

November 13, 2019

Q2FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	511		511	
Sales (Rs. m)	243,254	257,976	227,224	244,172
% Chng.	7.1	5.7		
EBITDA (Rs. m)	46,218	50,950	43,173	48,224
% Chng.	7.1	5.7		
EPS (Rs.)	50.3	54.2	46.5	51.1
% Chng.	8.3	6.0		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	192,259	243,254	257,976	274,882
EBITDA (Rs. m)	36,143	46,218	50,950	54,289
Margin (%)	18.8	19.0	19.8	19.8
PAT (Rs. m)	24,250	29,496	31,735	32,931
EPS (Rs.)	41.4	50.3	54.2	56.2
Gr. (%)	1.2	21.6	7.6	3.8
DPS (Rs.)	4.5	4.5	4.5	4.5
Yield (%)	1.0	1.0	1.0	1.0
RoE (%)	19.0	19.4	17.7	15.8
RoCE (%)	16.0	16.6	16.3	15.4
EV/Sales (x)	1.6	1.3	1.2	1.1
EV/EBITDA (x)	8.4	6.6	5.9	5.4
PE (x)	10.5	8.6	8.0	7.7
P/BV (x)	1.8	1.5	1.3	1.1

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.838 / Rs.428
Sensex / Nifty	40,116 / 11,840
Market Cap	Rs.254bn / \$ 3,530m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.3819.03m

Shareholding Pattern (%)

Promoter's	51.87
Foreign	21.95
Domestic Institution	13.00
Public & Others	13.18
Promoter Pledge (Rs bn)	4.20

Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	(39.5)	(44.0)
Relative	(6.1)	(43.5)	(51.4)

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Q2 miss; Plant concentration risk remains high

Quick Pointers:

- New launches drive growth in US but not reflected in margin; Core EU biz remains tepid QoQ
- Risk of adverse regulatory development to remain major drag on valuation

ARBP sales, adj. EBITDA and PAT miss estimates by 1%, 7% and 14% respectively. With US injectable sales in line with guidance, AuroMedics grew by 12% QoQ to US\$75m on launches of injectables in oncology and hormones (e.g. Makena) as well as bagline products of pantoprazole and Vancomycin. Besides, the execution of NBO supplies, launch of OTC drugs (out of 10-12 as guided) and non-oral launches (e.g. gSensipar) helped in core business growth in Q2 while we expect the impact of lower supply of Losartan to reflect with a lag of 1-2 quarters. NBO orders continue to benefit the company with more number of generic majors actively rationalizing US generic portfolio. Core EU grew only 1% QoQ, excluding the accounting integration benefits. ARV sales were flat QoQ with no improvement in order book execution of DTG based ARVs. Adj. gross margin and EBITDA margin are largely identical QoQ at 57% and 19.7%, respectively.

In spite of 12% sequential growth in US generics, its net profit was flat QoQ and grew only 5% YoY. Its annualized earnings of H1FY20E was 12% lower than our estimates. ARBP needs to improve US growth in tandem with margin expansion, which were absent in H1FY20. Moreover, regulatory (USFDA) hangover on Unit-7 and 4 remained high as we are concerned over concentration risk of US revenues. The two plants contributed 44% of US revenues and 43% of pending ANDAs. Also, Unit-4 contributed 80% of US injectable, the major growth driver of US sales. With adverse observations of Unit-7 and ongoing lengthy audit at Unit-4, the regulation risk over the two plants continues to be strong drag over valuation. We maintain 'Hold' recommendation and maintain TP at Rs511.

Key takeaways of conference call:

- Warning Letter (WL) on Unit 11 (API): CAPA (Corrective and Preventive Actions)) will be submitted by 15th November and expects re-inspection in Q4FY20E. WL in the Unit-11 have impacted with delay of approvals of 15 products till date
- Unit 4 (Injectable): USFDA inspection ongoing, 47 ANDAs under review from this plant.
- Unit 7 (Oral Formulations): Received 7 observations from the regulator and the company has responded for the same. There are 18 products under review from the unit.
- Unit V(API): Received four observations
- Unit VIII(API): Received four observations

- Unit I (API): Received OAI status
- Unit IX(intermediaries): Received OAI status
- Submitted its response to the US Federal Trade Commission for Sandoz deal. Expects clearance in Q3FY20E
- Bag line issue has been resolved and products launched in US in Q2FY20
- Natrol sales were \$39mn in Q2 Vs US\$38m in Q1
- The pricing environment in the US market remained stable in Q2
- Europe revenue grew 21% YoY, while adjusted growth was 6% YoY excluding the benefits of Apotex integration
- Aurobindo has maintained its market share in Losartan in US. it plans to file first depo injectable in FY21E. ARBP guided R&D sales to be 6.5% of sales in FY21E vs 4.5% in FY20E, due to initiation of trials of depo injectable and biosimilars in US
- As per management's initial guidance, debt has been reduced by US\$ 202mn in H1FY20. It was guided that there will be no further debt reduction in H2FY20E.
- Regulatory issues haven't increased remedial expense in Q2

Exhibit 1: Q2FY20 Result Overview (Rs m)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Sales	55,183	46,671	18.2	53,568	108,751	88,487	22.9
Raw Material	23,683	20,429	15.9	22,985	46,669	39,501	18.1
% of Net Sales	42.9	43.8		42.9	42.9	44.6	
Personnel Cost	7,772	6,255	24.3	7,799	15,571	12,216	27.5
% of Net Sales	14.1	13.4		14.6	14.3	13.8	
Others	12,875	10,570	21.8	12,198	25,073	20,247	23.8
% of Net Sales	23.3	22.6		22.8	23.1	22.9	
Total Expenditure	44,330	37,254	19.0	42,982	87,312	71,965	21.3
EBITDA	10,853	9,417	15.2	10,586	21,439	16,522	29.8
Margin (%)	19.7	20.2		19.8	19.7	18.7	
Depreciation	2,433	1,637	48.6	2,409	4,842	3,182	52.2
EBIT	8,419	7,780	8.2	8,178	16,597	13,340	24.4
Other Income	1,028	1,105	(7.0)	988	2,016	2,230	(9.6)
Interest	682	751	(9.3)	451	1,133	1,728	(34.5)
PBT	8,766	8,135	7.8	8,714	17,480	13,842	26.3
Extra-Ord. Inc./Exps.	127	266		78	205	261	
Total Taxes	2,244	1,754	27.9	2,278	4,521	2,910	55.4
ETR (%)	25.6	21.6		26.1	25.9	21.0	
Reported PAT	6,395	6,114	4.6	6,358	12,754	10,671	19.5

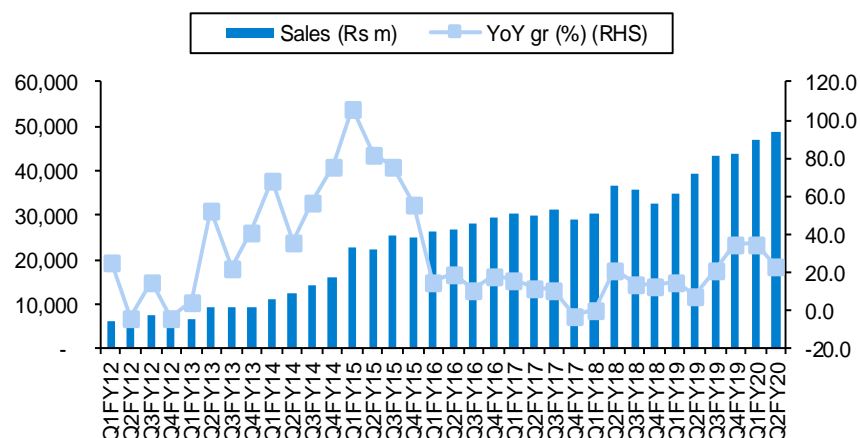
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Formulations	48,740	39,348	23.9	47,119	95,859	74,356	28.9
<i>% of Net Sales</i>	<i>85.8</i>	<i>82.8</i>		<i>86.5</i>	<i>86.2</i>	<i>82.6</i>	
USA	28,350	22,268	27.3	26,884	55,234	41,164	34.2
<i>% of Net Sales</i>	<i>49.9</i>	<i>46.9</i>		<i>49.4</i>	<i>49.7</i>	<i>45.7</i>	
Europe & Emerging Markets	17,200	14,640	17.5	17,050	34,250	29,196	17.3
<i>% of Net Sales</i>	<i>30.3</i>	<i>30.8</i>		<i>31.3</i>	<i>30.8</i>	<i>32.4</i>	
ARV	3,190	2,440	30.7	3,185	6,375	3,996	59.5
<i>% of Net Sales</i>	<i>5.6</i>	<i>5.1</i>		<i>5.8</i>	<i>5.7</i>	<i>4.4</i>	
API	8,058	8,166	(1.3)	7,322	15,380	15,646	(1.7)
<i>% of Net Sales</i>	<i>14.2</i>	<i>17.2</i>		<i>13.4</i>	<i>13.8</i>	<i>17.4</i>	
Betalactam	5,175	5,134	0.8	4,310	9,485	10,053	(5.7)
<i>% of Net Sales</i>	<i>9.1</i>	<i>10.8</i>		<i>7.9</i>	<i>8.5</i>	<i>11.2</i>	
Non-Betalactam	2,883	3,032	(4.9)	3,012	5,895	5,593	5.4
<i>% of Net Sales</i>	<i>5.1</i>	<i>6.4</i>		<i>5.5</i>	<i>5.3</i>	<i>6.2</i>	
Dossier Income	20	8	150.0	20	5	15	(66.7)
Gross Sales	56,818	47,522	19.6	54,461	111,244	90,017	23.6

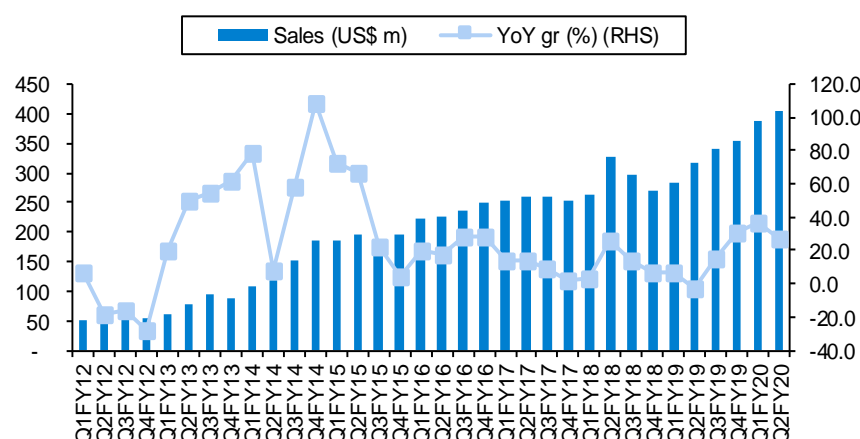
Source: Company, PL

Exhibit 3: Formulation sales & growth



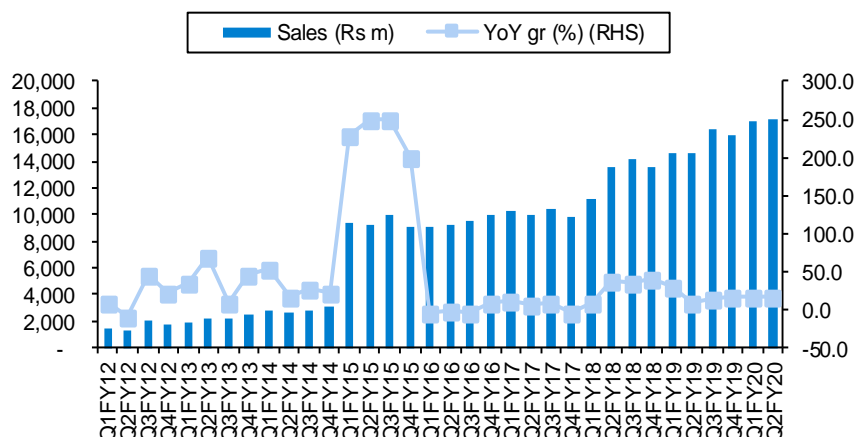
Source: Company, PL

Exhibit 4: US Generics sales (US\$m), growth



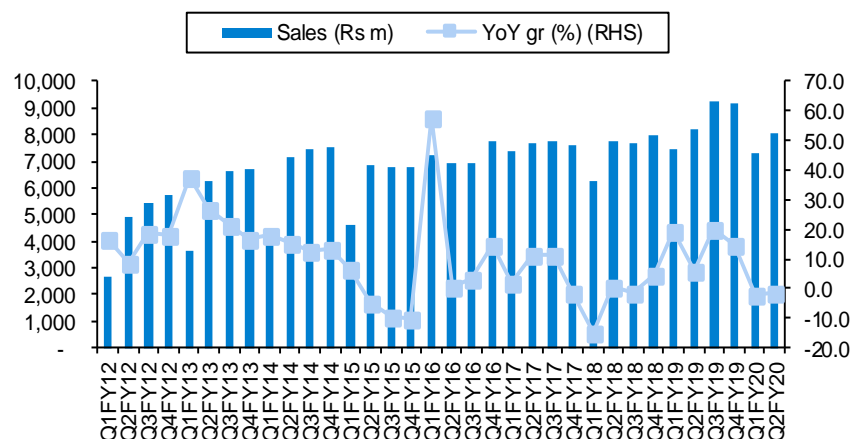
Source: Company, PL

Exhibit 5: EU & ROW sales, growth



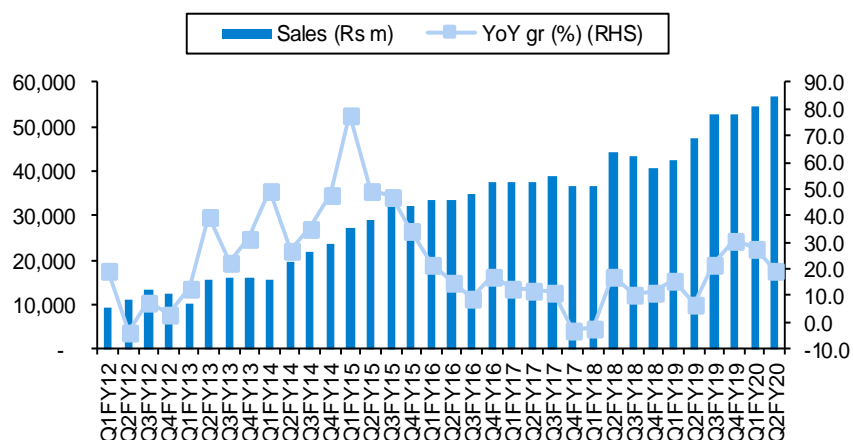
Source: Company, PL

Exhibit 6: API sales, growth



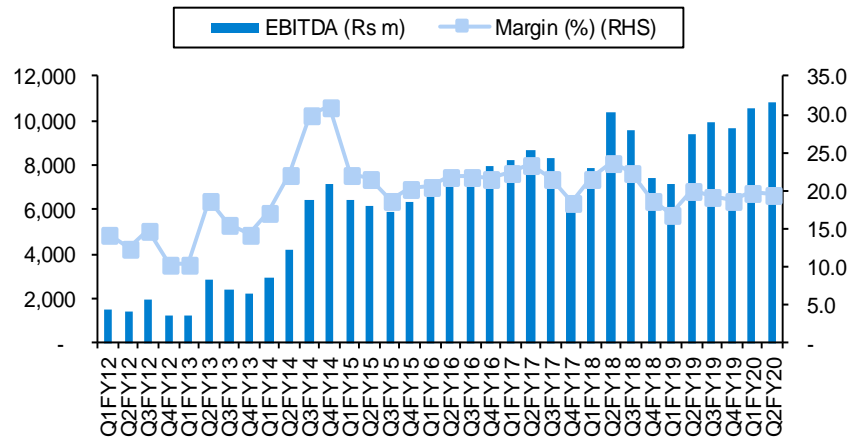
Source: Company, PL

Exhibit 7: Overall sales, growth



Source: Company, PL

Exhibit 8: EBITDA, margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	192,259	243,254	257,976	274,882
YoY gr. (%)	18.4	26.5	6.1	6.6
Cost of Goods Sold	87,126	108,248	117,379	125,071
Gross Profit	105,133	135,006	140,597	149,810
Margin (%)	54.7	55.5	54.5	54.5
Employee Cost	25,849	31,623	29,022	30,924
Other Expenses	8,716	14,595	15,479	16,493
EBITDA	36,143	46,218	50,950	54,289
YoY gr. (%)	2.6	27.9	10.2	6.6
Margin (%)	18.8	19.0	19.8	19.8
Depreciation and Amortization	6,680	9,636	11,040	12,914
EBIT	29,464	36,582	39,910	41,375
Margin (%)	15.3	15.0	15.5	15.1
Net Interest	1,627	1,568	1,572	1,704
Other Income	4,533	4,805	5,093	5,399
Profit Before Tax	32,370	39,819	43,432	45,070
Margin (%)	16.8	16.4	16.8	16.4
Total Tax	7,269	10,353	11,727	12,169
Effective tax rate (%)	22.5	26.0	27.0	27.0
Profit after tax	25,101	29,466	31,705	32,901
Minority interest	(29)	(30)	(30)	(30)
Share Profit from Associate	-	-	-	-
Adjusted PAT	24,250	29,496	31,735	32,931
YoY gr. (%)	1.2	21.6	7.6	3.8
Margin (%)	12.6	12.1	12.3	12.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	24,250	29,496	31,735	32,931
YoY gr. (%)	1.2	21.6	7.6	3.8
Margin (%)	12.6	12.1	12.3	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	24,250	29,496	31,735	32,931
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	41.4	50.3	54.2	56.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	96,651	122,336	139,999	158,028
Tangibles	74,283	95,703	109,003	122,568
Intangibles	22,368	26,633	30,996	35,460
Acc: Dep / Amortization	20,228	29,864	40,904	53,818
Tangibles	17,347	24,370	32,860	42,759
Intangibles	2,881	5,494	8,044	11,060
Net fixed assets	76,423	92,472	99,095	104,210
Tangibles	56,937	71,332	76,143	79,809
Intangibles	19,487	21,139	22,952	24,401
Capital Work In Progress	16,685	8,663	9,029	9,411
Goodwill	8,325	8,325	8,325	8,325
Non-Current Investments	4,572	4,815	5,118	5,497
Net Deferred tax assets	(980)	(140)	(1,009)	(1,910)
Other Non-Current Assets	3,060	3,573	4,190	4,932
Current Assets				
Investments	0	0	0	0
Inventories	72,456	78,537	86,277	94,523
Trade receivables	34,138	41,986	43,821	46,692
Cash & Bank Balance	19,572	17,269	15,640	15,866
Other Current Assets	13,742	16,491	19,789	23,746
Total Assets	264,544	287,608	306,631	328,431
Equity				
Equity Share Capital	586	586	586	586
Other Equity	138,322	164,436	193,086	222,932
Total Network	138,908	165,022	193,672	223,518
Non-Current Liabilities				
Long Term borrowings	1,800	1,925	1,945	1,964
Provisions	465	582	588	593
Other non current liabilities	113	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	65,732	67,704	60,934	54,840
Trade payables	26,771	31,990	34,632	36,149
Other current liabilities	27,926	19,222	13,728	10,263
Total Equity & Liabilities	264,544	287,608	306,631	328,431

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	32,370	39,819	43,432	45,070
Add. Depreciation	6,680	0	11,040	12,914
Add. Interest	1,627	1,568	1,572	1,704
Less Financial Other Income	4,533	4,805	5,093	5,399
Add. Other	2,948	4,314	(1,022)	(1,180)
Op. profit before WC changes	43,624	45,701	55,022	58,508
Net Changes-WC	(19,224)	(20,815)	(16,481)	(17,871)
Direct tax	(6,611)	(9,557)	(10,858)	(11,267)
Net cash from Op. activities	17,789	15,329	27,683	29,370
Capital expenditures	(26,723)	(17,663)	(18,029)	(18,411)
Interest / Dividend Income	161	164	167	171
Others	487	-	-	-
Net Cash from Invt. activities	(26,075)	(17,499)	(17,862)	(18,240)
Issue of share cap. / premium	-	-	-	-
Debt changes	22,706	2,098	(6,751)	(6,074)
Dividend paid	(3,085)	(3,085)	(3,085)	(3,085)
Interest paid	(1,627)	(1,568)	(1,572)	(1,704)
Others	-	-	-	-
Net cash from Fin. activities	17,995	(2,555)	(11,408)	(10,863)
Net change in cash	9,709	(4,725)	(1,586)	266
Free Cash Flow	(8,934)	(2,334)	9,654	10,958

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	51,753	52,020	53,568	55,183
YoY gr. (%)	21.2	30.4	28.1	18.2
Raw Material Expenses	23,899	23,726	22,985	23,683
Gross Profit	27,854	28,294	30,583	31,500
Margin (%)	53.8	54.4	57.1	57.1
EBITDA	9,920	9,701	10,586	10,853
YoY gr. (%)	3.5	30.5	49.0	15.2
Margin (%)	19.2	18.6	19.8	19.7
Depreciation / Depletion	1,631	1,866	2,409	2,433
EBIT	8,289	7,835	8,178	8,419
Margin (%)	16.0	15.1	15.3	15.3
Net Interest	477	501	499	409
Other Income	1,583	1,197	1,035	756
Profit before Tax	9,395	8,530	8,714	8,766
Margin (%)	18.2	16.4	16.3	15.9
Total Tax	2,048	2,311	2,278	2,244
Effective tax rate (%)	21.8	27.1	26.1	25.6
Profit after Tax	7,347	6,219	6,437	6,522
Minority interest	(26)	4	(49)	(1)
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,373	6,216	6,485	6,523
YoY gr. (%)	23.9	17.6	42.3	2.2
Margin (%)	14.2	11.9	12.1	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,373	6,216	6,485	6,523
YoY gr. (%)	23.9	17.6	42.3	2.2
Margin (%)	14.2	11.9	12.1	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,373	6,216	6,485	6,523
Avg. Shares O/s (m)	586	586	586	586
EPS (Rs)	12.6	10.6	11.1	11.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	41.4	50.3	54.2	56.2
CEPS	52.8	66.8	73.0	78.2
BVPS	237.1	281.7	330.6	381.5
FCF	(15.2)	(4.0)	16.5	18.7
DPS	4.5	4.5	4.5	4.5
Return Ratio(%)				
RoCE	16.0	16.6	16.3	15.4
ROIC	12.0	13.5	13.7	13.2
RoE	19.0	19.4	17.7	15.8
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.2	0.2
Net Working Capital (Days)	152	133	135	140
Valuation(x)				
PER	10.5	8.6	8.0	7.7
P/B	1.8	1.5	1.3	1.1
P/CEPS	8.2	6.5	5.9	5.5
EV/EBITDA	8.4	6.6	5.9	5.4
EV/Sales	1.6	1.3	1.2	1.1
Dividend Yield (%)	1.0	1.0	1.0	1.0

Source: Company Data, PL Research

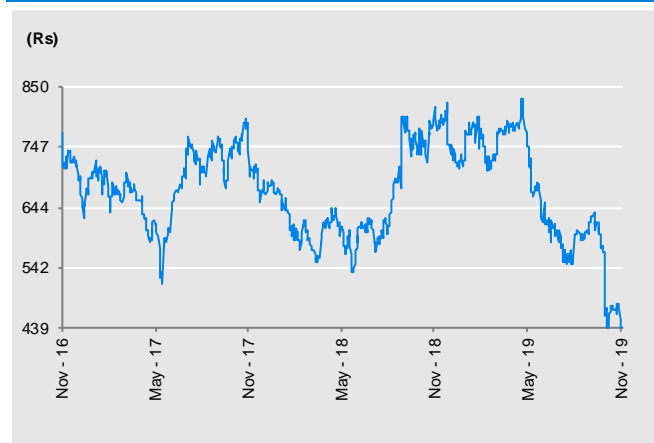
Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
US Formulations	90,307	126,046	132,642	140,812
EU & ROW	61,539	72,038	77,550	83,486
ARV formulations	9,725	12,203	13,180	14,234
APIs	34,030	36,526	38,379	40,351

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-19	Hold	511	452
2	3-Oct-19	BUY	715	580
3	8-Aug-19	BUY	715	600
4	4-Jul-19	BUY	932	605
5	5-Apr-19	BUY	952	787
6	4-Apr-19	BUY	952	773
7	20-Mar-19	BUY	952	777
8	11-Feb-19	BUY	952	761
9	11-Jan-19	BUY	994	770
10	7-Jan-19	BUY	994	725

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	452
2	Cadila Healthcare	Accumulate	266	234
3	Cipla	Reduce	439	481
4	Dr. Lal PathLabs	Hold	1,437	1,442
5	Dr. Reddy's Laboratories	Accumulate	2,910	2,757
6	Eris Lifesciences	Accumulate	459	426
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Hold	157	159
9	Ipca Laboratories	Accumulate	1,238	1,074
10	Jubilant Life Sciences	Reduce	433	562
11	Lupin	Hold	760	736
12	Sun Pharmaceutical Industries	Reduce	396	441
13	Thyrocare Technologies	BUY	686	551

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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