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Long-term growth drivers remain intact for Alembic

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After hitting its 52-week high last week, the stock of Alembic Pharmaceuticals shed about 4 per cent. The company has announced that it is raising ₹1,200 crore through a qualified institutional placement (QIP) to reduce debt and fund its expansion plans.

The equity infusion is expected to lead to a dilution of 6.4 per cent. Higher capex and depreciation, and increased operating costs, as well as interest costs, are expected to hit the firm's FY22 earnings. Though there will be equity dilution, part of this may get offset by lower interest cost as the company is planning to pay up part of its ₹1,180-crore debt crore (as of Q1FY21). The debt level has come down from ₹1,670 crore in FY20.

Given the time it will take for revenues to increase, analysts at Investec Securities expect some pressure on FY22 earnings which may worsen if competition for key products intensifies. The other reason for the stock seeing weakness after more than doubling from its March lows is the valuation of 23 times its FY22 earnings.

Despite a decline in the stock, most brokerages believe the long-term growth story is intact. Among the likely key growth triggers is the US formulations business, which accounted for 43 per cent of revenues in FY20. Sales in this geography have grown at 12 per cent annually over the FY16-20 period to just under ₹2,000 crore now on the back of new launches, including limited competition drugs.

Analysts at JM Financial expect the current US base to be sustainable on the back of a stable market share in key legacy molecules, the contribution of sartans (blood pressure medication) remaining sticky, and 20 new launches in FY21. The new launch pipeline is expected to help the company post growth of over 16 per cent in the FY20-22 period.

Non-US formulation and active pharmaceutical ingredients (APIs), which account for a third of overall revenues, are the other growth drivers. In the June quarter, non-US formulations grew 62 per cent, led by the easing of disruptions in Europe; API sales were 53 per cent higher due to opportunity in azithromycin (antibiotic) used in treating Covid-19 and disruptions in the Chinese market. While growth in non-US formulations is expected to be stable going ahead, the API business is expected to grow in double digits.

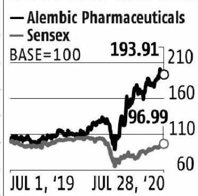
An area where Alembic has been trailing peers and the overall market is in domestic formulations. Though India accounts for over 30 per cent of its sales and half its revenues comes from the specialty segment, the firm has registered growth of just 5 per cent in the FY16-20 period. After a muted June quarter performance, the company expects growth to pick up. While prospects are sound, given the sharp run-up in prices, investors can look at the stock on dips.

STEADY MARGINS

in ₹crore	FY20	FY21E	FY22E
Net sales	4,605	5,280	6,028
% change YoY	17.1	14.7	14.2
Ebitda	1,222	1,402	1,516
Ebitda margins (%)	26.5	26.6	25.2
Net profit	862	989	1,028
% change YoY	47	14.7	4

Ebitda: Earnings before interest, tax, depreciation, and amortisation, E: Estimates; Source: JM Financial

OUTPERFORMER



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