

November 12, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		HOLD	
Target Price	921		808	
Sales (Rs. m)	2,88,777	3,04,375	2,69,343	3,04,375
% Chng.	7.2	-		
EBITDA (Rs. m)	62,511	65,897	58,304	65,897
% Chng.	7.2	-		
EPS (Rs.)	65.4	70.8	62.1	70.8
% Chng.	5.3	-		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,27,380	2,61,801	2,88,777	3,04,375
EBITDA (Rs. m)	45,038	54,285	62,511	65,897
Margin (%)	19.8	20.7	21.6	21.7
PAT (Rs. m)	28,295	33,987	38,340	41,490
EPS (Rs.)	48.3	58.0	65.4	70.8
Gr. (%)	9.6	20.1	12.8	8.2
DPS (Rs.)	3.0	3.0	3.0	3.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	18.4	18.6	17.8	16.3
RoCE (%)	16.5	19.0	19.6	18.4
EV/Sales (x)	2.3	1.9	1.7	1.5
EV/EBITDA (x)	11.5	9.2	7.8	7.1
PE (x)	17.4	14.5	12.8	11.9
P/BV (x)	2.9	2.5	2.1	1.8

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.968 / Rs.281
Sensex / Nifty	43,357 / 12,691
Market Cap	Rs.492bn/ \$ 6,593m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.6525.15m

Shareholding Pattern (%)

Promoter's	52.01
Foreign	23.01
Domestic Institution	13.67
Public & Others	11.31
Promoter Pledge (Rs bn)	9.34

Stock Performance (%)

	1M	6M	12M
Absolute	0.7	21.6	91.9
Relative	(5.7)	(12.0)	78.6

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Focus shifts to injectable, specialty products; Upgrade to Accumulate

Quick Pointers:

- Auromedics (Injectable) grew 25% QoQ to US\$64m.
- Guided injectable revenue of US\$650-700m by FY23E v/s current US\$350m.
- CAPA completed for Unit-I, IX, VII and XI.

We increase our earnings estimate by 5% for FY21E and FY22E on the back of early normalization of Auromedics (Gx-Injectable) in US. The 2Q earnings were higher than our estimate due to much higher growth in EM and ARV. ARBP guided 1) injectable revenue contribution to increase to US\$650-700m (v/s current US\$350m) in next 2-3 years, 2) launch at least one biosimilar in US and Europe market in FY23E, 3) Will not eye big ticket M&A and incremental CAPEX would be only on new product filings and capacity expansion. We believe ARBP Natrol divestment plan, termination of Novartis deal and increased focus on injectable products would lead to lower leverage ratio than expected earlier and better earnings growth with healthy EBITDAM. We rollover our valuation to FY23E (FY22E earlier) and derive a new TP of Rs921 (earlier Rs808) based on 13x PE of FY23E EPS of Rs71. We upgrade our rating to Accumulate (earlier Hold). Escalation of regulatory issues for Unit-I, IX, VII, XI and Aurolife would be key risk in our earnings estimate.

EM and ARV surprises: Revenue grew 9% QoQ and 16% YoY to Rs63.7bn (PLe: Rs59.1bn) with US/Europe/Growth markets/ARV growing at 3%/15%/54%/18% QoQ while 13%/8%/40%/111% YoY. EBITDA grew 14% QoQ and 22% YoY to Rs13.2bn (PLe: Rs12.1bn). While EDITDAM came in at 20.8% (PLe: 20.5%) v/s 20% QoQ and 19.7% YoY. PBT grew 11% QoQ and 38% YoY to Rs12.1bn (PLe: Rs11.2bn) while PAT grew 9% QoQ and 38% YoY to Rs8.4bn (PLe: Rs8bn).

Conference call and key highlights:

- US formulations:** Revenue grew 4%(Constant Currency) QoQ to US\$430m with Auromedics (Injectable) contribution of US\$64m v/s US\$51m (1QFY21). In April-CY20 FDA classified Unit-IV (Injectable) as VAI (Voluntary Action Indicated) without EIR (Establishment Inspection Report). FDA may re-visit the facility for further investigation once travelling restrictions ease off as few are related to data integrity. Till then, new approvals would be muted.
- US filings:** Received 10 approvals and launched 17 products (6 injectable) with 24 new ANDAs filed (10 injectables) in Q2FY21. In FY20, ARBP filed 55 ANDAs with the USFDA but received only 22 approvals due to regulatory issues. Guided for 55-60 ANDA filing for FY21-22E with improved approval rate. ARBP has 9% Rx-share in US generics with base business price erosion in the range of 5-7%. ARBP has 80-90 products under development at various stages.

- **Regulatory Status:** ARBP's many plants continue to be under FDA issues with the latest inclusion of oral solid mfg. facility at Dayton receiving WL for inspection conducted between Jan-Feb CY20. Unit-I, VII & IX have been under OAI status, Unit- XI with warning letter and Unit- IV in VAI status without EIR. ARBP has completed CAPA for Unit-I, IX and XI. Europe and Brazil regulator inspected and cleared Unit XI during the quarter. ARBP has requested for a virtual CGMP audit, where CAPA is finished.
- **Natrol divestment:** Recently ARBP announced it would divest its nutrition segment Natrol to US-based New Mountain Capital for US\$550mn and the deal is expected to close by Jan CY-21. Natrol contributed 3.2% to overall PAT of ARBP and 10% of the US revenues with 22% growth in FY20. Aurobindo acquired Natrol in CY-14 at US\$132.5m.
- **R&D:** ARBP spend Rs4bn on R&D, 6.4% of sales in 2QFY21 with 47% towards generic and 53% towards specialty products. Guided for 5.5-6.0% of sales towards R&D for FY22E due to initiation of trials for depot injectable and biosimilar (Bevacizumab) for US and Europe markets. Currently ARBP is working on total 5 biosimilar products with 3 for European market while 2 for US. Management expects revenue from its biosimilar portfolio to kick start from Europe in FY23E as one biosimilar would be filed for Europe in FY22E.
- **Europe:** Revenue grew 15% QoQ with EBITDAM of double-digit. Guided, Apotex business to turn profitable from 2HFY21E along with an EBITDA margin for whole Europe business of 11-12% (FY20 9-10%).
- **EMs, ARV and API:** Emerging markets/ARV/API grew 54%/18%/6% QoQ. respectively. Canada, Mexico, Brazil and Africa are key regions in EM for ARBP. ARV segment growth was due to shift of preference towards TLD (Tenofovir/ Lamivudine/ Dolutegravir) from TLE (Tenofovir/ Lamivudine/ Efavirenz) and guided a strong visibility for next 18 months. API growth was led by non-beta lactams products.
- **Debt:** Net Debt was US\$194mn v/s US\$191m QoQ. Guided to make ARBP a debt free company in next 3 years without assumptions of no new acquisition.

Exhibit 1: 2QFY21 Result Overview (Rs m) : US injectable makes a comeback while EM and ARV surprises

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	63,779	55,183	15.6	58,352	1,22,131	1,08,751	12.3
Raw Material	25,157	23,683	6.2	24,074	49,231	46,669	5.5
<i>% of Net Sales</i>	<i>39.4</i>	<i>42.9</i>		<i>41.3</i>	<i>40.3</i>	<i>42.9</i>	
Personnel Cost	9,119	7,772	17.3	8,880	17,999	15,571	15.6
<i>% of Net Sales</i>	<i>14.3</i>	<i>14.1</i>		<i>15.2</i>	<i>14.7</i>	<i>14.3</i>	
Others	16,230	12,875	26.1	13,720	29,951	25,073	19.5
<i>% of Net Sales</i>	<i>25.4</i>	<i>23.3</i>		<i>23.5</i>	<i>24.5</i>	<i>23.1</i>	
Total Expenditure	50,506	44,330	13.9	46,674	97,181	87,312	11.3
EBITDA	13,273	10,853	22.3	11,678	24,951	21,439	16.4
<i>Margin (%)</i>	<i>20.8</i>	<i>19.7</i>		<i>20.0</i>	<i>20.4</i>	<i>19.7</i>	
Depreciation	2,573	2,433	5.8	2,555	5,129	4,842	5.9
EBIT	10,699	8,419	27.1	9,123	19,822	16,597	19.4
Other Income	1,527	1,028	48.5	1,829	3,356	2,016	66.5
Interest	91	682	(86.6)	(12)	80	1,133	(92.9)
PBT	12,135	8,766	38.4	10,964	23,099	17,480	32.1
Extra-Ord. Inc./Exps.	205	127		(120)	325	205	
Total Taxes	3,873	2,244	72.6	3,037	6,910	4,521	52.8
<i>ETR (%)</i>	<i>31.9</i>	<i>25.6</i>		<i>27.7</i>	<i>29.9</i>	<i>25.9</i>	
Reported PAT	8,467	6,395	32.4	7,807	16,514	13,164	25.4

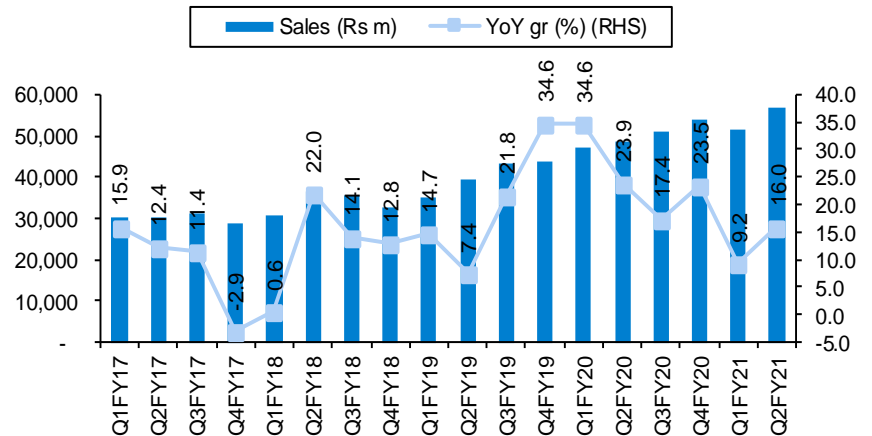
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Formulations	56,538	48,740	16.0	51,444	1,07,982	95,859	12.6
<i>% of Net Sales</i>	<i>87.2</i>	<i>85.8</i>		<i>86.8</i>	<i>87.0</i>	<i>86.2</i>	
USA	31,898	28,350	12.5	31,071	62,969	55,234	14.0
<i>% of Net Sales</i>	<i>49.2</i>	<i>49.9</i>		<i>52.4</i>	<i>50.8</i>	<i>49.7</i>	
Europe & Emerging Markets	19,613	17,200	14.0	16,118	35,731	34,250	4.3
<i>% of Net Sales</i>	<i>30.3</i>	<i>30.3</i>		<i>27.2</i>	<i>28.8</i>	<i>30.8</i>	
ARV	5,027	3,190	57.6	4,255	9,282	6,375	45.6
<i>% of Net Sales</i>	<i>7.8</i>	<i>5.6</i>		<i>7.2</i>	<i>7.5</i>	<i>5.7</i>	
API	8,290	8,058	2.9	7,801	16,091	15,380	4.6
<i>% of Net Sales</i>	<i>12.8</i>	<i>14.2</i>		<i>13.2</i>	<i>13.0</i>	<i>13.8</i>	
Betalactum	4,344	5,175	(16.1)	5,003	9,347	9,485	(1.5)
<i>% of Net Sales</i>	<i>6.7</i>	<i>9.1</i>		<i>8.4</i>	<i>7.5</i>	<i>8.5</i>	
Non-Betalactum	3,946	2,883	36.9	2,798	6,744	5,895	14.4
<i>% of Net Sales</i>	<i>6.1</i>	<i>5.1</i>		<i>4.7</i>	<i>5.4</i>	<i>5.3</i>	

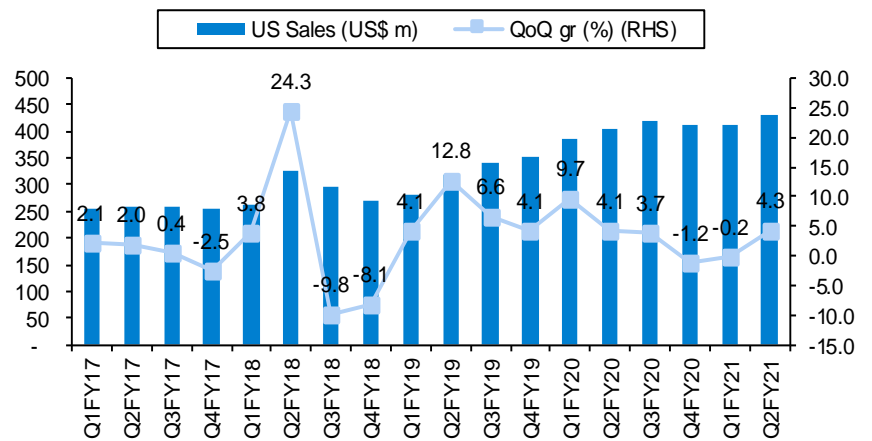
Source: Company, PL

Exhibit 3: Formulation sales & growth:



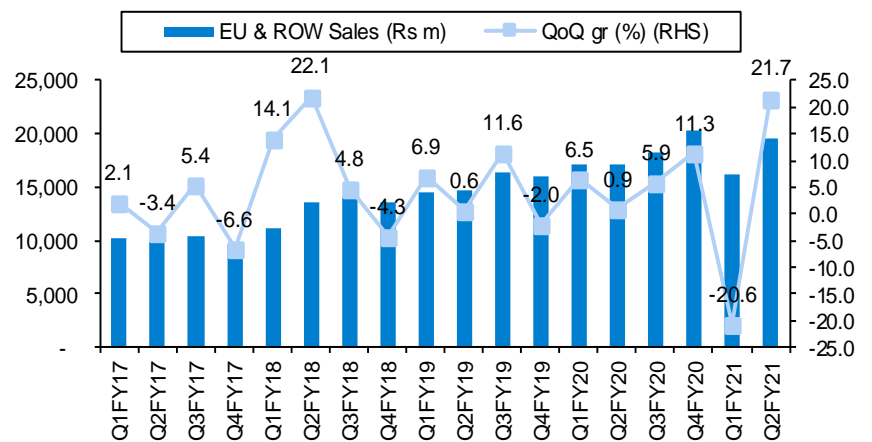
Source: Company, PL

Exhibit 4: US Generics sales (US\$m): Injectable biz makes a come back



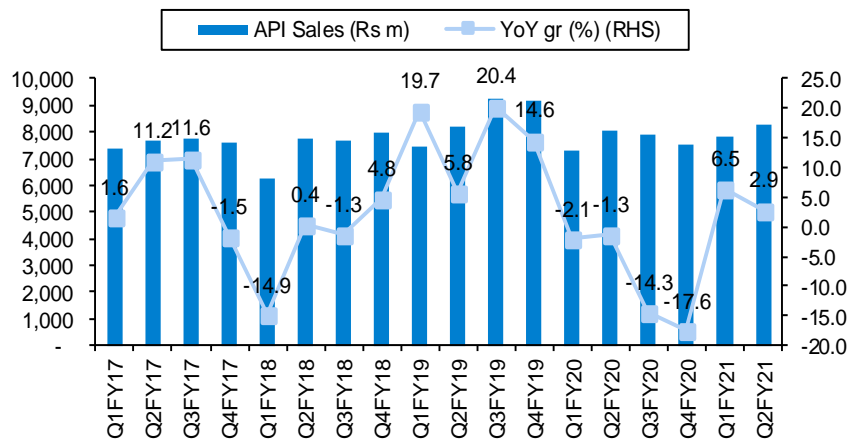
Source: Company, PL

Exhibit 5: Exhibit 1: EU & ROW sales: EU growth led by inorganic route



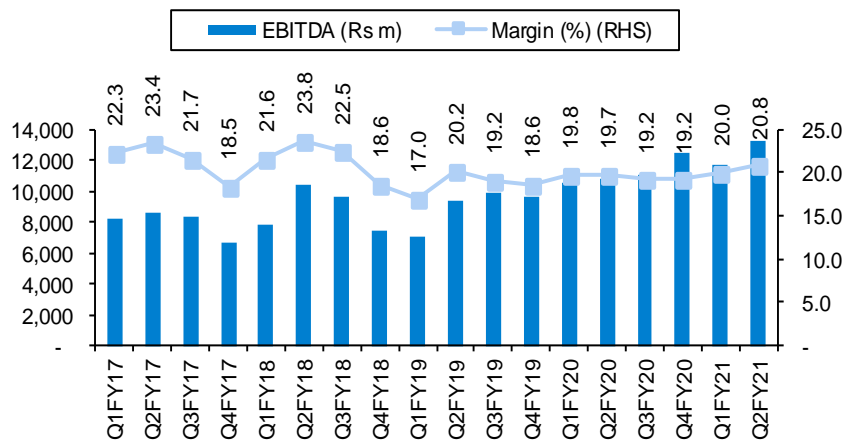
Source: Company, PL

Exhibit 6: API Sales (Rs mn) and YoY Growth (%)



Source: Company, PL

Exhibit 7: EBITDA (Rs mn) and EBITDAM :Margin stable and range bound



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,27,380	2,61,801	2,88,777	3,04,375
YoY gr. (%)	18.3	15.1	10.3	5.4
Cost of Goods Sold	97,352	1,13,619	1,27,791	1,34,686
Gross Profit	1,30,027	1,48,182	1,60,986	1,69,689
Margin (%)	57.2	56.6	55.7	55.8
Employee Cost	32,192	32,109	32,056	33,786
Other Expenses	9,581	15,699	17,327	18,262
EBITDA	45,038	54,285	62,511	65,897
YoY gr. (%)	24.0	20.5	15.2	5.4
Margin (%)	19.8	20.7	21.6	21.7
Depreciation and Amortization	9,667	11,342	13,963	14,601
EBIT	35,370	42,943	48,548	51,296
Margin (%)	15.6	16.4	16.8	16.9
Net Interest	1,598	1,066	1,010	371
Other Income	4,468	5,264	5,195	5,143
Profit Before Tax	38,240	47,141	52,733	56,068
Margin (%)	16.8	18.0	18.3	18.4
Total Tax	9,942	13,153	14,393	14,578
Effective tax rate (%)	26.0	27.9	27.3	26.0
Profit after tax	28,298	33,987	38,340	41,490
Minority interest	3	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	28,295	33,987	38,340	41,490
YoY gr. (%)	9.6	20.1	12.8	8.2
Margin (%)	12.4	13.0	13.3	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	28,295	33,987	38,340	41,490
YoY gr. (%)	9.6	20.1	12.8	8.2
Margin (%)	12.4	13.0	13.3	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	28,295	33,987	38,340	41,490
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	48.3	58.0	65.4	70.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,15,253	1,43,471	1,73,501	2,04,381
Tangibles	89,775	1,10,993	1,36,023	1,61,903
Intangibles	25,478	32,478	37,478	42,478
Acc: Dep / Amortization	30,448	43,443	56,258	70,859
Tangibles	24,827	33,525	43,860	55,753
Intangibles	5,621	9,918	12,398	15,106
Net fixed assets	84,805	1,00,029	1,17,242	1,33,522
Tangibles	64,948	77,469	92,163	1,06,150
Intangibles	19,857	22,560	25,080	27,372
Capital Work In Progress	19,859	20,780	21,744	22,753
Goodwill	9,159	9,159	9,159	9,159
Non-Current Investments	6,776	2,753	2,832	2,920
Net Deferred tax assets	1,632	(860)	(2,300)	(3,421)
Other Non-Current Assets	2,907	3,156	3,428	3,725
Current Assets				
Investments	0	0	0	0
Inventories	76,999	87,115	94,331	1,01,941
Trade receivables	43,152	45,188	48,261	50,868
Cash & Bank Balance	28,422	25,467	38,473	44,604
Other Current Assets	14,858	8,915	5,349	3,209
Total Assets	2,89,263	3,03,628	3,40,510	3,71,340
Equity				
Equity Share Capital	586	586	586	586
Other Equity	1,67,518	1,96,798	2,33,408	2,73,171
Total Networkth	1,68,104	1,97,384	2,33,994	2,73,756
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	747	755	762	770
Other non current liabilities	875	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	54,223	32,534	30,907	18,544
Trade payables	25,450	35,146	35,603	37,526
Other current liabilities	34,195	36,246	37,709	39,238
Total Equity & Liabilities	2,89,263	3,03,628	3,40,510	3,71,340

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	38,240	47,141	52,733	56,068
Add. Depreciation	9,667	11,342	13,963	14,601
Add. Interest	1,598	1,066	1,010	371
Less Financial Other Income	4,468	5,264	5,195	5,143
Add. Other	(2,802)	2,338	(1,652)	(539)
Op. profit before WC changes	46,703	61,887	66,054	70,501
Net Changes-WC	4,512	5,406	(4,948)	(4,781)
Direct tax	(9,178)	(11,838)	(12,954)	(13,456)
Net cash from Op. activities	42,036	55,455	48,152	52,263
Capital expenditures	(21,777)	(29,138)	(30,993)	(31,890)
Interest / Dividend Income	268	273	279	284
Others	324	-	-	-
Net Cash from Inv. activities	(21,185)	(28,865)	(30,714)	(31,606)
Issue of share cap. / premium	-	-	-	-
Debt changes	(13,309)	(21,689)	(1,627)	(12,363)
Dividend paid	(2,057)	(1,758)	(1,758)	(1,758)
Interest paid	(1,598)	(1,066)	(1,010)	(371)
Others	-	-	-	-
Net cash from Fin. activities	(16,963)	(24,513)	(4,394)	(14,491)
Net change in cash	3,889	2,077	13,043	6,166
Free Cash Flow	20,260	26,317	17,159	20,373

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	48.3	58.0	65.4	70.8
CEPS	64.8	77.4	89.3	95.7
BVPS	286.9	336.9	399.4	467.2
FCF	34.6	44.9	29.3	34.8
DPS	3.0	3.0	3.0	3.0
Return Ratio(%)				
RoCE	16.5	19.0	19.6	18.4
ROIC	13.6	15.4	16.1	15.7
RoE	18.4	18.6	17.8	16.3
Balance Sheet				
Net Debt : Equity (x)	0.2	0.0	0.0	(0.1)
Net Working Capital (Days)	152	135	135	138
Valuation(x)				
PER	17.4	14.5	12.8	11.9
P/B	2.9	2.5	2.1	1.8
P/CEPS	13.0	10.9	9.4	8.8
EV/EBITDA	11.5	9.2	7.8	7.1
EV/Sales	2.3	1.9	1.7	1.5
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	57,994	60,634	58,352	63,779
YoY gr. (%)	12.1	16.6	8.9	15.6
Raw Material Expenses	25,650	25,034	24,074	25,157
Gross Profit	32,344	35,600	34,278	38,622
Margin (%)	55.8	58.7	58.7	60.6
EBITDA	11,125	12,474	11,678	13,273
YoY gr. (%)	12.1	28.6	10.3	22.3
Margin (%)	19.2	20.6	20.0	20.8
Depreciation / Depletion	2,501	2,324	2,555	2,573
EBIT	8,624	10,150	9,123	10,699
Margin (%)	14.9	16.7	15.6	16.8
Net Interest	371	318	211	157
Other Income	1,265	1,014	2,051	1,593
Profit before Tax	9,517	10,846	10,964	12,135
Margin (%)	16.4	17.9	18.8	19.0
Total Tax	2,329	2,285	3,037	3,873
Effective tax rate (%)	24.5	21.1	27.7	31.9
Profit after Tax	7,189	8,561	7,927	8,262
Minority interest	(1)	193	120	205
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,190	8,367	7,807	8,057
YoY gr. (%)	(2.5)	34.6	20.4	23.5
Margin (%)	12.4	13.8	13.4	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,190	8,367	7,807	8,057
YoY gr. (%)	(2.5)	34.6	20.4	23.5
Margin (%)	12.4	13.8	13.4	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,190	8,367	7,807	8,057
Avg. Shares O/s (m)	586	586	586	586
EPS (Rs)	12.3	14.3	13.3	13.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
US Formulations	1,14,831	1,31,430	1,43,729	1,57,182
EU & ROW	72,764	77,752	85,057	93,199
ARV formulations	12,515	12,600	13,367	14,181
APIs	30,834	34,055	36,555	39,293

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Oct-20	Hold	808	834
2	13-Aug-20	Hold	838	881
3	08-Jul-20	Accumulate	838	802
4	05-Jun-20	Accumulate	838	759
5	21-Apr-20	Accumulate	702	644
6	18-Apr-20	Hold	566	543
7	14-Apr-20	UR	-	460
8	03-Apr-20	UR	-	392
9	24-Feb-20	Sell	525	599
10	07-Feb-20	Hold	525	547

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	357	411
3	Cipla	Hold	836	789
4	Dr. Lal PathLabs	UR	-	2,179
5	Dr. Reddy's Laboratories	BUY	5,964	4,951
6	Eris Lifesciences	BUY	671	518
7	Glenmark Pharmaceuticals	Sell	424	481
8	Indoco Remedies	BUY	352	256
9	Ipca Laboratories	Hold	2,393	2,278
10	Jubilant Life Sciences	Accumulate	752	696
11	Lupin	BUY	1,212	936
12	Sun Pharmaceutical Industries	BUY	597	486
13	Thyrocare Technologies	UR	-	1,138

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



ANALYST CERTIFICATION

(Indian Clients)

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