

Aurobindo Pharma Ltd.



RESULT UPDATE

11th February 2022

Aurobindo Pharma Ltd. Sequential increase in ARV, and API sales are favorable to steady revenue growth outlook

CMP INR 684	Target INR 756	Potential Upside 10.5%	Market Cap (INR Mn) INR 401,010	Recommendation ACCUMULATE	Sector Pharmaceuticals
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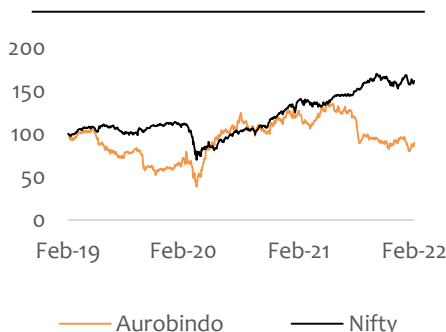
Result Highlights of Q3FY22:

- Aurobindo reported Revenue de-growth of 5.7% YoY (+1.0% QoQ) to INR 60.02 bn while ex-Natrol the growth was at -1.0% YoY (+1.0% QoQ)
- The US revenue including Natrol sales declined 13.4% YoY (-7.5% QoQ, 45.7% of revenue)
- The company expects a recovery in ARV business from Q4FY22E
- Adj. Net Profit (adjusted for exceptional items and foreign exchange gains) grew at a strong pace of 646.8% YoY (-20.9% QoQ) to INR 5.50 bn
- The company management believes that Q3FY22 is likely bottoming of overall cost inflationary pressures and pricing erosions in the US market
- QoQ increase in ARV sales and strong growth in API sales, both YoY and QoQ, in Q3FY22, are conducive to steady revenue growth outlook in the near term
- Emphasis on specialty and injectable business are favorable to profitable growth over medium – long term

MARKET DATA

Shares outs (Mn)	586
Equity Cap (INR Mn)	219,290
Mkt Cap (INR Mn)	401,010
52 Wk H/L (INR)	1,064/590
Volume Avg (3m K)	2,124
Face Value (INR)	1
Bloomberg Code	ARBP IS Equity

SHARE PRICE PERFORMANCE



KEY FINANCIALS

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,30,985	2,47,746	2,51,800	2,67,997	2,85,671
EBITDA	48,643	53,334	50,360	58,959	65,704
Adj PAT	28,968	25,203	29,963	35,920	40,489
Adj. EPS (INR)	49.44	43.02	51.14	61.31	69.11
EBITDA Margin (%)	21.1%	21.5%	20.0%	22.0%	23.0%
NPM (%)	12.5%	10.2%	11.9%	13.4%	14.2%

Source: Company, KRChoksey Research

Revenue de-Growth (YoY) improved in Q3FY22: Aurobindo reported Revenue de-growth of -5.7% YoY (+1.0% QoQ) to INR 60.02 bn while ex-Natrol it was at -1.0% YoY (+1.0% QoQ) due to decline in the US' revenue (ex-Natrol) at 4.4% YoY (-7.5% QoQ, 45.7% of revenue), ARV segment's revenue decline at 64.9% YoY (+7.4% QoQ, 2.6% of revenue); partially offset by API revenue growing at 48.0% YoY (+29.4% QoQ, 16.8% of revenue), 1.4% YoY (+1.9% QoQ) increase in Europe revenue (28.2% of revenue) and a 0.2% YoY (+2.8% QoQ) rise in growth markets revenue (6.6% of revenue). Overall Formulation business (ex-Natrol) de-grew 7.2 YoY (-3.3% QoQ, ~ 83% of revenue) US revenue including Natrol sales declined 13.4% YoY (-7.5% QoQ, 45.7% of revenue) The company expects a recovery in ARV business from Q4FY22E.

Profitability under pressure but is expected to improve in a couple of quarters: Gross Profit Margins (GPMs) declined 531 bps YoY (-355 bps QoQ) to 54.3% in Q3FY22 due to increased cost of freight and input costs (as a % of sales) EBITDA Margins for the quarter declined 457 bps YoY (-304 bps QoQ) to 16.9% and EBITDA declined 25.7% YoY (-14.4% QoQ) to INR 10.16 bn in Q3FY22. Reported Net Profit declined 79.5% YoY (-13.3% QoQ) to INR 6.04 bn due to decline in sales YoY and slower growth in it QoQ and fall in margins both YoY and QoQ. However, Adj. Net Profit (adjusted for exceptional items and foreign exchange gains) grew at a strong pace of 646.8% YoY (-20.9% QoQ) to INR 5.50 bn. The company management believes Q3FY22 to be the bottoming of overall cost inflationary pressures and pricing erosions in the US.

Strong outlook on Injectables and specialty business: The global injectables business accounts for ~ 13.0% of revenue as of Q2FY22 while the US Injectables business accounts for ~ 17.3% of US revenue as of Q3FY22. The company is seeking funds for its injectables business as it expects it to grow to a USD 650-700 mn revenue business by FY24 from current USD 400 mn p.a. The company plans around 10-15 product launches in the segment in FY23, which is expected to drive growth for FY23E and FY24E. The company has 3 biosimilars in varied development phases in the domains of oncology and immunology, while 2 others are filed for regulatory approval. At the same time, the company hopes to have advances made in vaccine segment over the next 2-3 years. The company's emphasis on specialty and injectable business are favorable to profitable growth over medium – long term.

MARKET INFO

SENSEX	58,926
NIFTY	17,606

SHARE HOLDING PATTERN (%)

Particulars	Dec-21 (%)	Sep-21 (%)	June-21 (%)
Promoters	51.8	51.8	51.8
FIIIs	21.4	21.7	23.7
DIIIs	16.5	15.5	14.7
Others	10.3	10.9	9.8
Total	100.0	100.0	100.0

4.9%

Revenue CAGR between FY21 and FY24E

17.1%

Adj. PAT CAGR between FY21 and FY24E

Aurobindo Pharma Ltd.

Key Concall Highlights: : (i) Injectables business revenue declined 7.0% YoY to INR 63.2 mn in Q3FY22. The company has 165 injectable ANDA filings, 108 with final approvals, and 57 are under review as of Q3FY22 (ii) Net organic capex was around USD 52 mn (iii) Net working capital was reduced by USD 137 mn due to reduction in inventory, which was reduced by USD 100 mn in Q3FY22 and by USD 175 mn in 9MFY22. As a result, the net cash position improved to USD 211 mn as of Q3FY22 (iv) The company received approvals for 40 ANDAs and launched 7 products including 4 injectables in Q3FY22 (v) The finance cost is around 0.7% due to multiple currency loans availed (vi) The company is seeking funds for its injectables business. It expects it to grow to a USD 650-700 mn revenue business by FY24. The company plans around 10-15 product launches in the segment in FY23 (vii) The company has 3 biosimilars in varied development phases in the domains of oncology and immunology, while 2 are filed for regulatory approval (viii) The company hopes to have advances made in vaccine segment over the next 2-3 years (ix) The company expects a normalization in the US pricing scenario as well as cost inflation over the next 1-2 quarters (x) The company has purchased ANDAs worth USD 34.0 mn in Q3FY22 (40 ANDAs out of which 31 are orals, 4 are injectables, and 3 in dermatology)

Valuation and view

We believe sequential improvement in ARV sales and the fact that the company expects it to improve in Q4FY22, are positive. Also, strong API sales growth add to steady revenue growth outlook in the near term. Further, the company's emphasis on specialty and injectable business are favorable to profitable growth over medium – long term. We introduce FY24E projections and **expect Aurobindo's revenue and adj. PAT to grow at 4.9%/17.1% over FY21-24E, respectively. The stock is trading at 13.4x/11.2x/9.9x its FY22E/FY23E/FY24 EPS. We apply 10.9x multiple on FY24E EPS of INR 69.11 and maintain the Target Price (TP) at INR 756 per share. Since it indicates an upside potential of 10.5% over the CMP, we maintain our "ACCUMULATE" rating on the shares of Aurobindo Pharma.**

Segments Result (INR Mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Formulation	56,824	52,110	48,898	51,612	49,922
USA	31,716	28,615	26,812	29,676	27,452
Europe	16,712	15,526	15,829	16,623	16,943
Growth Markets	3,962	3,057	3,293	3,863	3,970
Anti-retrovirals	4,434	4,912	2,964	1,450	1,557
API	6,825	7,943	8,119	7,807	10,100
Betalactum	3,869	4,086	3,836	4,209	6,838
Non-Betalactum	2,956	3,857	4,283	3,598	3,262
Dossier Income	0	18	2	0	0
Revenue from Operations	63,649	60,071	57,019	59,419	60,022

Segments Performance (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Formulation	11.3%	-3.5%	2.7%	-1.5%	-12.1%
USA	6.8%	-4.3%	-1.5%	6.9%	-13.4%
Europe	13.2%	-6.0%	19.7%	9.7%	1.4%
Growth Markets	14.5%	-18.8%	13.7%	-13.5%	0.2%
Anti-retrovirals	41.5%	28.7%	-30.3%	-71.2%	-64.9%
API	-13.6%	5.1%	4.1%	-5.8%	48.0%
Betalactum	-24.3%	-24.2%	-23.3%	-3.1%	76.7%
Non-Betalactum	6.1%	78.2%	53.1%	-8.8%	10.4%
Dossier Income	-100%	6%	-33%	-100%	NM
Revenue from Operations	8.0%	-2.5%	2.9%	-2.1%	-5.7%

Revenue Mix (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Formulation	89%	87%	86%	87%	83%
USA	50%	48%	47%	50%	46%
Europe	26%	26%	28%	28%	28%
Growth Markets	6%	5%	6%	7%	7%
Anti-retrovirals	7%	8%	5%	2%	3%
API	11%	13%	14%	13%	17%
Betalactum	6%	7%	7%	7%	11%
Non-Betalactum	5%	6%	8%	6%	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 20	FY 21	FY 22E	FY 23E	FY 24E
Revenues	2,30,985	2,47,746	2,51,800	2,67,997	2,85,671
COGS	97,352	99,025	1,08,274	1,09,879	1,14,268
Gross profit	1,33,633	1,48,722	1,43,526	1,58,118	1,71,403
Employee cost	77,250	83,173	85,612	88,439	91,415
Other expenses	52,798	60,037	57,914	61,639	65,704
EBITDA	48,643	53,334	50,360	58,959	65,704
EBITDA Margin	21.1%	21.5%	20.0%	22.0%	23.0%
Depreciation & amortization	9,667	10,554	10,198	10,854	11,570
EBIT	38,976	42,780	40,162	48,105	54,135
Interest expense	1,598	745	595	445	295
Other income	862	3,808	1,455	1,536	1,625
PBT	37,582	73,990	41,022	49,196	55,464
Tax	9,135	20,098	11,143	13,363	15,066
Minority interest	-15	-10	-30	-30	-30
PAT	28,310	53,349	29,963	35,920	40,489
Adj. PAT	28,968	25,203	29,963	35,920	40,489
EPS (INR)	48.3	91.0	51.1	61.3	69.1
Adj. EPS	49.4	43.0	51.1	61.3	69.1

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	43,813	33,289	38,157	38,015	43,970
Net Cash Flow from/(used in) Investing Activities	(15,677)	5,987	(15,316)	(17,066)	(18,218)
Net Cash Flow from Financing Activities	(19,472)	(13,648)	(10,601)	(11,049)	(10,951)
Net Inc/Dec in cash equivalents	8,665	25,628	12,240	9,900	14,801
Opening Balance	18,837	27,637	53,735	65,539	75,439
Adjustments	136	469	(436)	0	0
Closing Balance Cash and Cash Equivalents	27,637	53,735	65,539	75,439	90,240

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	21.1%	21.5%	20.0%	22.0%	23.0%
Tax rate (%)	24.3%	27.2%	27.2%	27.2%	27.2%
Net Profit Margin (%)	12.5%	10.2%	11.9%	13.4%	14.2%
RoE (%)	17.2%	11.5%	12.1%	12.8%	24.3%
RoCE (%)	17.7%	17.3%	14.5%	15.9%	22.6%
EPS (INR)	48.3	91.0	51.1	61.3	69.1

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22E	FY23E	FY24E
Non-current assets					
Property, plant and equipment	64,948	68,866	75,413	82,381	89,808
Capital work-in-progress	16,218	24,289	24,289	24,289	24,289
Goodwill (Net)	9,159	4,289	4,289	4,289	4,289
Other intangible assets	19,857	20,581	18,944	17,202	15,345
Intangible assets under development	3,641	6,326	6,326	6,326	6,326
Financial assets					
Investments	5,547	4,312	4,383	4,665	4,972
Loans	58	73	74	79	84
Other financial assets	1,170	1,433	1,457	1,550	1,652
Deferred tax assets (Net)	1,632	4,527	4,601	4,897	5,220
Non-current tax assets (Net)	831	1,283	1,304	1,387	1,479
Other non-current assets	2,076	4,327	4,397	4,680	4,989
Total non-current assets	1,25,138	1,40,305	1,45,476	1,51,745	1,58,454
Current assets					
Inventories	76,999	90,266	91,743	97,644	1,04,083
Financial assets					
Trade receivables	43,152	35,033	35,606	37,896	40,396
Cash and cash equivalents	27,637	53,735	65,539	75,439	90,240
Bank balances other than (iii) above	784	1,008	1,008	1,008	1,008
Loans	137	143	143	143	143
Other financial assets	401	15,617	12,120	12,900	13,750
Other current assets	15,015	836	17,923	19,075	20,333
Total current assets	1,64,125	1,98,235	2,25,680	2,45,703	2,71,552
TOTAL ASSETS	2,89,263	3,38,540	3,71,156	3,97,448	4,30,006
EQUITY AND LIABILITIES					
Equity					
Equity share capital	586	586	586	586	586
Other equity	1,67,518	2,18,713	2,47,096	2,81,123	3,19,478
Equity attributable to the equity shareholders	1,68,104	2,19,299	2,47,682	2,81,709	3,20,064
Non-controlling interests	1	-9	-12	-15	-18
Total equity	1,68,105	2,19,290	2,47,683	2,81,707	3,20,059
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	0	1,684	1,684	1,684	1,684
Lease obligations	2,644	2,662	2,662	2,662	2,662
Provisions	747	1,571	1,807	2,078	2,390
Deferred tax liabilities (Net)	3,025	5,746	6,607	7,599	8,738
Other non-current liabilities	875	936	936	936	936
Total non-current liabilities	7,291	12,599	13,696	14,958	16,410
Current liabilities					
Financial liabilities					
Borrowings	54,223	48,027	38,027	28,027	18,027
Lease obligations	0	0	0	0	0
Trade payables	25,450	27,947	38,563	39,135	40,698
Other financial liabilities	22,387	21,293	23,282	23,627	24,571
Other current liabilities	6,359	5,562	6,081	6,171	6,418
Provisions	4,167	1,719	1,719	1,719	1,719
Current tax liabilities (Net)	1,282	2,104	2,104	2,104	2,104
Total current liabilities	1,13,867	1,06,651	1,09,776	1,00,783	93,537
Total liabilities	1,21,158	1,19,250	1,23,473	1,15,741	1,09,947
TOTAL EQUITY AND LIABILITIES	2,89,263	3,38,540	3,71,156	3,97,448	4,30,006

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
11-Feb-22	684	756	ACCUMULATE	Buy	More than 15%
09-Nov-21	677	756	ACCUMULATE		
17-Aug-21	731	801	ACCUMULATE	Accumulate	5% – 15%
30-Jun-21	968	1,044	ACCUMULATE		
03-Jun-21	968	1,044	ACCUMULATE	Hold	0 – 5%
17-Mar-21	841	1,044	BUY		
15-Dec-21	897	1,044	BUY	Reduce	-5% – 0
24-Sep-21	780	1,027	BUY		
14-Aug-20	879	1,027	BUY	Sell	Less than – 5%
05-Jun-20	759	894	BUY		
22-Apr-20	644	768	BUY		
10-Feb-20	542	651	BUY		

ANALYST CERTIFICATION:

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