

Aurobindo Pharma Ltd.



Aurobindo Pharma Ltd.

US led growth; debt reduction on track

CMP INR 879	Target INR 1,027	Potential Upside 17.0%	Market Cap (INR Mn) INR 515,065	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of 1QFY21

- Aurobindo reported Revenue growth of 8.8% YoY (-3.8% QoQ) to INR 59.2 bn, led by the US, & Antiretroviral business. Formulation business grew 9.2% YoY (-4.8% QoQ, -87% of revenue) while API rose 6.5% YoY (+3.2% QoQ, -13% of revenue).
- EBITDA for the quarter rose 9.7% YoY (-4.5% QoQ) to INR 12.6 bn while EBITDA margin expanded 17 bps YoY (down 15 bps QoQ) to 21.2% in 1QFY21 (from 21.1% last year). Adj Net Profit rose 20.4% YoY (-6.8% QoQ) to INR 7.8 bn. Adj. Net Profit Margin for the quarter expanded 126 bps YoY to 13.2.0% (down 43 bps QoQ) from 11.9% in 1QFY20. Reported PAT came at INR 7,806 mn (+22.8% YoY, -8.1% QoQ).
- Investment in Research for the quarter was INR 2.5 bn at 4.3% of revenue. Net organic capex for the quarter was ~USD 49 million.
- Aurobindo received final approval for 10 ANDAs from USFDA during the quarter.
- Company announced an interim dividend of INR 1.25/share for FY20-21.

MARKET DATA

Shares outs (Mn)	586
Equity Cap (INR Mn)	168,105
Mkt Cap (INR Mn)	515,065
52 Wk H/L (INR)	967/288
Volume Avg (3m K)	4,865
Face Value (INR)	1
Bloomberg Code	ARBP IS

KEY FINANCIALS

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Revenue	1,64,998	1,95,636	2,30,985	2,59,801	2,90,327
EBITDA	37,718	39,519	48,643	54,298	63,001
PAT	24,232	23,647	28,310	32,719	38,821
Adj PAT	24,232	25,131	28,968	32,719	38,821
EPS (INR)	41.36	40.36	48.32	55.84	66.26
Adj. EPS (INR)	41.36	42.89	49.44	55.84	66.26
EBITDA Margin (%)	22.9%	20.2%	21.1%	20.9%	21.7%
NPM (%)	14.7%	12.1%	12.3%	12.6%	13.4%

Source: Company, KRChoksey Research

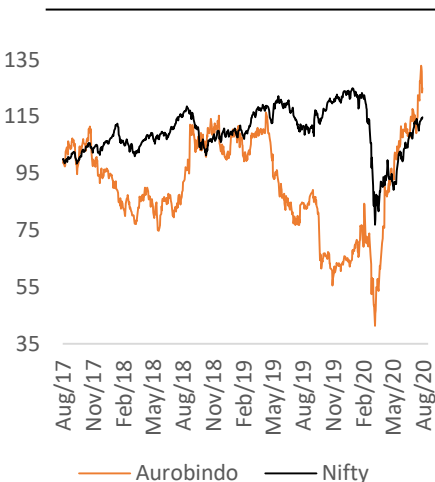
Growth led by US business; further supported by growth in antiretrovirals: Aurobindo pharma's 1QFY21 revenue was largely in line with our expectations (-1.7% vs. estimates). Consolidated gross sales for the quarter was supported by 15.6% YoY growth in the US formulation business (up 3.9% QoQ, 52% of sales), 33.6% YoY growth in Antiretroviral business (+11.4% QoQ, 7.2% of sales) and 6.5% YoY growth in the API business (+3.2% QoQ, 13% of sales). European formulation business de-grew 5.0% YoY (down 20.0% QoQ, ~22% of sales) while Emerging markets posted a decline in revenue of 7.6% YoY (down 23.1% QoQ, ~5% of sales). On constant currency basis, company's US business grew 7.0% YoY to USD 412mn, the growth was on account of higher volumes in OSD and Natrol portfolio, offset by a decline in the injectable business due to COVID-19. Growth in ARV business is due to continued transition of patients from TLE (tenofovir/lamivudine/efavirenz) based treatment to TLD (tenofovir/lamivudine/dolutegravir) for HIV treatment. Decline in the European business YoY/QoQ was on account of stocking in the previous quarter (+26.0%/11.9% YoY/QoQ in 4QFY20).

Better product mix improves Gross Profit Margin; partially offset by higher employee & other costs: Gross profit margin (GPM) improved 158 bps YoY to 59.4% (flat on QoQ basis) with better product mix & lower material cost at 40.6% of revenue (vs 42.2% in 1QFY20). Improvement in GPM was offset by higher employee cost at 15.0% of revenue (vs 14.3% in 1QFY20) & higher other cost at 23.2% of revenue (vs 22.4% of revenue in 1QFY20). EBITDA margin thus improved nominally by 17bps YoY (-15bps QoQ). Adj Net Profit Margin saw an improvement of 126bps YoY (-43bps QoQ) to 13.2% (vs 11.9% in 1QFY20) on the back of lower Finance cost at INR 211 mn (vs INR 499 mn in 1QFY20, -36% YoY).

Update on Debt reduction:

Company reduced its Net debt by USD 168 mn QoQ to USD 191 mn during the quarter and is on track with regards to debt reduction guidance. Company had indicated that it's aiming to reduce debt by USD 200-250 mn in FY21 and to be debt free by FY22.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	37,877
NIFTY	11,178

SHARE HOLDING PATTERN (%)

Particulars	Jun-20 (%)	Mar-20 (%)	Dec-19 (%)
Promoters	52.0	52.0	51.9
FIIIs	22.6	22.3	21.4
DIIIs	12.6	12.5	13.2
Others	12.8	13.2	13.5
Total	100	100	100

12.1%

Revenue CAGR between FY20 and FY22E

15.8%

Adj. PAT CAGR between FY20 and FY22E

Aurobindo Pharma Ltd.

Key Concall Highlights: (i) On constant currency basis, US business increased 7% YoY to USD 412 mn (ii) Company filed 14 ANDAs, including 3 injectables during the quarter, and launched six products (including one injectable) (iii) AuroMedics revenue declined 24% YoY to USD 51 mn impacted due to reduction in hospital procedures with COVID-19 (iv) Total injectable filings are 134 as of 30th June-20, out of which 75 have received final approval while 159 are pending for approval (v) Company has completed CAPAs and has requested USFDA for a desktop audit for Unit-1, 9 & 11 while for Unit-7, the company has almost completed all CAPAs and is awaiting further direction from the USFDA (vi) Company is eyeing one biosimilar filing by the end of FY21 (vii) Finance cost for the company is 1.5% due to availing of multiple currency loans.

Valuation and view

We expect Aurobindo pharma to post a CAGR growth of 12.1%/15.8% in Revenue/Adj. PAT over FY20-22E on the back of new launches in the US (~50 launches/year over next 2-3 years), increasing contribution from newly acquired businesses & territories in the EU. Company is on track with its debt reduction plan which will help to improve profitability with lower finance cost. Shares of Aurobindo pharma have rallied ~15.8% since our last update (at INR 759/share) and are currently trading at 15.7x/13.3x on FY21E/FY22E earnings. **In the wake of in-line performance in 1QFY21, faster than expected debt reduction/stable margins & nearing of regulatory clearance, we raise our target price upwards to INR 1,027/share (earlier INR 894/share) by applying a higher PE multiple of 15.5x on FY22E EPS of INR 66.3/share (earlier P/E multiple 13.5x), an upside potential of 17.0%. Accordingly, we reiterate a "BUY" rating on the shares of Aurobindo Pharma.**

Segments Result (INR Mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Formulation	47,119	47,939	51,050	54,012	51,444
USA	26,884	28,355	29,694	29,903	31,071
Europe	13,916	14,013	14,763	16,525	13,222
Growth Markets	3,134	3,192	3,459	3,766	2,896
Anti-retrovirals	3,185	2,379	3,134	3,818	4,255
API	7,322	8,058	7,898	7,556	7,801
Betalactum	4,310	5,175	5,111	5,392	5,003
Non-Betalactum	3,012	2,883	2,787	2,164	2,798
Dossier Income	4	8	3	17	3
Revenue from Operations	54,445	56,005	58,951	61,585	59,248

Segments Performance (% YoY)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Formulation	34.6%	21.8%	17.4%	23.5%	9.2%
USA	42.3%	27.3%	22.0%	20.5%	15.6%
Europe	16.1%	21.2%	14.2%	26.0%	-5.0%
Growth Markets	22.2%	3.8%	1.6%	30.3%	-7.6%
Anti-retrovirals	104.7%	-2.5%	11.4%	31.0%	33.6%
API	-2.1%	-1.3%	-14.3%	-17.6%	6.5%
Betalactum	-12.4%	0.8%	-8.4%	-7.5%	16.1%
Non-Betalactum	17.6%	-4.9%	-23.5%	-35.2%	-7.1%
Dossier Income	-73%	NM	200%	-11%	-25%
Revenue from Operations	28.1%	17.9%	11.9%	16.4%	8.8%

Revenue Mix (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Formulation	87%	86%	87%	88%	87%
USA	49%	51%	50%	49%	52%
Europe	26%	25%	25%	27%	22%
Growth Markets	6%	6%	6%	6%	5%
Anti-retrovirals	6%	4%	5%	6%	7%
API	13%	14%	13%	12%	13%
Betalactum	8%	9%	9%	9%	8%
Non-Betalactum	6%	5%	5%	4%	5%
Dossier Income	0%	0%	0%	0%	0%
Revenue from Operations	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, KRChoksey Research

Aurobindo Pharma Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenues	1,64,998	1,95,636	2,30,985	2,59,801	2,90,327
COGS	67,527	87,126	97,352	1,11,195	1,23,389
Gross profit	97,471	1,08,509	1,33,633	1,48,606	1,66,938
Employee cost	21,308	25,849	32,192	35,073	37,743
Other expenses	38,445	43,141	52,798	59,235	66,195
EBITDA	37,718	39,519	48,643	54,298	63,001
EBITDA Margin	22.9%	20.2%	21.1%	20.9%	21.7%
Depreciation & amortization	5,580	6,680	9,667	10,522	11,758
EBIT	32,138	32,840	38,976	43,776	51,243
Interest expense	777	1,627	1,598	1,303	1,008
Other income	1,020	1,157	862	1,052	1,405
PBT	32,381	30,887	37,582	43,526	51,639
Tax	8,183	7,269	9,135	10,881	12,910
Minority interest	-3	-2	-15	-20	-30
PAT	24,232	23,647	28,310	32,719	38,821
Adj. PAT	24,232	25,131	28,968	32,719	38,821
EPS (INR)	41.4	40.4	48.3	55.8	66.3
Adj. EPS	41.4	42.9	49.4	55.8	66.3

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	19,545	16,510	43,813	32,140	39,919
Net Cash Flow from/(used in) Investing Activities	(19,266)	(29,026)	(15,677)	(16,944)	(18,853)
Net Cash Flow from Financing Activities	8,642	19,191	(19,472)	(13,157)	(13,223)
Net Inc/Dec in cash equivalents	8,921	6,674	8,665	2,039	7,842
Opening Balance	3,180	12,099	18,756	27,468	29,507
Adjustments	39	63	217	169	169
Closing Balance Cash and Cash Equivalents	12,140	18,837	27,637	29,676	37,519

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	22.9%	20.2%	21.1%	20.9%	21.7%
Tax rate (%)	25.3%	23.5%	24.3%	25.0%	25.0%
Net Profit Margin (%)	14.7%	12.8%	12.5%	12.6%	13.4%
RoE (%)	20.7%	18.1%	17.2%	16.5%	16.6%
RoCE (%)	20.5%	16.2%	17.7%	18.5%	19.6%
EPS (INR)	41.4	40.4	48.3	55.8	66.3

Source: Company, KRChoksey Research

Aurobindo Pharma Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Non-current assets					
Property, plant and equipment	47,366	56,937	64,948	71,703	79,251
Capital work-in-progress	13,995	13,419	16,218	16,218	16,218
Goodwill (Net)	8,165	8,325	9,159	9,159	9,159
Other intangible assets	9,676	19,487	19,857	18,168	16,281
Intangible assets under development	1,835	3,265	3,641	3,641	3,641
Financial assets					
Investments	3,115	3,602	5,547	6,239	6,972
Loans	54	65	58	66	73
Other financial assets	868	894	1,170	1,316	1,471
Deferred tax assets (Net)	1,588	1,833	1,632	1,836	2,051
Non-current tax assets (Net)	826	1,381	831	935	1,045
Other non-current assets	1,740	1,691	2,076	2,334	2,609
Total non-current assets	89,229	1,10,899	1,25,138	1,31,616	1,38,773
Current assets					
Inventories	58,584	72,456	76,999	86,604	96,780
Financial assets					
Trade receivables	30,802	34,138	43,152	48,535	54,238
Cash and cash equivalents	12,140	18,837	27,637	29,676	37,519
Bank balances other than (iii) above	483	735	784	784	784
Loans	87	103	137	137	137
Other financial assets	7,942	13,635	401	12,505	13,975
Other current assets	11,744	13,742	15,015	18,492	20,665
Total current assets	1,21,782	1,53,645	1,64,125	1,96,734	2,24,097
TOTAL ASSETS	2,11,011	2,64,544	2,89,263	3,28,350	3,62,870
EQUITY AND LIABILITIES					
Equity					
Equity share capital	586	586	586	586	586
Other equity	1,16,218	1,38,322	1,67,518	1,97,800	2,33,728
Equity attributable to the equity shareholders	1,16,804	1,38,908	1,68,104	1,98,385	2,34,314
Non-controlling interests	18	16	1	-1	-4
Total equity	1,16,822	1,38,924	1,68,105	1,98,385	2,34,310
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	4,512	1,800	0	0	0
Lease obligations	0	0	2,644	2,644	2,644
Provisions	559	465	747	859	988
Deferred tax liabilities (Net)	2,353	2,813	3,025	3,479	4,000
Other non-current liabilities	106	113	875	875	875
Total non-current liabilities	7,529	5,191	7,291	7,857	8,507
Current liabilities					
Financial liabilities					
Borrowings	40,313	65,732	54,223	44,223	34,223
Trade payables	23,729	26,771	25,450	39,604	43,947
Other financial liabilities	15,045	16,615	22,387	25,570	28,374
Other current liabilities	4,629	8,840	6,359	7,263	8,059
Provisions	1,973	1,809	4,167	4,167	4,167
Current tax liabilities (Net)	970	663	1,282	1,282	1,282
Total current liabilities	86,659	1,20,429	1,13,867	1,22,108	1,20,052
Total liabilities	94,188	1,25,620	1,21,158	1,29,965	1,28,560
TOTAL EQUITY AND LIABILITIES	2,11,011	2,64,544	2,89,263	3,28,350	3,62,870

Source: Company, KRChoksey Research

Aurobindo Pharma Ltd.

Aurobindo Pharma Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
17-Aug-20	879	1,027	BUY	Buy	More than 15%
05-Jun-20	759	894	BUY		
22-Apr-20	644	768	BUY	Accumulate	5% – 15%
10-Feb-20	542	651	BUY	Hold	0 – 5%
14-Nov-19	434	566	BUY	Reduce	-5% – 0
24-Sep-19	617	734	BUY		
16-Aug-19	602	734	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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