

Aurobindo Pharma Ltd.



Aurobindo Pharma Ltd.

Growth declined across major markets

CMP INR 968	Target INR 1,044	Potential Upside 7.8%	Market Cap (INR Mn) INR 566,280	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q4FY21

- Aurobindo reported Revenue de-growth of 2.5% YoY (-5.7% QoQ) to INR 60.0 bn, led by the US, Europe, and growth markets' revenue declining YoY and QoQ.
- However, Anti-retroviral, part of formulation, (+28.7% YoY / +10.8% QoQ) and API (+5.1% YoY / +16.4% QoQ), posted growth YoY and QoQ.
- EBITDA for the quarter declined 3.2% YoY (-6.9% QoQ) to INR 12.7 bn while EBITDA margins contracted 13 bps YoY/ 26 bps QoQ to 21.2% in Q4FY21 (from 21.4% in Q4FY20 and 21.5% in Q3FY21). Adj Net Profit declined 7.6% YoY (+493.4% QoQ) to INR 7.9 bn. Adj. Net Profit Margin for the quarter contracted 72 bps YoY to 13.1% (up 1,102 bps QoQ) from 13.8% in Q4FY20 and 2.1% in Q3FY21.
- Investment in R&D for FY21 was increased to INR 15.1 bn or 6.1% of revenue vs. INR 9.6 bn or 4.2% of revenue in FY20.
- Capex for FY21 was ~USD 247 million and free cash flows were at INR ~ USD 472 mn.

MARKET DATA

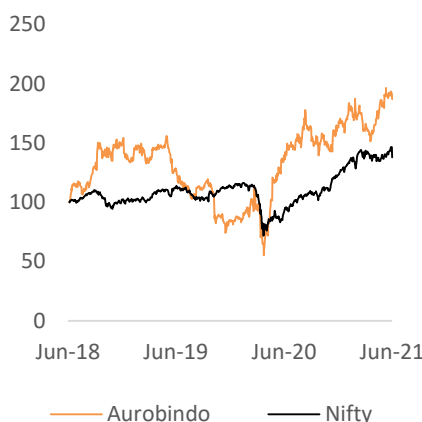
Shares outs (Mn)	586
Equity Cap (INR Mn)	219,290
Mkt Cap (INR Mn)	566,280
52 Wk H/L (INR)	1,064/722
Volume Avg (3m K)	2,532
Face Value (INR)	1
Bloomberg Code	ARBPI.S

KEY FINANCIALS

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Revenue	195,636	230,985	247,746	261,798	284,023
EBITDA	39,519	48,643	53,334	57,072	63,053
PAT	23,647	28,310	53,349	34,595	38,491
Adj. PAT	25,131	28,968	25,203	34,595	38,491
EPS (INR)	40.36	48.32	91.04	59.05	65.70
Adj. EPS (INR)	42.89	49.44	43.02	59.05	65.70
EBITDA Margin (%)	20.2%	21.1%	21.5%	21.8%	22.2%
NPM (%)	12.1%	12.3%	21.5%	13.2%	13.6%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Growth fell across major markets in Formulation segment; while Antiretroviral and API segments grew, YoY and QoQ:

The company's Formulations segment (87% of revenue) experienced de-growth both YoY and QoQ (-3.6% YoY/-8.4% QoQ) to INR 52,055 mn. This was due to absence of revenue from Natrol divestment. The US revenue declined 4.5% YoY / 10% QoQ to INR 28,560 mn (48% of revenue). Ex Natrol, the US formulations revenue increased 5.3% YoY. Europe segment revenue (25.9% of revenue) declined (-6.0% YoY/-7.1% QoQ) to INR 15,526 mn due to stocking up during the pandemic in Q4FY20. Growth markets' revenue (5% of revenue) declined (-18.8% YoY/-22.8% QoQ) to INR 3,057 mn. Growth markets were affected by low patient flow to hospitals and pharmacies due to COVID 19 situation. At the same time, API segment (13.2% of revenue) increased (+5.1% YoY/16.4% QoQ) to INR 7,940 mn and Anti-retroviral formulations' revenue (8.2% of revenue) grew 28.7% YoY / 10.8% QoQ to INR 4,912 mn for Q4FY21. Antiretroviral segment was benefited by increased conversion towards TLD from TLE. The company has filed 9 ANDAs including 3 injectables and received approvals for 9 ANDAs including 3 injectables in Q4FY21. The company has launched 19 products during Q4FY21 including 10 injectables. The company has filed 1 DMF with USFDA in Q4FY21.

Gross Profit Margin (GPM) improves QoQ and YoY; partially offset by higher employee & other costs:

Gross profit margin (GPM) improved 54 bps YoY to 59.9% (31 bps QoQ basis) due to lower raw materials costs (40.1% in Q4FY21 vs. 40.4% in Q4FY20 and 40.6% in Q3FY21). Improvement in GPM was offset by higher employee cost at 14.2% of revenue (vs 14.0% in 4QFY20 and 13.8% in Q3FY21) and higher other cost at 24.4% of revenue (vs 23.9% of revenue in Q4FY20 and 24.2% in Q3FY21). As a result, EBITDA margin contracted marginally by 13bps YoY (-26bps QoQ). Consequently, adj net profit experienced a 7.6% decline YoY but a 493.4% QoQ rise to INR 7,867 mn in Q4FY21 on the back of lower Finance cost at INR 182 mn (vs INR 318 mn in 4QFY20, -42.8% YoY/-6.5% QoQ) and absence of a large exceptional gain in Q4FY21 vs. Q3FY21.

MARKET INFO

SENSEX	52,232
NIFTY	15,690

SHARE HOLDING PATTERN (%)

Particulars	Mar-21 (%)	Dec-20 (%)	Sep-20 (%)
Promoters	51.9	51.9	52.0
FIIIs	24.4	25.0	23.0
DIIIs	13.2	12.6	13.7
Others	10.5	10.5	11.3
Total	100.0	100.0	100.0

7.1%

Revenue CAGR between FY21 and FY23E

23.6%

Adj. PAT CAGR between FY21 and FY23E

Aurobindo Pharma Ltd.

Key Concall Highlights : (i) Company filed 9 ANDAs, including 3 injectables during the quarter. It received final approvals for 9 ANDAs and launched 19 products (including 10 injectables) in Q4FY21 (iii) Revenue from Aurobindo Pharma USA that make oral products in USA has increased 8% in FY21 and declined 5% YoY in Q4FY21, due to lower sales of Antibiotics (iv) Revenue from AuroMedics increased 13% YoY to USD 67 mn. (v) Aurobindo has filed cumulatively 145 injectable ANDAs as of FY21, out of which 91 have received approval and the balance 54 are under review (vii) The company's global generic injectable revenue on a consolidated basis was USD 395 mn for FY21. (viii) As the company avails multi currency loans the average finance cost is 1.4% (ix) The company stated that the US market is seeing price erosion in mid single digit range (x) The company believes that as, in Europe nearly 40% of the population has been vaccinated, will lead to normalization soon. However, the impact of stocking up is likely in Q1FY22 as well. (xi) the company plans to file application for two biosimilars in H2FY22 in Europe and later in the US and 2 more in FY23 for the US and Europe in the oncology space.

Valuation and view

We expect Aurobindo Pharma to post a CAGR growth of 7.1%/23.6% in Revenue/PAT over FY21-23E on the back of new launches in the US, increasing contribution from injectables and speciality products' revenue. Shares of Aurobindo Pharma have rallied significantly by ~15% since our last update and are currently trading at 16.4x/14.7x on FY22E/FY23E EPS. **In the wake of expected stable margins and expected further likely increase in share of specialty and injectable products, we roll forward our earnings to FY23E EPS of INR 65.7 per share and apply a P/E multiple of 16x and maintain our target price of INR 1,044 per share, implying a potential upside of 7.8% over the CMP. Accordingly, we downgrade our rating on the shares of Aurobindo Pharma Ltd. to an "ACCUMULATE".**

Segments Result (INR Mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Formulation	54,012	51,444	56,538	56,824	52,055
USA	29,903	31,071	31,898	31,716	28,560
Europe	16,525	13,222	15,148	16,712	15,526
Growth Markets	3,766	2,896	4,465	3,962	3,057
Anti-retrovirals	3,818	4,255	5,027	4,434	4,912
API	7,556	7,801	8,290	6,824	7,943
Betalactum	5,392	5,003	4,344	3,868	4,086
Non-Betalactum	2,164	2,798	3,946	2,956	3,857
Dossier Income	17	3	6	0	18
Revenue from Operations	61,585	59,248	64,834	63,648	60,016

Segments Performance (% YoY)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Formulation	23.5%	9.2%	17.9%	11.3%	-3.6%
USA	20.5%	15.6%	12.5%	6.8%	-4.5%
Europe	26.0%	-5.0%	8.1%	13.2%	-6.0%
Growth Markets	30.3%	-7.6%	39.9%	14.5%	-18.8%
Anti-retrovirals	31.0%	33.6%	111.3%	41.5%	28.7%
API	-17.6%	6.5%	2.9%	-13.6%	5.1%
Betalactum	-7.5%	16.1%	-16.1%	-24.3%	-24.2%
Non-Betalactum	-35.2%	-7.1%	36.9%	6.1%	78.2%
Dossier Income	-11%	-25%	-25%	-100%	6%
Revenue from Operations	16.4%	8.8%	15.8%	8.0%	-2.6%

Revenue Mix (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Formulation	88%	87%	87%	89%	87%
USA	49%	52%	49%	50%	48%
Europe	27%	22%	23%	26%	26%
Growth Markets	6%	5%	7%	6%	5%
Anti-retrovirals	6%	7%	8%	7%	8%
API	12%	13%	13%	11%	13%
Betalactum	9%	8%	7%	6%	7%
Non-Betalactum	4%	5%	6%	5%	6%
Dossier Income	0%	0%	0%	0%	0%
Revenue from Operations	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 19	FY 20	FY 21	FY 22E	FY 23E
Revenues	195,636	230,985	247,746	261,798	284,023
COGS	87,126	97,352	99,025	107,861	113,609
Gross profit	108,509	133,633	148,722	153,937	170,414
Employee cost	74,450	77,250	83,173	86,393	90,887
Other expenses	43,141	52,798	60,037	60,214	67,597
EBITDA	39,519	48,643	53,334	57,072	63,053
EBITDA Margin	20.2%	21.1%	21.5%	21.8%	22.2%
Depreciation & amortization	6,680	9,667	10,554	10,603	11,503
EBIT	32,840	38,976	42,780	46,469	51,550
Interest expense	1,627	1,598	745	595	445
Other income	1,157	862	3,808	1,505	1,616
PBT	30,887	37,582	73,990	47,379	52,721
Tax	7,269	9,135	20,098	12,870	14,321
Minority interest	-2	-15	-10	-30	-30
PAT	23,647	28,310	53,349	34,595	38,491
Adj. PAT	25,131	28,968	25,203	34,595	38,491
EPS (INR)	40.4	48.3	91.0	59.0	65.7
Adj. EPS	42.9	49.4	43.0	59.0	65.7

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	16,510	43,813	33,289	36,683	40,063
Net Cash Flow from/(used in) Investing Activities	(29,026)	(15,677)	5,987	(16,557)	(18,412)
Net Cash Flow from Financing Activities	19,191	(19,472)	(13,648)	(11,294)	(11,185)
Net Inc/Dec in cash equivalents	6,674	8,665	25,628	8,832	10,466
Opening Balance	12,099	18,837	27,637	53,747	62,580
Closing Balance Cash and Cash Equivalents	18,837	27,637	53,735	62,580	73,046

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	20.2%	21.1%	21.5%	21.8%	22.2%
Tax rate (%)	23.5%	24.3%	27.2%	27.2%	27.2%
Net Profit Margin (%)	12.8%	12.5%	10.2%	13.2%	13.6%
RoE (%)	18.1%	17.2%	11.5%	13.7%	13.3%
RoCE (%)	16.2%	17.7%	17.3%	16.4%	16.7%
EPS (INR)	40.4	48.3	91.0	59.0	65.7

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY19	FY20	FY21	FY22E	FY23E
Non-current assets					
Property, plant and equipment	56,937	64,948	68,866	75,673	83,058
Capital work-in-progress	13,419	16,218	24,289	24,289	24,289
Goodwill (Net)	8,325	9,159	4,289	4,289	4,289
Other intangible assets	19,487	19,857	20,581	18,879	17,033
Intangible assets under development	3,265	3,641	6,326	6,326	6,326
Financial assets					
Investments	3,602	5,547	4,312	4,557	4,944
Loans	65	58	73	77	83
Other financial assets	894	1,170	1,433	1,514	1,643
Deferred tax assets (Net)	1,833	1,632	4,527	4,784	5,190
Non-current tax assets (Net)	1,381	831	1,283	1,355	1,470
Other non-current assets	1,691	2,076	4,327	4,572	4,960
Total non-current assets	110,899	125,138	140,305	146,315	153,284
Current assets					
Inventories	72,456	76,999	90,266	95,386	103,483
Financial assets					
Trade receivables	34,138	43,152	35,033	37,020	40,162
Cash and cash equivalents	18,837	27,637	53,735	62,580	73,046
Bank balances other than (iii) above	735	784	1,008	1,008	1,008
Loans	103	137	143	143	143
Other financial assets	13,635	401	15,617	12,601	13,671
Other current assets	13,742	15,015	836	18,634	20,216
Total current assets	153,645	164,125	198,235	228,970	253,328
TOTAL ASSETS	264,544	289,263	338,540	375,285	406,612
EQUITY AND LIABILITIES					
Equity					
Equity share capital	586	586	586	586	586
Other equity	138,322	167,518	218,713	251,484	287,947
Equity attributable to the equity shareholders	138,908	168,104	219,299	252,070	288,533
Non-controlling interests	16	1	-9	-12	-15
Total equity	138,924	168,105	219,290	252,071	288,531
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	1,800	0	1,684	1,684	1,684
Lease obligations	0	2,644	2,662	2,662	2,662
Provisions	465	747	1,571	1,807	2,078
Deferred tax liabilities (Net)	2,813	3,025	5,746	6,607	7,599
Other non-current liabilities	113	875	936	936	936
Total non-current liabilities	5,191	7,291	12,599	13,696	14,958
Current liabilities					
Financial liabilities					
Borrowings	65,732	54,223	48,027	38,027	28,027
Lease obligations	0	0	0	0	0
Trade payables	26,771	25,450	27,947	38,416	40,463
Other financial liabilities	16,615	22,387	21,293	23,193	24,429
Other current liabilities	8,840	6,359	5,562	6,058	6,381
Provisions	1,809	4,167	1,719	1,719	1,719
Current tax liabilities (Net)	663	1,282	2,104	2,104	2,104
Total current liabilities	120,429	113,867	106,651	109,517	103,123
Total liabilities	125,620	121,158	119,250	123,213	118,082
TOTAL EQUITY AND LIABILITIES	264,544	289,263	338,540	375,285	406,612

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
03-Jun-21	968	1,044	ACCUMULATE	Buy	More than 15%
17-Mar-21	841	1,044	BUY		
15-Dec-21	897	1,044	BUY	Accumulate	5% – 15%
24-Sep-21	780	1,027	BUY		
14-Aug-20	879	1,027	BUY	Hold	0 – 5%
05-Jun-20	759	894	BUY		
22-Apr-20	644	768	BUY	Reduce	-5% – 0
10-Feb-20	542	651	BUY		
14-Nov-19	434	566	BUY	Sell	Less than – 5%
24-Sep-19	617	734	BUY		

ANALYST CERTIFICATION:

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