

Industry Pharmaceuticals
Bloomberg ALPM IN
BSE CODE 533573

Sales growth led by the US business offset by weak domestic and ROW sales.

RATING	BUY
CMP	530
Price Target	612
Potential Upside	15%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	664/435
Mkt Capital (Rs Cr)	9546
Free float (%)	27%
Avg. Vol 1M (,000)	70
No. of Shares (Crs)	19
Promoters Pledged %	0%

1QFY20 Result Update

- US sales for the quarter increased by 41% to US\$ 47 mn (vs our estimate US\$ 55 mn) on account of new launches and increased market share in the other products.
- India sales for the quarter were almost flat YoY at Rs. 324 crs (vs our estimate of Rs. 375 crs) on account of general slowdown in the industry and delayed monsoon in Q1FY20 (as acute constitute 35% of the domestic sales).
- ROW sales declined by 15% YoY to Rs.108 crs as Europe sales were impacted due to serialization. The mgmt expects it to stabilize H2FY20 onwards.
- Gross margin increased from 70.4% in Q1FY19 to 78.5% in this quarter on account of higher margin product sales.
- EBITDA margin improved from 17.5% in Q1FY19 to 23.7% in this quarter on account of lower other expenses and COGS.
- Exceptional item of Rs. 33 crs for the quarter relates to impairment provision on investment in Alembic Mami SPA, JV.

View and Valuation

Revenue for the quarter grew by 10% YoY to Rs. 949 crs (vs. our estimate of Rs.1047 crs), the growth was majorly driven by the US sales on account of high margin product sales offset by weak domestic and ROW sales. The EBITDA margin increased from 17.5% in Q1FY19 to 23.7% in this quarter on account of improved gross margin and lower COGS. On the sequential basis, the margins have improved by 449 bps due to lower other expenses as ANDA filings were relatively less compared to the sequential quarter.

Going forward, we expect the US sales to drive revenue growth based on the healthy ANDA pipeline and nimble supply chain, though will see a decline in Q2FY20 on a YoY basis due to higher base in Q2FY19 on account of valsartan opportunity. ROW sales are expected to stabilize H2FY20 onwards as the impact of serialization will diminish. We believe the domestic sales will continue to see pressure based on the general slowdown in the industry. On the margin front, we expect the margins to be under pressure in the medium term due to increase in R&D cost and operational cost on account of commissioning of the new facilities. Therefore, we maintain our BUY rating with a target price of Rs. 612 (18x FY21e EPS).

Key Risks to our rating and target

- USFDA inspection
- R&D expenditure
- ANDA filings and approvals

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3135	3131	3935	4267	4823
EBITDA	615	643	874	988	1013
EBIT	532	538	758	857	856
PAT	403	413	584	649	641
EPS (Rs)	21	22	31	34	34
EPS growth (%)	-44%	2%	42%	11%	-1%
ROE (%)	21.2%	18.6%	21.5%	20.0%	17.1%
ROCE (%)	28.0%	19.8%	23.6%	22.9%	20.1%
BV	36	47	85	101	118
P/B (X)	6.2	4.7	3.7	2.9	2.5
P/E (x)	29.2	25.1	17.1	14.6	14.8

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1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	863	1,127	1,018	927	949	10.0%	2.4%	3,131	3,935	25.7%
Other Income	0	2	4	3	3			7	9	33.4%
COGS	255	272	248	217	204	-20.0%	-5.7%	886	993	12.1%
Gross Margin	70.4%	75.9%	75.6%	76.6%	78.5%	8.1%	1.8%	71.7%	74.8%	4.3%
Employee Cost	165	183	198	201	215	30.3%	7.0%	623	747	19.9%
Other Expen.	291	370	329	331	305	4.7%	-8.1%	979	1,322	35.0%
EBITDA	151	302	242	178	225	49.0%	26.3%	643	874	35.8%
EBITDA Mar.	17.5%	26.8%	23.8%	19.2%	23.7%	6.2%	4.5%	20.5%	22.2%	8.1%
Depreciation	28	29	29	30	35	28.3%	18.2%	105	115	9.3%
EBIT	123	274	213	148	190	54%	28.0%	538	758	41.1%
Interest	2	6	6	5	5			3	18	441.5%
PBT	122	270	211	146	188	54.1%	28.4%	541	749	38%
Exceptional Item					33					
Tax	32	70	40	15	36	14.0%	141.3%	120	157	30%
PAT	90	200	170	124	123	35.8%	-0.8%	413	584	42%
PAT Margin	10.5%	17.8%	16.7%	13.4%	13.0%	2.5%	-0.4%	13.2%	14.9%	13%

US growth offset by weak domestic and ROW sales

The overall revenue for the quarter increased by 10% YoY to Rs. 949 crs. US sales in Q1FY20 grew by 41% to US\$ 47 mn on account of new launches and improvement in the market share of the base products.

India sales were almost flat at Rs.324 crs due to delayed monsoon and general slowdown within the industry. Within the domestic space, specialty segment and acute segment de-grew by 3% and 4% to Rs. 196 crs and Rs. 89 crs respectively.

The ROW sales declined by 15% YoY to Rs. 108 crs due to serialization in Europe.

Major capex is over; commercialization to be the major focus

Most of the major projects of the company are nearing completion. The company is now in the process of commercializing the new facilities. Though on a long term basis the growth prospects seem positive, We expect the margins to be under pressure in the medium term due to increase in R&D cost and operational cost on account of commissioning of the new facilities.

The statuses of the new facilities are as under:

- General injectable facility- Exhibit batches were taken during the quarter, filings expected in H2FY20.
- General Oral Solids facility, Jarod - Validated batches will be taken in Q2FY20, filings expected in H2FY20.
- Oncology Injectables facility- Filings is expected in H1FY21.

Robust margin expansion on account of lower other expenses and COGS

Gross margin for the quarter improved from 70.4% in Q1FY19 to 78.5% on account of higher margin product sales.

On the other hand, EBITDA margin improved from 17.5% in Q1FY19 to 23.7% in this quarter on account of improved gross margin and lower COGS. On the sequential basis, the margins have declined by 449 bps due to lower other expenses as ANDA filings were relatively less compared to the sequential quarter.

Concall Highlights

- Number of filings guided by the management in FY20 will be around 25.
- R&D expenses are expected to be 140 crs per quarter as guided by the management.
- India sales is expected to be better than or in line with the industry in the coming quarters.
- The company launched 3 products in US this quarter and has guided for 10-15 launches for the full year. 10+ products planned to be launched in Q2 FY20.
- The Oncology OSD facility at Panelav was successfully audited by USFDA with Zero 483s.
- R&D for the quarter were at Rs. 140 crs. The financial assistance to Aleor JV for the quarter were at Rs. 48 crs.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 10% YoY to Rs.949 crores (vs our expectation of Rs. 1047 crores)

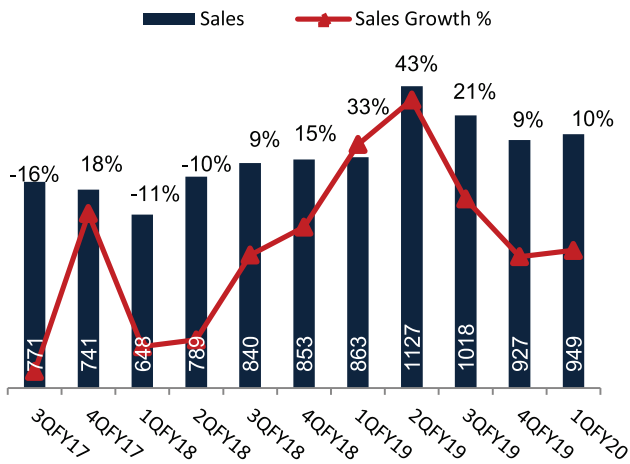


Exhibit: Cumulative ANDA filings and approvals

For the quarter, the company filed 4 ANDA and received 9 ANDA approvals.

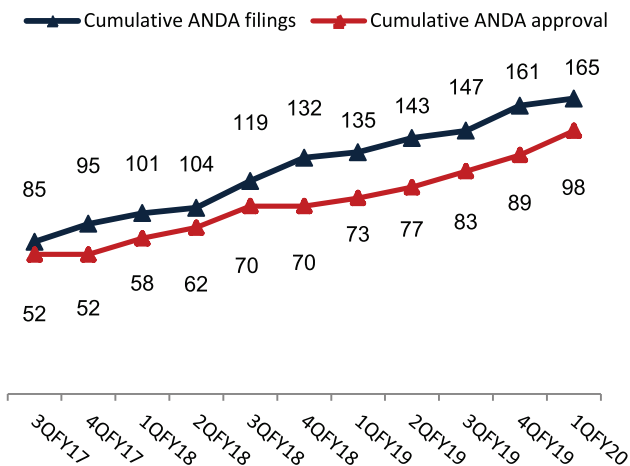


Exhibit: US sales and YoY growth

US sales has improved by 41% YoY to US\$ 47 million on account of new launches and high margin product sales.

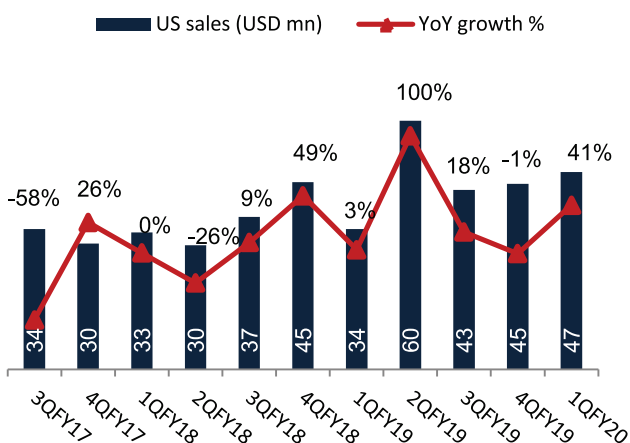


Exhibit: Gross and EBITDA margin

EBITDA margin improved from 17.5% in Q1FY19 to 23.7% in this quarter on account of lower other expense.

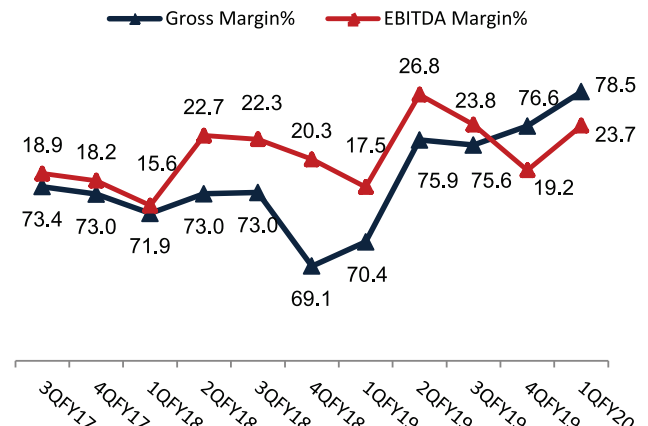


Exhibit: R&D cost and R&D as a % of sales

R&D expenditure for the quarter was Rs 140 crs (14% of sales).

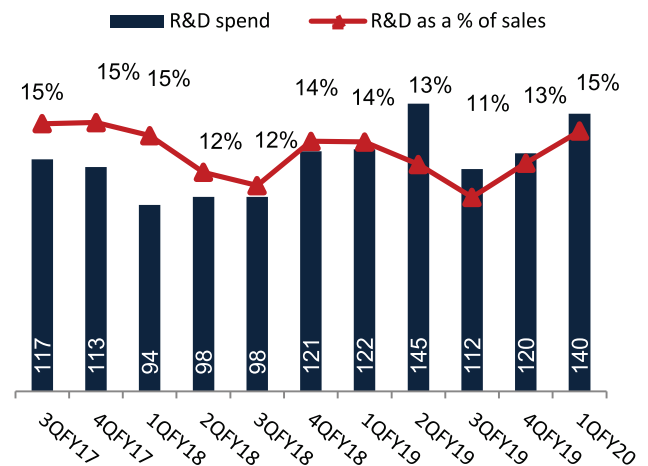
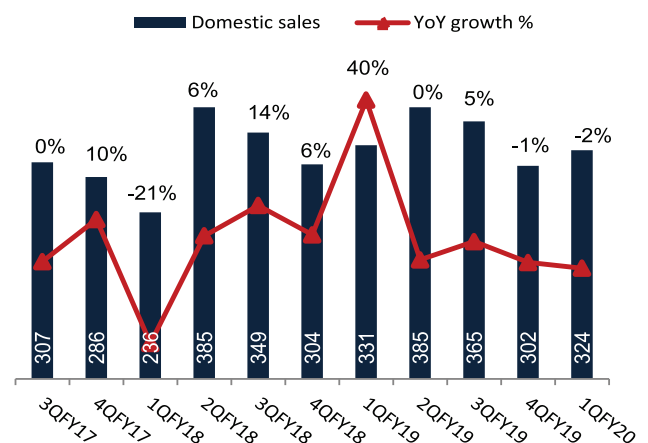


Exhibit: Domestic sales and YoY growth

Domestic sales for the quarter was flat YoY at Rs.342 crs on account of delayed monsoon.



Operational Details

Fig in Rs Cr

GEOGRAPHY	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
India Formulation	236	385	349	304	331	385	365	302	324
US	212	191	236	289	225	417	308	313	345
ROW	71	71	75	63	127	170	140	82	108
API	130	142	180	198	179	155	205	230	172

REVENUE GR. %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
India Formulation	-21%	6%	14%	6%	40%	0%	5%	-1%	-2%
US	-4%	-29%	5%	43%	7%	118%	30%	8%	53%
ROW	-21%	-14%	-3%	-11%	80%	141%	88%	29%	-15%
API	1%	-14%	8%	9%	38%	9%	14%	16%	-4%

REVENUE MIX %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
India Formulation	36%	49%	42%	36%	38%	34%	36%	33%	34%
US	33%	24%	28%	34%	26%	37%	30%	34%	36%
ROW	11%	9%	9%	7%	15%	15%	14%	9%	11%
API	20%	18%	21%	23%	21%	14%	20%	25%	18%

R&D spend	94	98	98	121	122	145	112	120	140
ANDA filings	6	3	4	12	3	8	4	14	4
ANDA approvals	6	4	1	2	3	0	7	6	9

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	38	38	38	38	38	38	38	38
Reserves	638	847	1,560	1,865	2,182	2,681	3,205	3,721
Networth	676	885	1,597	1,902	2,220	2,719	3,242	3,759
Debt	78	238	114	89	708	928	878	799
Other Non Current Liab	42	54	84	94	97	71	76	81
Total Capital Employed	690	866	1,560	1,865	2,682	3,180	3,704	4,220
Net Fixed Assets (incl CWIP)	418	595	801	1,196	2,000	2,706	2,912	3,336
Non Current Investments	3	2	0	0	0	49	49	49
Other Non Current Assets	-	-	30	71	71	62	67	75
Non Current Assets	516	750	917	1,317	2,116	2,820	3,031	3,464
Inventory	311	383	570	633	734	967	1,049	1,186
Debtors	273	361	350	339	526	489	491	555
Cash & Bank	24	27	439	153	84	199	268	180
Other Current Assets	-	-	127	227	441	287	311	352
Current Assets	701	891	1,511	1,372	1,825	1,958	2,136	2,290
Creditors	288	325	566	501	759	702	762	861
Provisions	73	95	7	12	14	32	32	32
Other Current Liabilities	61	45	61	91	143	326	177	223
Curr Liabilities	422	464	633	604	916	1,061	971	1,116
Net Current Assets	280	426	878	768	909	897	1,165	1,174
Total Assets	1,217	1,641	2,429	2,689	3,941	4,778	5,167	5,754

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,863	2,056	3,166	3,135	3,131	3,935	4,267	4,823
Change (%)	25%	10%	54%	-1%	0%	26%	8%	13%
EBITDA	358	403	1007	615	643	874	988	1013
Change (%)	47%	13%	150%	-39%	5%	36%	13%	3%
Margin (%)	19.2%	19.6%	31.8%	19.6%	20.5%	22.2%	23.2%	21.0%
Depr & Amor.	40	44	72	83	105	115	131	157
EBIT	317	359	934	532	538	758	857	856
Int. & other fin. Cost	10	2	5	5	3	18	35	40
Other Income	3	2	7	2	7	9	13	19
EBT	311	359	936	529	541	749	834	835
Exp Item								
Tax	75	76	216	122	120	157	175	184
Minority Int & P/L share of Ass.	-	0	(0)	(4)	(8)	(8)	(10)	(10)
Reported PAT	236	283	720	407	421	593	659	651
Adjusted PAT	236	283	720	403	413	584	649	641
Change (%)	50%	20%	155%	-44%	2%	42%	11%	-1%
Margin(%)	12.6%	13.8%	22.7%	12.9%	13.2%	14.9%	15.2%	13.3%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	34.9%	32.0%	45.1%	21.2%	18.6%	21.5%	20.0%	17.1%
ROCE	43.6%	39.7%	58.5%	28.0%	19.8%	23.6%	22.9%	20.1%
Asset Turnover	2	1	1	1	1	1	1	1
Debtor Days	67	71	62	39	61	45	42	45
Inv Days	61	68	66	74	86	90	90	90
Payable Days	57	58	65	58	89	65	65	65
Int Coverage	32	201	172	102	158	41	24	21
P/E	22.7	30.2	15.7	29.2	25.1	17.1	14.6	14.8
Price / Book Value	7.9	9.7	7.1	6.2	4.7	3.7	2.9	2.5
EV/EBITDA	15	21	11	19	17	12	10	10
FCF per Share	8	(3)	34	(10)	(23)	8	15	8
Div Yield	1%	1%	1%	1%	1%	1%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	311	359	936	529	541	749	824	825
(inc)/Dec in Working Capital	(72)	(163)	139	(166)	(181)	109	(199)	(101)
Non Cash Op Exp	40	44	72	83	105	115	131	157
Int Paid (+)	10	4	5	5	3	18	35	40
Tax Paid	(69)	(69)	(197)	(118)	(135)	(166)	(175)	(184)
others	19	(4)	(8)	(5)	(22)	(13)	-	-
CF from Op. Activities	240	172	948	329	312	812	617	737
(inc)/Dec in FA & CWIP	(82)	(224)	(301)	(510)	(749)	(654)	(337)	(581)
Free Cashflow	158	(52)	647	(182)	(437)	158	279	156
(Pur)/Sale of Inv	-	(34)	(8)	4	-	-	-	-
others	1	2	2	1	(149)	(106)	-	-
CF from Inv. Activities	(81)	(256)	(307)	(486)	(884)	(756)	(337)	(581)
inc/(dec) in NW								
inc/(dec) in Debt	(85)	157	(132)	(39)	619	221	(49)	(79)
Int. Paid	(11)	(5)	(5)	(5)	(26)	(70)	(35)	(40)
Div Paid (inc tax)	(55)	(65)	(79)	(90)	(91)	(91)	(125)	(125)
others	(0)	0	(8)	5	0	(0)	-	-
CF from Fin. Activities	(151)	87	(224)	(129)	503	59	(209)	(244)
Inc(Dec) in Cash	8	3	417	(286)	(69)	115	70	(88)
Add: Opening Balance	16	24	23	439	153	84	206	275
Closing Balance	24	27	439	153	84	199	276	187

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