

09 August 2024

India | Equity Research | Q1FY25 results review

Alembic Pharma

Pharma

US at an inflection; margin recovery slower than anticipated

Alembic Pharma's (Alembic) Q1FY25 performance was below our expectation. US sales grew 9% QoQ (18.2% YoY), though the pain in other international markets (+1.9% YoY) and API's (-15.1%) dragged performance. Gross margins, at 74.8% were maintained QoQ, management guides for gross margins of ~70% ahead. R&D cost dipped -7.8% YoY in Q1 and supported margins. Full-year R&D guidance of INR 5.5bn (up 14% YoY) is retained. Alembic aims to launch ten new products in Q2FY25 (25+ in FY25), which shall drive 10–15% growth in US. India human formulation shall grow in single-digits. EBITDA margins may touch 18–20% in two years as asset utilisation improves. We cut FY25E/26E EPS by 3-5% due to slower recovery in margins. Downgrade to **SELL** on expensive valuation (30x FY26E EPS); TP revised to INR 870, based on 21x FY26E EPS.

US and India aid recovery in margins

Revenue for the quarter grew 5.1% YoY (+2.9% QoQ) to INR 15.6bn (I-Sec: INR 16.2bn) led by healthy growth in US and domestic formulation segment. Gross margin expanded 259bps YoY (-23bps QoQ) to 74.8% due to product mix improvement. EBITDA grew 19.2% YoY (-8.9% QoQ) to INR 2.4bn (I-Sec: INR 2.6bn). EBITDA margin expanded 180bps YoY (-198bps QoQ) to 15.2% (I-Sec: 16%). PAT grew 11.5% YoY (-24.5% QoQ) to INR 1.3bn (I-Sec: INR 1.5bn).

US outlook improving; challenges in India persist

US sales grew 18.2% YoY (+9% QoQ) to INR 4.6bn (USD 55mn). Alembic launched two new products in Q1 (cumulative count to 149 products) in the US market. It targets to launch 25 products in US in FY25E, which should drive US business growth of 10.4% CAGR over FY24–26E. R&D expense was 7% of sales in Q1FY25 at vs. 7.9%/8% in Q4FY24/Q1FY24; it expects R&D spending to rise to INR 5.5bn in FY25. India business growth stood at 9.2% YoY (+13.7% QoQ). Animal health segment rose 23% YoY led by basket of strong brands. Management is confident of outperforming IPM, excluding the animal health business. We expect India business to grow 7.6% over FY24–26E. Other international markets were up 1.9% YoY (+3.4% QoQ) to INR 2.7bn. API sales declined 15.1% YoY (-21.5% QoQ) to INR 2.6bn due to few customer-level shortfalls, FDA issue for one of its customer and pricing pressure.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	56,526	62,286	67,840	74,048
EBITDA	7,083	9,334	10,990	13,032
EBITDA Margin (%)	12.5	15.0	16.2	17.6
Net Profit	3,420	6,158	6,500	8,215
EPS (INR)	17.4	31.3	33.1	41.8
EPS % Chg YoY	(37.3)	80.1	5.6	26.4
P/E (x)	69.8	38.7	36.7	29.0
EV/EBITDA (x)	34.4	25.9	21.7	18.0
RoCE (%)	7.7	12.9	12.4	14.3
RoE (%)	7.1	13.4	12.8	14.6

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Market Data

Market Cap (INR)	239bn
Market Cap (USD)	2,842mn
Bloomberg Code	ALPM IN
Reuters Code	ALEM.BO
52-week Range (INR)	1,286 /707
Free Float (%)	28.0
ADTV-3M (mn) (USD)	4.7

Price Performance (%)	3m	6m	12m
Absolute	20.9	22.6	53.5
Relative to Sensex	13.6	12.1	33.7

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.9)	(0.6)
EBITDA	(2.1)	(1.7)
EPS	(5.3)	(3.2)

Previous Reports

10-05-2024: [Q4FY24 results review](#)
06-02-2024: [Q3FY24 results review](#)

Valuation

Alembic's US business in Q1 benefited from lumpy sales of third-party products while its base portfolio continues to face double-digit erosion. Through its 25 new launches in FY25, the company will likely offset the impact of price erosion and drive 10–15% growth in FY25. In India, tepid performance in acute therapies has slowed down overall India growth, while traction in the animal health segment is being maintained.

Alembic's efforts to curtail R&D cost has aided the company in restoring its margin profile in the last couple of years. R&D rationalisation has led to massive savings of INR 2.4bn (506bps of margins), which Alembic has used to pare debt by INR 2.1bn in FY24. Ahead, its ability to control overhead costs will be critical in aiding margin expansion hereon.

We lower our FY25E/26E earnings by 5%/3%. We expect revenue/EBITDA/PAT at a CAGR of 9%/18.2%/15.5% for FY24–26E. The stock currently trades at 36.7x FY25E and 29x FY26E earnings; and EV/EBITDA multiples of 21.7x FY25E and 18x FY26E. We lower our rating to **SELL** (earlier Reduce) and target price to INR 870 (from INR 900), based on 21x FY26E EPS.

Key upside risks: Commercialisation of high-value launches; and moderation in overhead costs.

Exhibit 1: Quarterly review

YE 31 March (INR mn)	Q1FY25	Q1FY24	%YoY	Q4FY24	% QoQ	FY24	FY23	%YoY
Sales	15,617	14,862	5.1	15,170	2.9	62,286	56,526	10.2
Gross Profit	11,676	10,726	8.9	11,376	2.6	45,136	39,438	14.4
Gross Margin (%)	74.8	72.2	259bps	75.0	-23bps	72.5	69.8	270bps
Employee expenses	3,798	3,482	9.1	4,019	(5.5)	14,463	11,691	23.7
Other expenses	4,417	4,072	8.5	3,560	24.1	16,539	13,445	23.0
R&D exp	1,093	1,186	(7.8)	1,197	(8.7)	4,800	7,218	(33.5)
EBITDA	2,368	1,987	19.2	2,601	(8.9)	9,334	7,083	31.8
EBITDA margin (%)	15.2	13.4	180bps	17.1	-198bps	15.0	12.5	245bps
Finance expenses	132	144	(8.4)	109	20.5	562	502	12.0
Depreciation	690	662	4.3	695	(0.6)	2,727	2,754	(1.0)
Other income	21	117	(82.0)	36	(41.7)	283	27	933.2
PBT	1,567	1,298	20.7	1,832	(14.5)	6,313	3,546	78.1
Tax	225	92	145.8	46	384.7	160	126	26.9
Effective tax rate (%)	14.4	7.0	730bps	2.5	1182bps	2.5	3.6	-102bps
Reported PAT	1,345	1,206	11.5	1,782	(24.5)	6,153	3,420	79.9
Adj PAT	1,345	1,206	11.5	1,782	(24.5)	6,153	3,420	79.9
EPS (INR)	6.8	6.1	11.5	9.1	(24.5)	31.3	17.4	79.9

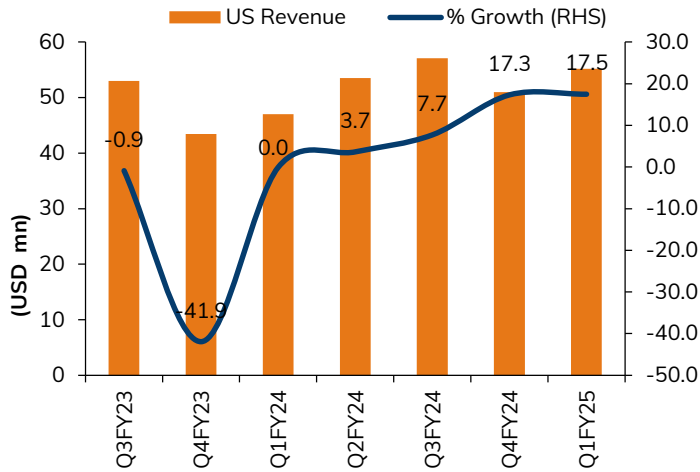
Source: I-Sec research, Company data

Exhibit 2: Business mix

Particulars (INR mn)	Q1FY25	Q1FY24	%YoY	Q4FY24	%QoQ	FY24	FY23	%YoY
Formulation	13,040	11,800	10.5	11,880	9.8	49,820	44,870	11.0
Domestic	5,720	5,240	9.2	5,030	13.7	22,000	20,630	6.6
% of sales	36.6	35.3		33.1		35.3	36.5	
US	4,610	3,900	18.2	4,230	9.0	17,300	15,720	10.1
% of sales	29.5	26.3		27.9		27.8	27.8	
Other international markets	2,710	2,660	1.9	2,620	3.4	10,520	8,520	23.5
% of sales	17.3	17.9		17.3		16.9	15.1	
API	2,590	3,050	(15.1)	3,300	(21.5)	12,460	11,660	6.9
% of sales	16.6	20.5		21.7		20.0	20.6	
TOTAL	15,630	14,850	5.3	15,180	3.0	62,280	56,530	10.2

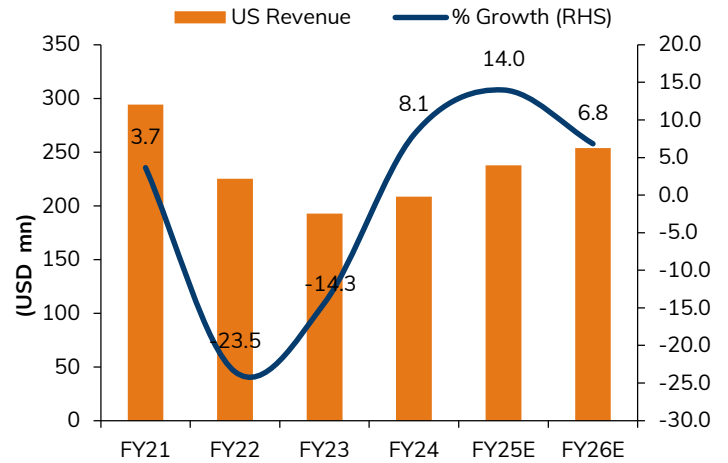
Source: I-Sec research, Company data

Exhibit 3: Launched 2 new products in Q1FY25



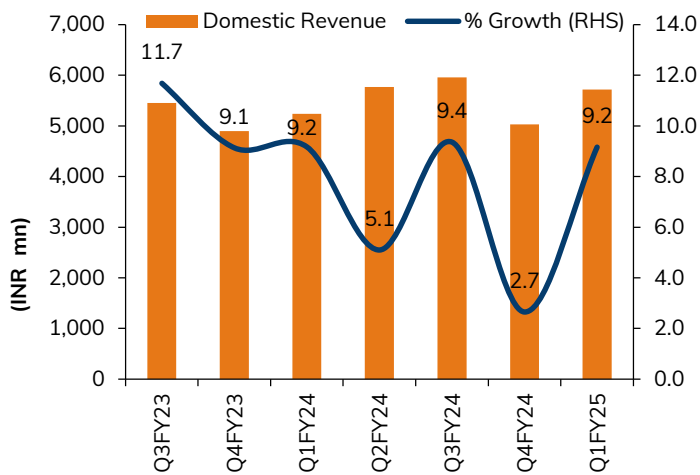
Source: I-Sec research, Company data

Exhibit 4: Launches to drive 10.4% CAGR over FY24-26E



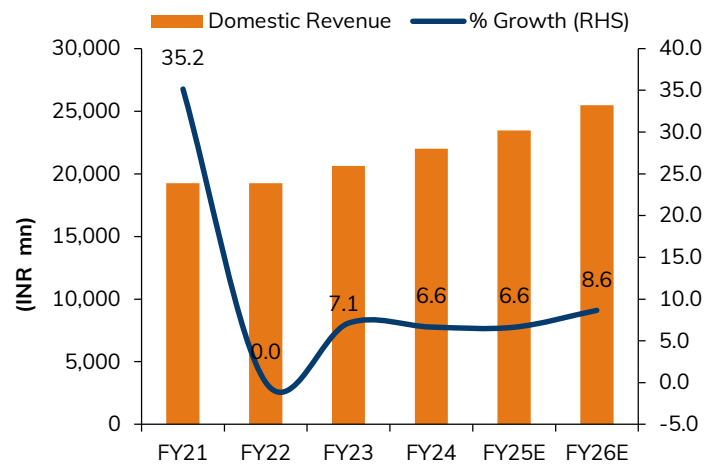
Source: I-Sec research, Company data

Exhibit 5: Domestic business grew 9.2% YoY



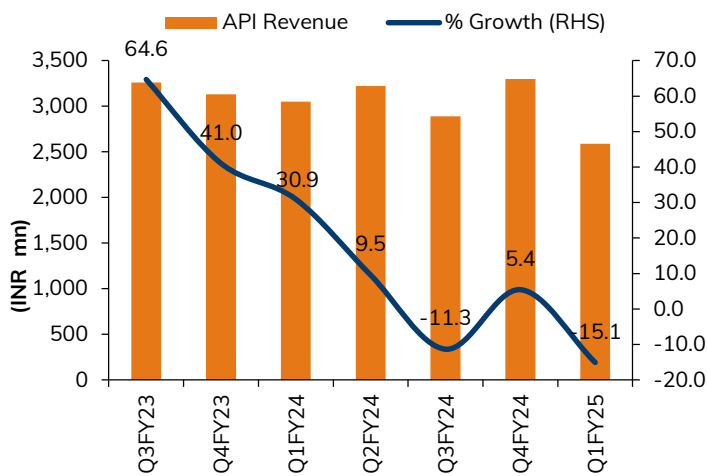
Source: I-Sec research, Company data

Exhibit 6: India biz to register ~7.6% CAGR over FY24-26E



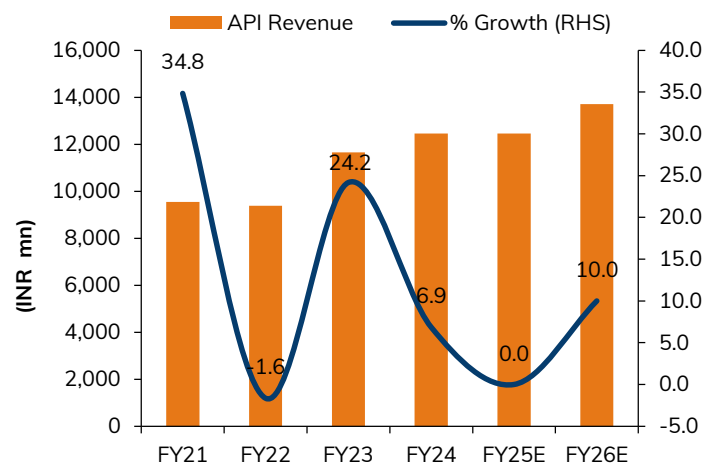
Source: I-Sec research, Company data

Exhibit 7: API business declined due to pricing pressure



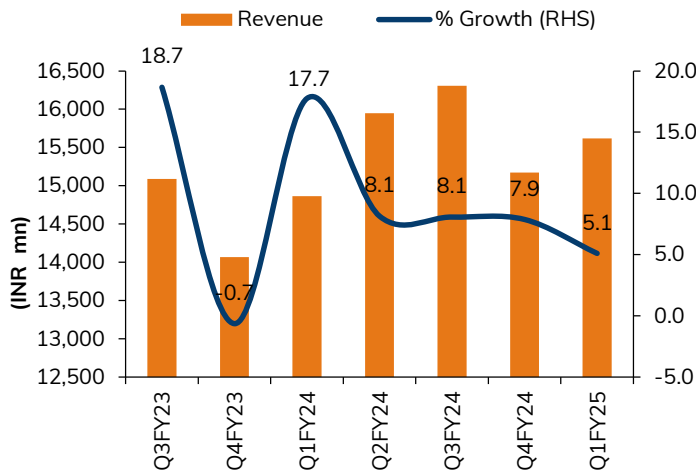
Source: I-Sec research, Company data

Exhibit 8: API biz to grow at 4.9% over FY24-26E



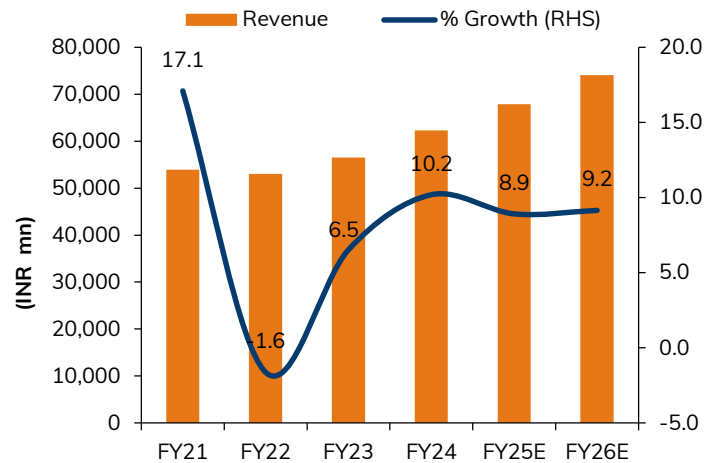
Source: I-Sec research, Company data

Exhibit 9: Growth led by traction in US and India business



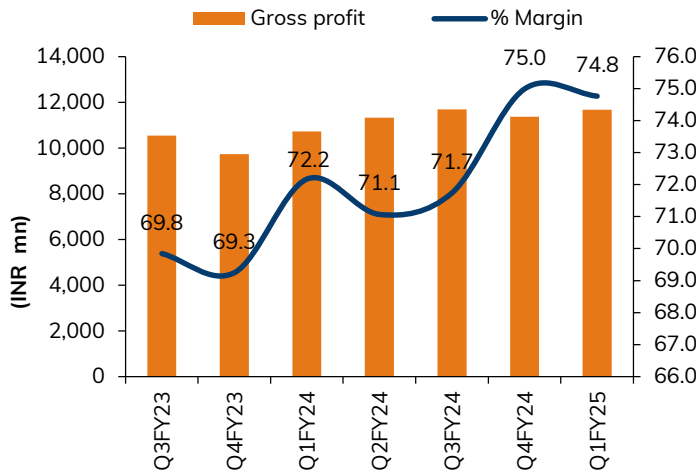
Source: I-Sec research, Company data

Exhibit 10: Revenue likely to register 9% CAGR over FY24–26E



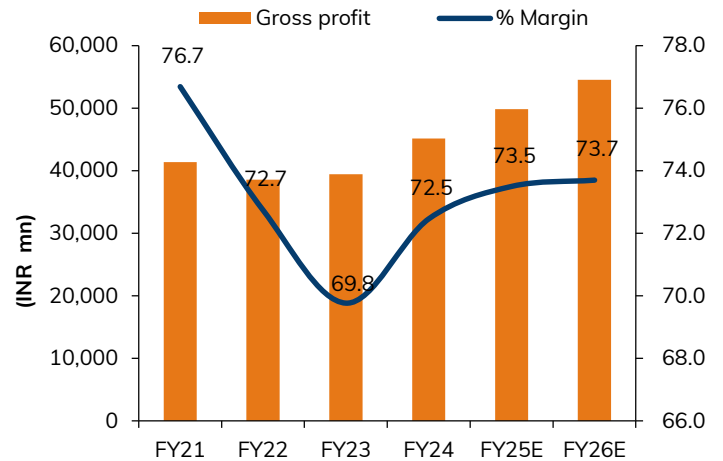
Source: I-Sec research, Company data

Exhibit 11: Gross margin expanded by 259bps YoY



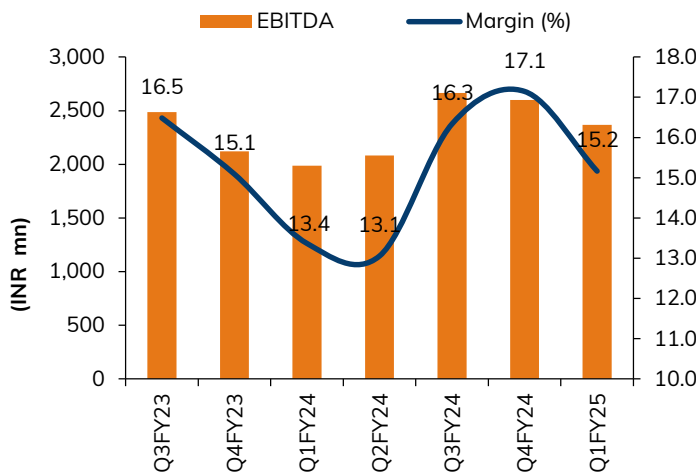
Source: I-Sec research, Company data

Exhibit 12: Stability in India and US to comfort margins



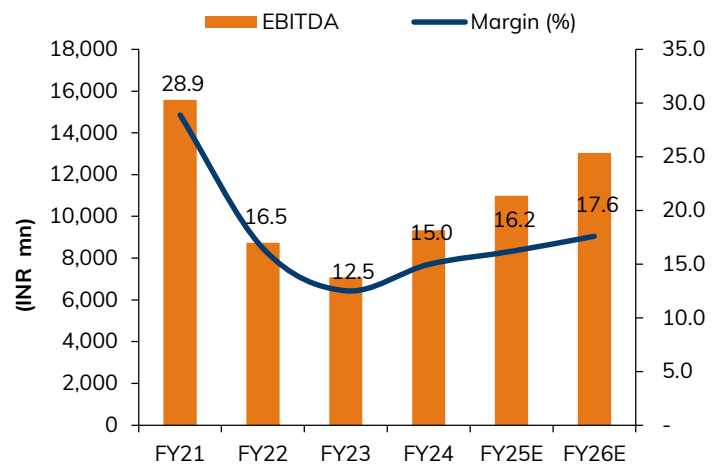
Source: I-Sec research, Company data

Exhibit 13: EBITDA margin expanded 180bps YoY on the account of lower R&D cost



Source: I-Sec research, Company data

Exhibit 14: Cost curtailment to boost 260bps expansion in margins over FY24–26E



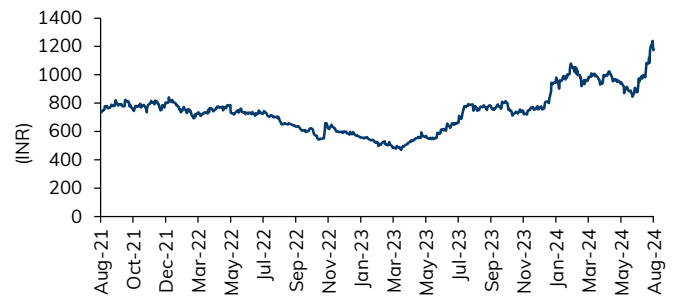
Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	69.6	69.6	69.6
Institutional investors	19.0	19.8	19.8
MFs and others	7.7	7.8	8.1
FIs/Banks	0.0	0.0	0.4
Insurance	6.5	7.1	7.0
FIIIs	4.8	4.9	4.3
Others	11.4	10.6	10.6

Source: Bloomberg

Exhibit 16: Price chart



Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	56,526	62,286	67,840	74,048
Operating Expenses	49,443	52,953	56,850	61,016
EBITDA	7,083	9,334	10,990	13,032
EBITDA Margin (%)	12.5	15.0	16.2	17.6
Depreciation & Amortization	2,754	2,727	3,007	3,308
EBIT	4,329	6,607	7,983	9,724
Interest expenditure	502	562	275	87
Other Non-operating Income	27	283	133	271
Recurring PBT	3,855	6,328	7,842	9,908
Profit / (Loss) from Associates	(309)	(10)	(10)	(10)
Less: Taxes	126	160	1,331	1,683
PAT	3,729	6,168	6,510	8,225
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,420	6,158	6,500	8,215
Net Income (Adjusted)	3,420	6,158	6,500	8,215

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	29,100	30,786	34,343	39,534
of which cash & cash eqv.	823	1,266	2,222	4,510
Total Current Liabilities & Provisions	10,011	10,245	10,963	11,736
Net Current Assets	19,090	20,540	23,380	27,798
Investments	963	930	938	945
Net Fixed Assets	29,997	30,711	30,704	30,395
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	537	333	350	367
Other assets	1,230	1,696	1,696	1,696
Deferred Tax Assets	-	-	-	-
Total Assets	51,818	54,210	57,067	61,202
Liabilities				
Borrowings	7,051	4,933	2,933	929
Deferred Tax Liability				
provisions	1,062	1,095	1,095	1,095
other Liabilities	-	-	-	-
Equity Share Capital	393	393	393	393
Reserves & Surplus	43,312	47,789	52,646	58,785
Total Net Worth	43,705	48,182	53,039	59,178
Minority Interest	-	-	-	-
Total Liabilities	51,818	54,210	57,067	61,202

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,482	7,891	7,749	9,192
Working Capital Changes	2,905	2,258	770	1,900
Capital Commitments	(8,561)	3,440	3,000	3,000
Free Cashflow	13,043	4,451	4,749	6,192
Other investing cashflow	1,009	433	7	8
Cashflow from Investing Activities	7,552	(3,873)	(3,007)	(3,008)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	751	(2,118)	(2,000)	(2,004)
Dividend paid	(1,893)	(2,602)	(1,643)	(2,076)
Others	(10,764)	1,146	(142)	183
Cash flow from Financing Activities	(11,906)	(3,574)	(3,785)	(3,897)
Chg. in Cash & Bank balance	128	443	956	2,288
Closing cash & balance	823	1,266	2,222	4,510

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	17.4	31.3	33.1	41.8
Adjusted EPS (Diluted)	17.4	31.3	33.1	41.8
Cash EPS	31.4	45.2	48.4	58.6
Dividend per share (DPS)	9.6	13.2	8.4	10.6
Book Value per share (BV)	222.4	245.1	269.9	301.1
Dividend Payout (%)	55.3	42.3	25.3	25.3
Growth (%)				
Net Sales	6.5	10.2	8.9	9.2
EBITDA	(19.0)	31.8	17.7	18.6
EPS (INR)	(37.3)	80.1	5.6	26.4
Valuation Ratios (x)				
P/E	69.8	38.7	36.7	29.0
P/CEPS	38.6	26.9	25.1	20.7
P/BV	5.5	5.0	4.5	4.0
EV / EBITDA	34.4	25.9	21.7	18.0
P / Sales	4.2	3.8	3.5	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	69.8	72.5	73.5	73.7
EBITDA Margins (%)	12.5	15.0	16.2	17.6
Effective Tax Rate (%)	3.3	2.5	17.0	17.0
Net Profit Margins (%)	6.0	9.9	9.6	11.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.1	0.1	0.0	(0.1)
Net Debt / EBITDA (x)	0.7	0.3	0.0	(0.3)
Profitability Ratios				
RoCE (%)	7.7	12.9	12.4	14.3
RoE (%)	7.1	13.4	12.8	14.6
RoC (%)	8.5	13.1	12.7	15.1
Fixed Asset Turnover (x)	2.7	2.5	2.6	2.7
Inventory Turnover Days	98	101	100	101
Receivables Days	70	63	63	63
Payables Days	45	45	44	44

Source Company data, I-Sec research

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