

Industry
Bloomberg
BSE CODE

Pharmaceuticals
ALPM IN
533573

RATING	BUY
CMP	590
Price Target	703
Potential Upside	19%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	613/435
Mkt Capital (Rs Cr)	11118
Free float (%)	27%
Avg. Vol 1M (,000)	138
No. of Shares (Crs)	19
Promoters Pledged %	0%

Persisting sartan opportunity in US led to robust revenue growth offset by weak domestic sales.

3QFY20 Result Update

- The net sales for the quarter grew by 19% YoY to Rs. 1209 crs (vs our estimate of Rs.1260 crs) largely driven by robust growth in the International sales especially US, based on the persisting opportunities in the sartans products.
- The International sales grew by 48% YoY to Rs.664 crs, US generics business grew by 66% YoY to US\$ 71 mn on account of sales opportunity for the sartan (across board opportunity including all sartan i.e., Valsartan, losartan, Olmesartan, Candesartan etc.) and benefits coming in from the exclusivity of Febuxostat Tablets.
- The India business was flat at Rs. 368 crs, the sales was impacted as the company decided to completely clamp down on the discounts offered to stockist from May 2019.
- Ex- US sales grew by 6% YoY and 39% sequentially to Rs. 149 crs; whereas API sales for the quarter de-grew by 14% YoY to Rs. 177 crs as previous year the company had a positive impact from contract manufacturing.
- The gross margin has sequentially declined by 270 bps to 75.3% on account of changes in the pricing of different sartan products.

View and Valuation

Alembic has reported a strong revenue growth of 19% YoY at Rs. 1209 crs driven by the strong growth in the International markets especially US, based on the persisting supply opportunities in the sartans products. Ex- US sales strongly grew by 39% sequentially based on improvement post serialization. The overall growth was however offset by weak domestic business on account of corrective measures taken by the company.

Going forward, the near term growth drivers are expected to be the sartan supply opportunity, increased US base revenue and normalization of the domestic sales from FY21 based on the correction of comparable base. Though FY21 will see the margins to be under pressure due to increase in R&D cost and operational cost on account of commissioning of the new facilities.

The long term prospects of the company looks promising based on the commissioning of the new facilities (complex generics), for which the meaningful contribution is expected from FY22 onwards. Therefore, we value the stock at 17x FY21E EPS with a target price of Rs.703 and maintain BUY.

Key Risks to our rating and target

- Delay ANDA filings and approval from the new plants
- 2 483s at API Facility, Karkhadi

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3135	3131	3935	4538	5028
EBITDA	615	643	874	1169	1220
EBIT	532	538	758	1013	1034
PAT	403	413	584	775	780
EPS (Rs)	21	22	31	41	41
EPS growth (%)	-44%	2%	42%	33%	1%
ROE (%)	21.2%	18.6%	21.5%	23.0%	19.4%
ROCE (%)	28.0%	19.8%	23.6%	26.2%	22.9%
BV	36	47	85	101	118
P/B (X)	6.2	4.7	3.7	3.3	2.8
P/E (x)	29.2	25.1	17.1	14.4	14.3

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,018	927	949	1,241	1,209	18.8%	-2.6%	3,131	3,935	25.7%
Other Income	4	3	3	0.4	0.4	-88.4%	13.9%	7	9	33.4%
COGS	248	217	204	273	298	20.1%	9.5%	886	993	12.1%
Gross Margin	75.6%	76.6%	78.5%	78.0%	75.3%	-0.3%	-2.7%	71.7%	74.8%	3.1%
Employee Cost	198	201	215	218	227	14.4%	4.2%	623	747	19.9%
Other Expen.	329	331	305	405	359	9.0%	-11.4%	979	1,322	35.0%
EBITDA	242	178	225	346	325	34.2%	-5.9%	643	874	35.8%
EBITDA Mar.	23.8%	19.2%	23.7%	27.8%	26.9%	3.1%	-1.0%	20.5%	22.2%	1.7%
Depreciation	29	30	35	36	42	44.0%	16.3%	105	115	9.3%
EBIT	213	148	190	310	283	33%	-8.5%	538	758	41.1%
Interest	6	5	5	7	7	24%	4.1%	3	18	441.5%
PBT	211	146	188	303	276	31.1%	-8.8%	541	749	38%
Exceptional Item										
Tax	40	15	36	52	49	21.5%	-7.4%	120	157	30%
PAT	170	124	123	246	235	38.1%	-4.7%	413	584	42%
PAT Margin	16.7%	13.4%	13.0%	19.8%	19.4%	2.7%	-0.4%	13.2%	14.9%	2%

Concall Highlights

- The International sales grew by 48% YoY to Rs.664 crs, US generics business grew by 66% YoY to US\$ 71 mn on account of sales opportunity for the sartan (across board opportunity including all sartan i.e., Valsartan, losartan, Olmesartan, Candesartan etc.) and benefits coming in from the exclusivity of Febuxostat Tablets.
- The management expects the sartans opportunity (i.e. the supply constraints) to persist for next 3-6 months in the US market.
- 8 ANDA approvals received during the quarter; 6 ANDA filings during the quarter and 7 products launched in Q3FY20. The management has guided for 5+ launches in the last quarter of the year.
- The top 5 products in US contribute 36% of the total US revenue.
- Of the 26 pending approvals, 5-6 products are expected to be launched soon ,10-12 products are not viable anymore with respect to the market situations, and 5-6 product launches may face few supply and technical issues.
- The India business was flat at Rs. 368 crs, the sales was impacted as the company decided to completely clamp down on the discounts offered to stockist from May 2019. The management expects that in the next 2-3 quarter, India business will be back of growth track.
- For the India business, the management has guided that once the comparable base is corrected from the next year, the domestic business is expected to grow at 10-12%.
- API sales for the quarter de-grew by 14% YoY to Rs. 177 crs as previous year the company had a positive impact from contract manufacturing. Going ahead, the company expects 10%-15% growth.
- The gross margin has sequentially declined by 270 bps to 75.3% on account of changes in the pricing of different sartan products.
- The sustainable gross margin as per the management going ahead would be around 70% without these supply opportunities in the market.
- The gross debt as on 31 Dec 2019 stood at Rs. 1407 crs and Cash and bank balance stood at 59 crs.
- R&D for the quarter grew by 19% YoY to Rs. 146 crs; Capex including the capital advances for the 9MFY20 was at Rs. 559 crs (155 crs funded to Aleor Derma). The management has guided for 13-14% of R&D going ahead.
- Filing Timeline for the new facilities:
 - Oncology Injectables plant (Panelev) - H2FY21
 - General Injectables Ophthalmic (Karkhadi) - H2FY20
 - General Oral Solids (Jarod) - H1FY21

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 19% YoY to Rs.1209 crores (vs our expectation of Rs. 1260 crores)

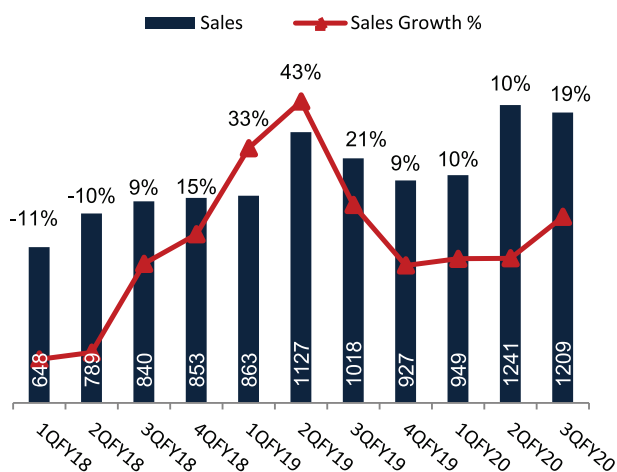


Exhibit: Gross and EBITDA margin

Gross margin declined by 270 bps QoQ to 75.3% due to changes in the pricing of different sartan products.

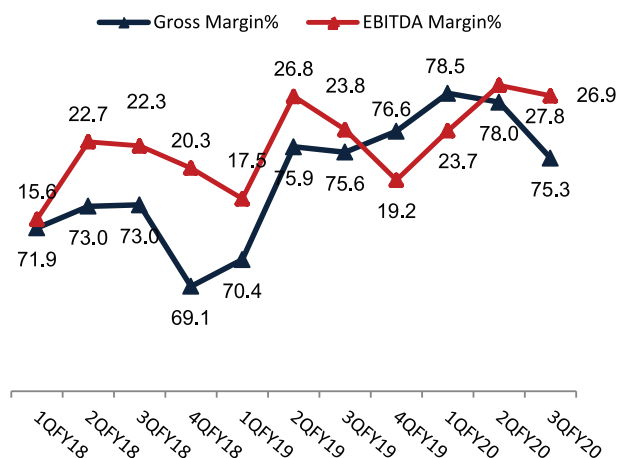


Exhibit: Cumulative ANDA filings and approvals

The company filed 6 ANDA and received 8 ANDA approvals in Q3FY20 and expects to launch 5 products in Q4FY20.

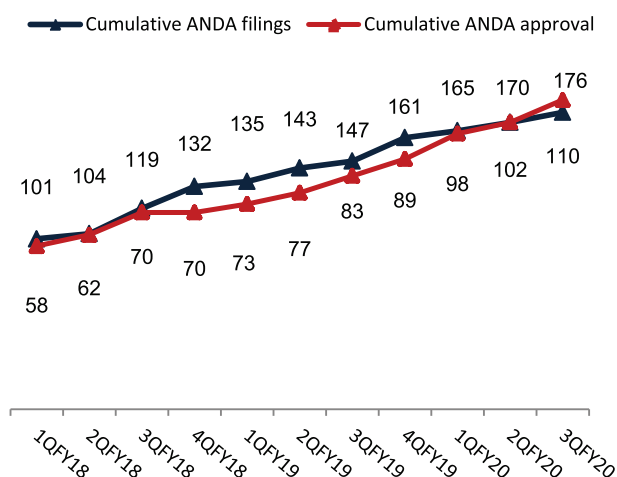


Exhibit: R&D cost and R&D as a % of sales

R&D spend for Q3FY20 was Rs146 crs (12% of sales). Going ahead, the R&D spends would be 13-14%.

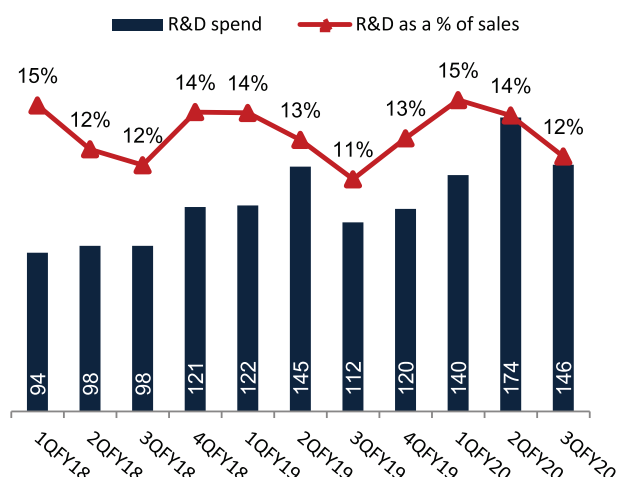


Exhibit: US sales and YoY growth

The sartan shortage in US led to robust growth of US sales.

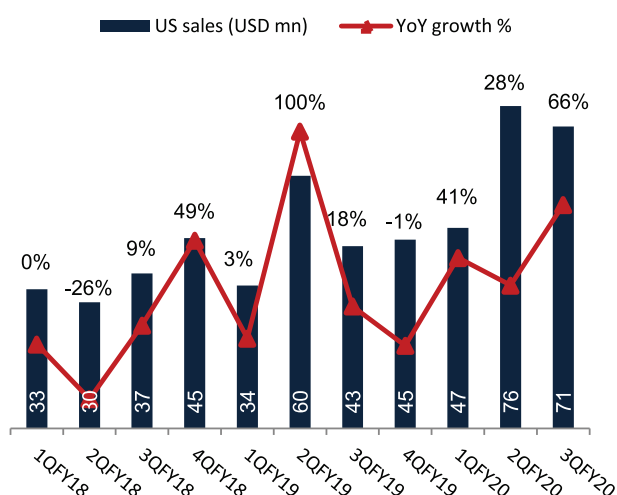
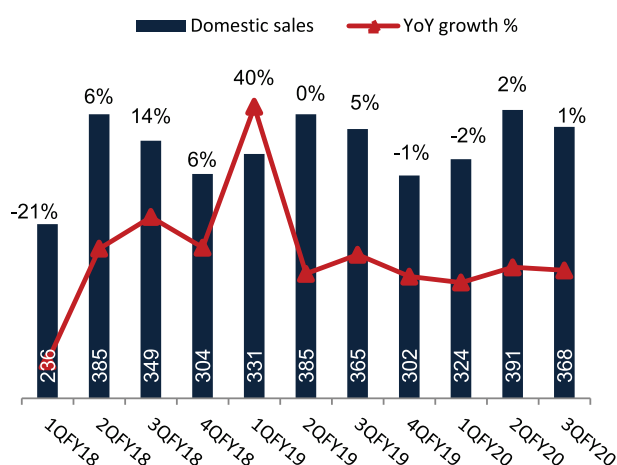


Exhibit: Domestic sales and YoY growth

Domestic sales for the quarter was impacted on account of completed withdrawal of discounts to stockists.



Operational Details

Fig in Rs Cr

GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulation	349	304	331	385	365	302	324	391	368
US	236	289	225	417	308	313	345	539	515
ROW	75	63	127	170	140	82	108	107	149
API	180	198	179	155	205	230	172	204	177

REVENUE GR. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulation	14%	6%	40%	0%	5%	-1%	-2%	2%	1%
US	5%	43%	7%	118%	30%	8%	53%	29%	67%
ROW	-3%	-11%	80%	141%	88%	29%	-15%	-37%	6%
API	8%	9%	38%	9%	14%	16%	-4%	32%	-14%

REVENUE MIX %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
India Formulation	42%	36%	38%	34%	36%	33%	34%	32%	30%
US	28%	34%	26%	37%	30%	34%	36%	43%	43%
ROW	9%	7%	15%	15%	14%	9%	11%	9%	12%
API	21%	23%	21%	14%	20%	25%	18%	16%	15%

R&D spend	98	121	122	145	112	120	140	174	146
ANDA filings	4	12	3	8	4	14	4	5	6
ANDA approvals	1	2	3	0	7	6	9	6	8

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	3,330	3,985
Networth	676	885	1,597	1,902	2,220	2,719	3,368	4,023
Debt	78	238	114	89	708	928	878	799
Other Non Current Liab	42	54	84	94	97	71	75	77
Total Capital Employed	690	866	1,560	1,865	2,682	3,180	3,830	4,485
Net Fixed Assets (incl CWIP)	418	595	801	1,196	2,000	2,706	2,550	3,006
Non Current Investments	3	2	0	0	0	49	49	49
Other Non Current Assets	-	-	30	71	71	62	71	79
Non Current Assets	516	750	917	1,317	2,116	2,820	2,674	3,137
Inventory	311	383	570	633	734	967	1,306	1,446
Debtors	273	361	350	339	526	489	746	826
Cash & Bank	24	27	439	153	84	199	200	179
Other Current Assets	-	-	127	227	441	287	454	503
Current Assets	701	891	1,511	1,372	1,825	1,958	2,723	2,973
Creditors	288	325	566	501	759	702	858	950
Provisions	73	95	7	12	14	32	32	32
Other Current Liabilities	61	45	61	91	143	326	184	228
Curr Liabilities	422	464	633	604	916	1,061	1,075	1,211
Net Current Assets	280	426	878	768	909	897	1,648	1,762
Total Assets	1,217	1,641	2,429	2,689	3,941	4,778	5,396	6,110

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	4,538	5,028
Change (%)	25%	10%	54%	-1%	0%	26%	15%	11%
EBITDA	358	403	1007	615	643	874	1169	1220
Change (%)	47%	13%	150%	-39%	5%	36%	34%	4%
Margin (%)	19.2%	19.6%	31.8%	19.6%	20.5%	22.2%	25.8%	24.3%
Depr & Amor.	40	44	72	83	105	115	156	187
EBIT	317	359	934	532	538	758	1013	1034
Int. & other fin. Cost	10	2	5	5	3	18	26	40
Other Income	3	2	7	2	7	9	8	19
EBT	311	359	936	529	541	749	995	1012
Exp Item							33	
Tax	75	76	216	122	120	157	177	223
Minority Int & P/L share of Ass.	-	0	(0)	(4)	(8)	(8)	(10)	(10)
Reported PAT	236	283	720	407	421	593	775	780
Adjusted PAT	236	283	720	403	413	584	808	780
Change (%)	50%	20%	155%	-44%	2%	42%	38%	-3%
Margin(%)	12.6%	13.8%	22.7%	12.9%	13.2%	14.9%	17.1%	15.5%

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%	23.0%	19.4%
ROCE	43.6%	39.7%	58.5%	28.0%	19.8%	23.6%	26.2%	22.9%
Asset Turnover	2	1	1	1	1	1	0.8	0.8
Debtor Days	67	71	62	39	61	45	60	60
Inv Days	61	68	66	74	86	90	105	105
Payable Days	57	58	65	58	89	65	69	69
Int Coverage	32	201	172	102	158	41	38	26
P/E	22.7	30.2	15.7	29.2	25.1	17.1	14.4	14.3
Price / Book Value	7.9	9.7	7.1	6.2	4.7	3.7	3.3	2.8
EV/EBITDA	15	21	11	19	17	12	10	9
FCF per Share	8	(3)	34	(10)	(23)	8	11	12
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	952	1,002
(inc)/Dec in Working Capital	(72)	(163)	139	(166)	(181)	109	(755)	(141)
Non Cash Op Exp	40	44	72	83	105	115	156	187
Int Paid (+)	10	4	5	5	3	18	26	40
Tax Paid	(69)	(69)	(197)	(118)	(135)	(166)	(177)	(223)
others	19	(4)	(8)	(5)	(22)	(13)	-	-
CF from Op. Activities	240	172	948	329	312	812	203	866
(inc)/Dec in FA & CWIP	(82)	(224)	(301)	(510)	(749)	(654)	(0)	(643)
Free Cashflow	158	(52)	647	(182)	(437)	158	202	223
(Pur)/Sale of Inv	-	(34)	(8)	4	-	-	-	-
others	1	2	2	1	(149)	(106)	-	-
CF from Inv. Activities	(81)	(256)	(307)	(486)	(884)	(756)	(0)	(643)
inc/(dec) in NW								
inc/(dec) in Debt	(85)	157	(132)	(39)	619	221	(49)	(79)
Int. Paid	(11)	(5)	(5)	(5)	(26)	(70)	(26)	(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	(200)	(244)
Inc(Dec) in Cash	8	3	417	(286)	(69)	115	2	(21)
Add: Opening Balance	16	24	23	439	153	84	206	207
Closing Balance	24	27	439	153	84	199	208	186

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