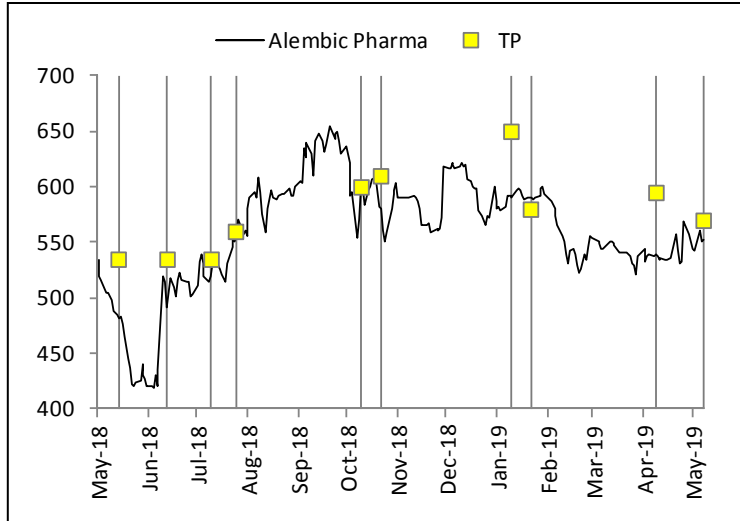
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	72.6	71.7	74.8	74.0	75.0
EBITDA Margin	19.6	20.5	22.2	19.9	21.2
APAT Margin	12.9	13.2	12.4	10.9	11.8
RoE	23.0	20.0	19.7	16.4	18.1
RoIC (or Core RoCE)	26.5	18.0	19.3	15.0	17.3
RoCE	21.0	16.2	14.9	13.6	15.2
EFFICIENCY					
Tax Rate (%)	23.1	22.2	20.9	25.0	25.0
Fixed Asset Turnover (x)	2.5	2.7	2.6	1.7	1.5
Inventory (days)	73.7	85.6	89.7	83.2	75.0
Debtors (days)	39.3	61.4	45.4	55.0	60.0
Other Current Assets (days)	22.3	55.3	27.5	25.6	25.6
Payables (days)	60.9	88.5	65.2	72.8	67.5
Other Current Liab & Provns (days)	8.8	18.2	33.2	33.5	33.6
Cash Conversion Cycle (days)	65.5	95.5	64.2	57.5	59.5
Debt/EBITDA (x)	0.1	1.1	1.1	1.0	0.7
Net D/E (x)	(0.0)	0.3	0.3	0.2	0.1
Interest Coverage (x)	103.9	158.1	41.2	10.2	13.8
PER SHARE DATA (Rs)					
EPS	21.4	21.9	25.8	25.1	31.6
Dividend	4.0	4.0	5.5	6.0	6.0
Book Value	100.9	117.8	144.2	162.2	186.5
VALUATION					
P/E (x)	25.8	25.2	21.4	21.9	17.5
P/BV (x)	5.5	4.7	3.8	3.4	3.0
EV/EBITDA (x)	16.8	17.1	12.7	12.6	10.0
EV/Revenues (x)	3.3	3.5	2.8	2.5	2.1
OCF/EV (%)	3.2	2.8	7.6	6.7	6.9
FCF/EV (%)	(1.6)	(4.5)	0.1	3.5	4.1
FCFE/Mkt Cap (%)	(2.0)	0.9	2.0	2.6	2.4
Dividend Yield (%)	0.7	0.7	1.0	1.1	1.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-May-18	480	NEU	535
13-Jun-18	514	NEU	535
10-Jul-18	514	NEU	535
27-Jul-18	568	NEU	560
10-Oct-18	554	NEU	600
23-Oct-18	580	NEU	610
10-Jan-19	594	NEU	650
23-Jan-19	590	NEU	580
9-Apr-19	539	NEU	595
9-May-19	551	NEU	570

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
Disclosure:

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