

Industry Pharmaceuticals
Bloomberg ALPM IN
BSE CODE 533573

Lower promotional and R&D spends on account of Covid led to margins expansion.

| RATING | BUY |
|------------------|------|
| CMP | 999 |
| Price Target | 1140 |
| Potential Upside | 14% |
| Rating Change | ↑ |
| Estimate Change | ↑ |
| Target Change | ↑ |

| STOCK INFO | |
|---------------------|----------|
| 52wk Range H/L | 1044/436 |
| Mkt Capital (Rs Cr) | 19019 |
| Free float (%) | 27% |
| Avg. Vol 1M (,000) | 464 |
| No. of Shares (Crs) | 19 |
| Promoters Pledged % | 0% |

1QFY21 Result Update

- The US business grew by 73% YoY to Rs. 596 crs on account of lower base in the previous quarter, sequentially grew by 3% with Sartans portfolio becoming more stabilized.
- Other international business grew by 62% YoY to Rs. 175 crs on account of increased growth from Europe & RoW on the lower base of previous quarter due to serialization issues.
- The Domestic business declined by 6% YoY to Rs. 306 crs on account of strict lockdown in the month of April & May. The portfolio of products in the India business saw some drags in specific areas of Liquid formulation segment, Hormones & Gynecology.
- API grew by 53% YoY to Rs. 264 crs on account Azithromycin API & other opportunities on account of China disruption.
- The gross margin de-grew by 360 bps YoY to 74.8% this quarter on account of increased contribution from the API in the overall mix; while EBITDA margin grew by 670 bps YoY on account of reduced travelling, promotional & R&D expenses this quarter compared to 1QFY20 due to Covid.
- PAT for the quarter grew by 145% YoY to Rs.301 crs based on increased sales growth & reduced operating cost due to Covid.

View and Valuation

APLLTD has reported strong numbers this quarters backed by growth in the International markets & API segment despite an exceptionally challenging environment. We expect the overall revenues to grow at a 16% CAGR over FY20-22. The ramp up in the filings from the new dosages form i.e., Ophthalmology, General Injectables, Oncology Injectables, and Dermatology would add to the overall growth in the US sales from 2HFY22 onwards. The Ex-US business has stayed impacted for the last 2 years on account of serialization; with the serialization issues now being resolved, we expect this geography to contribute significantly in FY21 on the lower base of FY20. The India business has stayed impacted on account of lockdown in 1QFY21, though we expect revival from the next quarter. The API segment is expected to grow by 15-20% for the full year on the back of disruption in China & increased sale of Azithromycin API.

On the margin front, we expect EBITDA margin to be subdued in FY21 based on increasing contribution from relatively lower margin new launches in the US and increased API & ROW contribution in the overall mix. Therefore, we increased our rating from NEUTRAL to BUY at target price of Rs.1140 at 22x FY22E EPS.

Key Risks to our rating and target

- Delay ANDA filings and approval from the new plants.

RESEARCH ANALYST

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Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------------|-------|-------|-------|-------|-------|
| Net Sales | 3131 | 3935 | 4606 | 5484 | 6215 |
| EBITDA | 643 | 874 | 1223 | 1467 | 1672 |
| EBIT | 538 | 758 | 1066 | 1288 | 1422 |
| PAT | 413 | 584 | 829 | 980 | 1044 |
| EPS (Rs) | 22 | 31 | 44 | 52 | 55 |
| EPS growth (%) | 2% | 42% | 42% | 18% | 7% |
| ROE (%) | 18.6% | 21.5% | 25.8% | 25.6% | 23.1% |
| ROCE (%) | 19.8% | 23.6% | 26.0% | 27.4% | 26.3% |
| BV | 47 | 85 | 101 | 118 | 144 |
| P/B (X) | 4.7 | 3.7 | 3.9 | 4.9 | 4.2 |
| P/E (x) | 25.1 | 17.1 | 15.1 | 19.2 | 18.0 |

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1QFY21 Results

Fig in Rs Cr

| FINANCIALS | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | YoY% | QoQ% | FY19 | FY20 | YoY% |
|------------------|--------|--------|--------|--------|--------|---------------|---------------|-------|-------|---------------|
| Net Sales | 949 | 1,241 | 1,209 | 1,207 | 1,341 | 41.4% | 11.1% | 3,935 | 4,606 | 17.1% |
| Other Income | 3 | 0 | 0 | 0.9 | 0.3 | -90.3% | -64.0% | 9 | 5 | -47.3% |
| COGS | 204 | 273 | 298 | 264 | 338 | 65.2% | 28.0% | 993 | 1,039 | 4.7% |
| Gross Margin | 78.5% | 78.0% | 75.3% | 78.1% | 74.8% | -3.6% | -3.3% | 74.8% | 77.4% | 2.7% |
| Employee Cost | 215 | 218 | 227 | 247 | 275 | 28.2% | 11.5% | 747 | 906 | 21.4% |
| Other Expen. | 305 | 405 | 359 | 369 | 321 | 5.3% | -12.9% | 1,322 | 1,437 | 8.7% |
| EBITDA | 225 | 346 | 325 | 328 | 407 | 81.1% | 24.4% | 874 | 1,223 | 40.0% |
| EBITDA Mar. | 23.7% | 27.8% | 26.9% | 27.1% | 30.4% | 6.7% | 3.2% | 22.2% | 26.6% | 4.4% |
| Depreciation | 35 | 36 | 42 | 44 | 42 | 17.2% | -6.0% | 115 | 157 | 36.5% |
| EBIT | 190 | 310 | 283 | 283 | 366 | 93% | 29.1% | 758 | 1,066 | 40.5% |
| Interest | 5 | 7 | 7 | 8 | 7 | 34% | -13.9% | 18 | 27 | 47.5% |
| PBT | 188 | 303 | 276 | 277 | 360 | 91.4% | 30.0% | 749 | 1,043 | 39% |
| Exceptional Item | 33 | - | - | 11 | - | - | - | - | 44 | |
| Tax | 36 | 52 | 49 | 62 | 67 | 85.7% | 7.5% | 157 | 199 | 27% |
| PAT | 123 | 246 | 235 | 224 | 301 | 144.6% | 33.9% | 584 | 829 | 42% |
| PAT Margin | 13.0% | 19.8% | 19.4% | 18.6% | 22.4% | 9.5% | 3.8% | 14.9% | 18.0% | 3% |

Concall Highlights

- The US business grew by 73% YoY to Rs. 596 crs, sequentially grew by 3% with Sartans portfolio becoming more stabilized.
- For sartans- the company is present in 14 sartans (Constituting 40% of the 12 months sales in US)
- In the US, the Ophthalmics has been doing really good; the company has picked up good market share in. In Derma, the competition is quite high & the company is gradually ramping up.
- The strategy of the company is to lighten the balance sheet & invest in complex generics & 505(b)(2) products in the US market.
- Other international business grew by 62% YoY to Rs. 175 crs on account of increased growth from Europe & RoW on the lower base of previous quarter due to serialization issues. With serialization issues now being over, the company expects the Ex-US market to grow going ahead.
- API grew by 53% YoY to Rs. 264 crs on account Azithromycin API & other opportunities on account of China disruption. The company expects API to grow at around 15-20% for the full year.
- The company filed 8 ANDAs & received 6 approvals from the USFDA this quarter. Total 3 products were launched in this quarter, with 5 launches expected in 2QFY21. For the full year, the company expects to launch 15-20 products in US in FY21.
- The Domestic business declined by 6% YoY to Rs. 306 crs on account of strict lockdown in the month of April, May & parts of June. The portfolio of products in the India business saw some drags in specific areas of Liquid formulation segment, Hormones & Gynecology.
- Going ahead in the India business, the company expects to see improvement with good pickup in the monsoon, benefits flowing in through the changed strategy & strong uptick in the Azithromycin oral solids though Azithromycin liquids will see substantial drag.
- Other expenses has declined 5% YoY & 14% sequentially on account of lower travelling & promotional expenses, along with that the R&D spends were on the lower side impacted by Covid.
- Plant details:
 - F2 – OSD & Injectables plant (Oncology) - OSD block has been audited twice; for the Injectable plant, batches are ongoing with filings expected in the next 6 months.
 - F3- General Injectables plant- Filed 3-4 products.
 - F4- Jarod OSD plant- Expects to file batches in the next 6 months.
 - The company expects to spend 700 crs in the next 1-2 yrs for expansion in the injectables & Jarod plant. The company also have some investment plans for the API segment.
 - The gross debt for the company stands at Rs. 1439 crs, cash in hand at 260 crs.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 41% YoY to Rs.1341 crs based on higher than expected sales in API & Row markets.

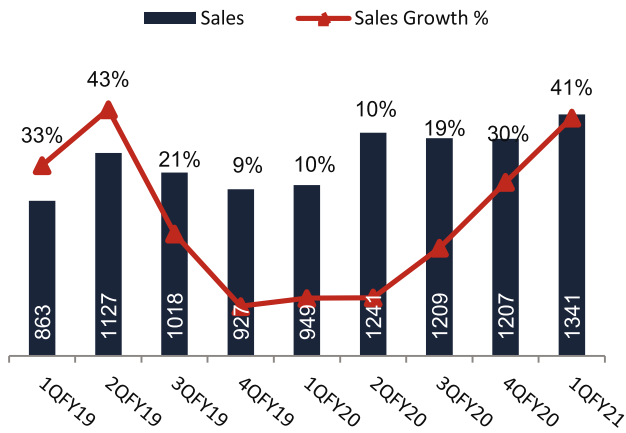


Exhibit: Gross and EBITDA margin

GM declined due to higher API sales while EBITDA margin grew on lower promotional & R&D spends.

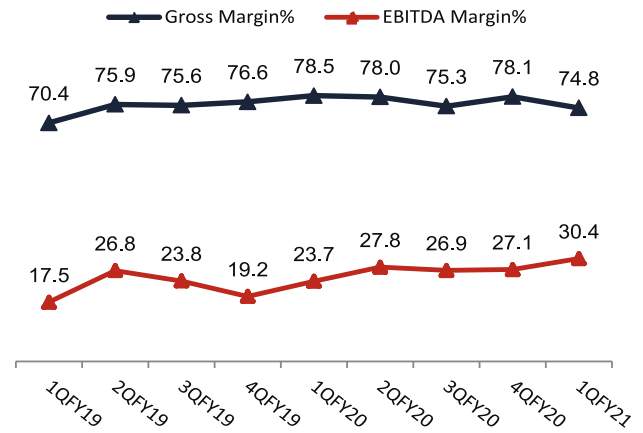


Exhibit: Cumulative ANDA filings and approvals

The company filed 8 ANDA and received 6 ANDA approvals in 1QFY21.

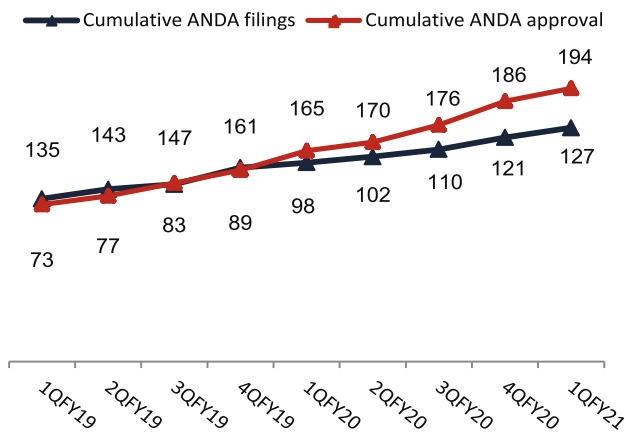


Exhibit: R&D cost and R&D as a % of sales

R&D spends declined in Q1FY21 to Rs143 crs (11% of sales) vs 140 crs (15% of sales) in 1QFY20.

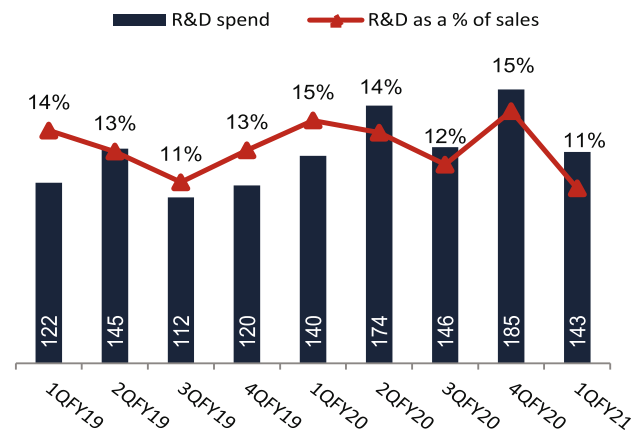


Exhibit: US sales and YoY growth

The US business grew strongly by 67% to US\$ 79 mn on account of lower base in the previous year.

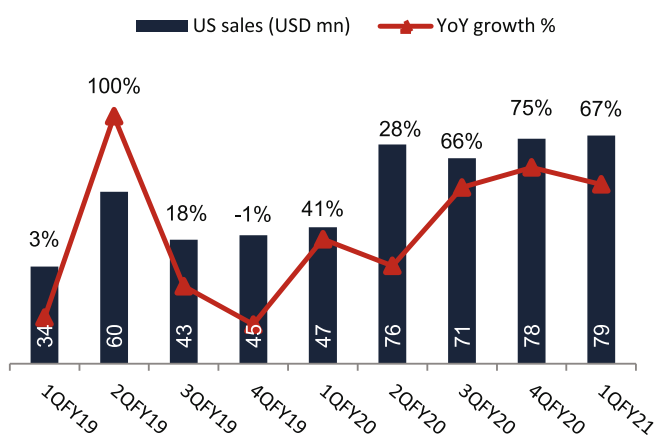
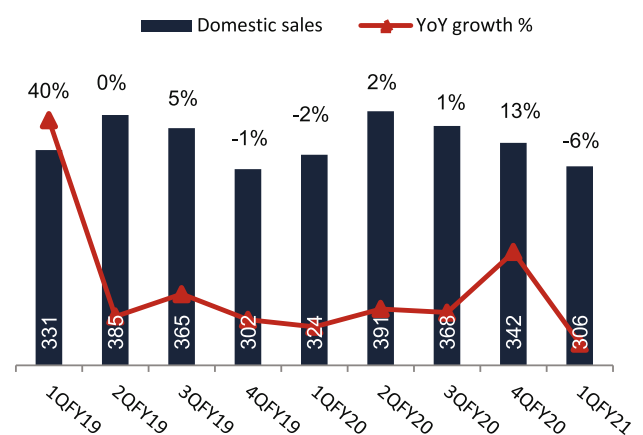


Exhibit: Domestic sales and YoY growth

Domestic sales for the quarter declined by 6% YOY to Rs.306 crs on account of lockdown.



Growth to be seen across geographies going ahead

In the US market, the company grew by 51% in FY20 on account of Sartans opportunity & launch of Febuxostat with 180 days of exclusivity. Going forward, we estimate a growth of 14% in FY21 on the higher base of FY20 with 15-20 expected launches. The further ramp up in the ANDA filings from the new facilities would add to the overall growth in the US sales from 2HFY22 onwards.

The Domestic formulation business stayed impacted in 1QFY21 due to strict lockdown in the months of April & May. The Liquid formulation segment, Hormones & Gynecology saw some drag due to change in customer's behaviour with increased number of Covid cases. Going ahead, we expect India business to improve on account of good pickup in monsoon, benefits flowing in through the changed strategy & strong uptick in the Azithromycin oral solids.

For the last 5 quarters, Serialization in Europe has been impacting the ROW sales of the company. With the serialization issue now being resolved, we expect Ex- US to grow by 41% in FY21 on the lower base of FY20.

The API sales this quarter grew by 53% YoY to Rs. 264 crs on account of increased sales of Azithromycin API & other opportunities due to disruption in China. The API sales has been lumpy for Alembic over the last 4 years as it was engaged in contract manufacturing; excluding the CRAMS business, the API segment has grown at 15% CAGR as per the company. Going forward, the company plans to expand its API capacity to grab the opportunities coming in as the country moves to reduce its dependency on China.

Operational Details

Fig in Rs Cr

| GEOGRAPHY | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India Formulation | 331 | 385 | 365 | 302 | 324 | 391 | 368 | 342 | 306 |
| US | 225 | 417 | 308 | 313 | 345 | 539 | 515 | 577 | 596 |
| ROW | 127 | 170 | 140 | 82 | 108 | 107 | 149 | 132 | 175 |
| API | 179 | 155 | 205 | 230 | 172 | 204 | 177 | 155 | 264 |

| REVENUE GR. % | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India Formulation | 40% | 0% | 5% | -1% | -2% | 2% | 1% | 13% | -6% |
| US | 7% | 118% | 30% | 8% | 53% | 29% | 67% | 84% | 73% |
| ROW | 80% | 141% | 88% | 29% | -15% | -37% | 6% | 61% | 62% |
| API | 38% | 9% | 14% | 16% | -4% | 32% | -14% | -33% | 53% |

| REVENUE MIX % | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| India Formulation | 38% | 34% | 36% | 33% | 34% | 32% | 30% | 28% | 23% |
| US | 26% | 37% | 30% | 34% | 36% | 43% | 43% | 48% | 44% |
| ROW | 15% | 15% | 14% | 9% | 11% | 9% | 12% | 11% | 13% |
| API | 21% | 14% | 20% | 25% | 18% | 16% | 15% | 13% | 20% |

| | | | | | | | | | |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| R&D spend | 122 | 145 | 112 | 120 | 140 | 174 | 146 | 185 | 143 |
| ANDA filings | 3 | 8 | 4 | 14 | 4 | 5 | 6 | 10 | 8 |
| ANDA approvals | 3 | 0 | 7 | 6 | 9 | 6 | 8 | 11 | 6 |

Financial Details

Balance Sheet

Fig in Rs Cr

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital | 38 | 38 | 38 | 38 | 38 | 38 | 38 | 38 |
| Reserves | 847 | 1,560 | 1,865 | 2,182 | 2,681 | 3,182 | 3,783 | 4,476 |
| Networth | 885 | 1,597 | 1,902 | 2,220 | 2,719 | 3,220 | 3,821 | 4,514 |
| Debt | 238 | 114 | 89 | 708 | 928 | 1,718 | 1,718 | 1,718 |
| Other Non Current Liab | 54 | 84 | 94 | 97 | 71 | 160 | 160 | 160 |
| Total Capital Employed | 866 | 1,560 | 1,865 | 2,682 | 3,180 | 4,069 | 4,670 | 5,363 |
| Net Fixed Assets (incl CWIP) | 595 | 801 | 1,196 | 2,000 | 2,706 | 3,397 | 3,635 | 3,877 |
| Non Current Investments | 2 | 0 | 0 | 0 | 49 | 18 | 18 | 18 |
| Other Non Current Assets | - | 30 | 71 | 71 | 62 | 111 | 132 | 149 |
| Non Current Assets | 750 | 917 | 1,317 | 2,116 | 2,820 | 3,557 | 3,817 | 4,076 |
| Inventory | 383 | 570 | 633 | 734 | 967 | 1,188 | 1,352 | 1,532 |
| Debtors | 361 | 350 | 339 | 526 | 489 | 865 | 1,037 | 1,175 |
| Cash & Bank | 27 | 439 | 153 | 84 | 199 | 72 | 123 | 316 |
| Other Current Assets | - | 127 | 227 | 441 | 287 | 290 | 345 | 391 |
| Current Assets | 891 | 1,511 | 1,372 | 1,825 | 1,958 | 2,432 | 2,867 | 3,426 |
| Creditors | 325 | 566 | 501 | 759 | 702 | 626 | 676 | 766 |
| Provisions | 95 | 7 | 12 | 14 | 32 | 38 | 38 | 38 |
| Other Current Liabilities | 45 | 61 | 91 | 143 | 326 | 227 | 270 | 306 |
| Curr Liabilities | 464 | 633 | 604 | 916 | 1,061 | 891 | 985 | 1,111 |
| Net Current Assets | 426 | 878 | 768 | 909 | 897 | 1,541 | 1,883 | 2,316 |
| Total Assets | 1,641 | 2,429 | 2,689 | 3,941 | 4,778 | 5,989 | 6,684 | 7,503 |

Income Statement

Fig in Rs Cr

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue from Operation | 2,056 | 3,166 | 3,135 | 3,131 | 3,935 | 4,606 | 5,484 | 6,215 |
| Change (%) | 10% | 54% | -1% | 0% | 26% | 17% | 19% | 13% |
| EBITDA | 403 | 1007 | 615 | 643 | 874 | 1223 | 1467 | 1672 |
| Change (%) | 13% | 150% | -39% | 5% | 36% | 40% | 20% | 14% |
| Margin (%) | 20% | 32% | 20% | 21% | 22% | 27% | 27% | 27% |
| Depr & Amor. | 44 | 72 | 83 | 105 | 115 | 157 | 178 | 251 |
| EBIT | 359 | 934 | 532 | 538 | 758 | 1066 | 1288 | 1422 |
| Int. & other fin. Cost | 2 | 5 | 5 | 3 | 18 | 27 | 34 | 69 |
| Other Income | 2 | 7 | 2 | 7 | 9 | 5 | 5 | 8 |
| EBT | 359 | 936 | 529 | 541 | 749 | 1043 | 1259 | 1360 |
| Exp Item | - | - | - | - | - | 44 | - | - |
| Tax | 76 | 216 | 122 | 120 | 157 | 199 | 269 | 306 |
| Minority Int & P/L share of Ass. | 0 | (0) | (4) | (8) | (8) | 28 | (10) | (10) |
| Reported PAT | 283 | 720 | 403 | 413 | 584 | 829 | 980 | 1,044 |
| Adjusted PAT | 283 | 720 | 403 | 413 | 584 | 873 | 980 | 1,044 |
| Change (%) | 20% | 155% | -44% | 2% | 42% | 49% | 18% | 7% |
| Margin(%) | 14% | 23% | 13% | 13% | 15% | 18% | 18% | 17% |

Financial Details

Key Ratios

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| ROE | 32.0% | 45.1% | 21.2% | 18.6% | 21.5% | 25.8% | 25.6% | 23.1% |
| ROCE | 39.7% | 58.5% | 28.0% | 19.8% | 23.6% | 26.0% | 27.4% | 26.3% |
| Asset Turnover | 1.3 | 1.3 | 1.2 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Debtor Days | 71 | 62 | 39 | 61 | 45 | 69 | 69 | 69 |
| Inv Days | 68 | 66 | 74 | 86 | 90 | 94 | 90 | 90 |
| Payable Days | 58 | 65 | 58 | 89 | 65 | 50 | 45 | 45 |
| Int Coverage | 201 | 172 | 102 | 158 | 41 | 39 | 37 | 21 |
| P/E | 30.2 | 15.7 | 29.2 | 25.1 | 17.1 | 15.1 | 19.2 | 18.0 |
| Price / Book Value | 9.7 | 7.1 | 6.2 | 4.7 | 3.7 | 3.9 | 4.9 | 4.2 |
| EV/EBITDA | 21 | 11 | 19 | 17 | 12 | 11 | 13 | 12 |
| FCF per Share | (3) | 34 | (10) | (23) | 8 | (12) | 23 | 33 |
| Div Yield | 1% | 1% | 1% | 1% | 1% | 2% | 2% | 2% |

Cash Flow Statement

Fig in Rs Cr

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| PBT | 359 | 936 | 529 | 541 | 749 | 1,000 | 1,249 | 1,350 |
| (inc)/Dec in Working Capital | (163) | 139 | (166) | (181) | 109 | (584) | (321) | (257) |
| Non Cash Op Exp | 44 | 72 | 83 | 105 | 115 | 157 | 178 | 251 |
| Int Paid (+) | 4 | 5 | 5 | 3 | 18 | 27 | 34 | 69 |
| Tax Paid | (69) | (197) | (118) | (135) | (166) | (236) | (269) | (306) |
| others | (4) | (8) | (5) | (22) | (13) | 85 | (27) | - |
| CF from Op. Activities | 172 | 948 | 329 | 312 | 812 | 449 | 845 | 1,106 |
| (inc)/Dec in FA & CWIP | (224) | (301) | (510) | (749) | (654) | (673) | (416) | (493) |
| Free Cashflow | (52) | 647 | (182) | (437) | 158 | (223) | 428 | 613 |
| (Pur)/Sale of Inv | (34) | (8) | 4 | - | - | - | - | - |
| others | 2 | 2 | 1 | (149) | (106) | (60) | - | - |
| CF from Inv. Activities | (256) | (307) | (486) | (884) | (756) | (732) | (416) | (493) |
| inc/(dec) in NW | | | | | | - | - | - |
| inc/(dec) in Debt | 157 | (132) | (39) | 619 | 221 | 609 | - | - |
| Int. Paid | (5) | (5) | (5) | (26) | (70) | (111) | (34) | (69) |
| Div Paid (inc tax) | (65) | (79) | (90) | (91) | (91) | (326) | (352) | (352) |
| others | 0 | (8) | 5 | 0 | (0) | (18) | - | - |
| CF from Fin. Activities | 87 | (224) | (129) | 503 | 59 | 155 | (386) | (420) |
| Inc(Dec) in Cash | 3 | 417 | (286) | (69) | 115 | (128) | 42 | 193 |
| Add: Opening Balance | 24 | 23 | 439 | 153 | 84 | 199 | 81 | 123 |
| Closing Balance | 27 | 439 | 153 | 84 | 199 | 72 | 123 | 316 |

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| | |
|---|-----|
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|---|-----|

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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