

February 10, 2022

## Q3FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	759		780	
Sales (Rs. m)	252,076	274,036	262,448	284,531
% Chng.	(4.0)	(3.7)		
EBITDA (Rs. m)	52,272	61,011	56,898	64,330
% Chng.	(8.1)	(5.2)		
EPS (Rs.)	54.2	64.7	61.4	70.3
% Chng.	(11.8)	(8.0)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	248,145	235,790	252,076	274,036
EBITDA (Rs. m)	53,733	44,701	52,272	61,011
Margin (%)	21.7	19.0	20.7	22.3
PAT (Rs. m)	53,747	26,769	31,734	37,910
EPS (Rs.)	91.7	45.7	54.2	64.7
Gr. (%)	86.3	(50.2)	18.5	19.5
DPS (Rs.)	4.0	4.5	5.0	5.5
Yield (%)	0.6	0.7	0.7	0.8
RoE (%)	27.7	11.6	12.4	13.2
RoCE (%)	17.5	12.0	13.7	15.3
EV/Sales (x)	1.6	1.6	1.4	1.2
EV/EBITDA (x)	7.4	8.4	6.8	5.4
PE (x)	7.5	15.0	12.6	10.6
P/BV (x)	1.8	1.7	1.5	1.3

### Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.1,064 / Rs.590
Sensex / Nifty	58,926 / 17,606
Market Cap	Rs.401bn/ \$ 5,351m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.1600.27m

### Shareholding Pattern (%)

Promoter's	51.83
Foreign	21.71
Domestic Institution	13.83
Public & Others	12.63
Promoter Pledge (Rs bn)	48.15

### Stock Performance (%)

	1M	6M	12M
Absolute	(7.2)	(22.2)	(29.3)
Relative	(4.9)	(28.0)	(38.4)

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## Gradual recovery

### Quick Pointers:

- US sales declined by 8% QoQ; sharp decline in GMs.
- Strong operating cash flow; net cash stands at \$211mn vs \$35mn QoQ.

**We cut our FY23E EPS est. by 12% and FY24E EPS est. by 8% to factor in lower margins and US sales. Aurobindo Pharma's (ARBP) 9MFY22 performance was weak, given cost headwinds and lower US sales. We believe cost pressures have stabilized and margin trajectory should improve from FY23. However, pick up in US sales hinge on timely niche approvals along with stabilization of pricing pressure in base business. ARBP has multiple growth drivers in place with investments in vaccines, injectables, biosimilars and PLI, which are expected to be reflected from H2FY23. At CMP, stock is trading at 13x FY23E P/E. We recommend 'Accumulate' with TP of Rs759 based on 14x FY23E earnings.**

- Weak US sales; API registered strong growth:** Formulations business sales declined 12.1% YoY and 3.3% QoQ at Rs50bn. US revenue came at ~\$366m Vs \$400mn in Q2FY22 against our est of \$400mn, primarily on account of higher price erosion and lack of meaningful launches. EU reported moderate growth of 1% YoY, while RoW business was flat. ARV growth remained weak with 65% YoY decline. API sales grew strongly by 48% YoY and 29% QoQ on increased demand in key products.
- Drag in GMs:** Gross margins came in at 54% (down ~350bps qoq; ~690bps yoy) impacted by lower US sales, higher COGS and change in product mix with higher API sales. OPM declined 690bps YoY/350bps QoQ to 17%. Other expenses were down 1% QoQ at Rs 13.7bn, while employee cost was up 1% QoQ at Rs8.7bn. R&D cost came at 6.7% of sales; down 4% YoY. Resultant PAT came at Rs5.7bn, down 29% YoY vs our est of Rs7.5bn.
- Key concall takeaways:** (1) Company launched 7 new products including 4 injectables in the US market; Filed 10 ANDAs including 3 injectables 2) Witnessed 9% price erosion in base business in US for 9M. However, mgmt. indicated that pricing pressures has bottomed out for normal products. 3) Global injectable sales at \$110mn includes \$65mn sales from US. Company guided for scheduled launch of 10-15 injectable products FY23 onwards which will aid double digit growth in injectable sales 4) Given strong free cash flow generation, company will explore inorganic opportunities such as foraying into domestic formulation segment. Guided for Rs10bn of revenues in 3 years with commercialization of first product. 5) Company has started work on PLI project with focus only on Pencillin products with revised capex of Rs18.5bn. Dropped other 2 products given lack of feasibility. (6) Guided for recovery in GM in Q4 with recovery from FY23. (7) Company has filed its 2<sup>nd</sup> oncology biosimilar product with EU agency in Jan'22, its immunology product's phase wise trial is on track while other biosimilar's clinical trials are likely to start in FY24. (8) Net cash stands at \$211mn vs \$35mn QoQ.

**Exhibit 1: 3QFY22 Result Overview (Rs m) : Cost headwind drag the margins**

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	YoY gr. (%)	9MFY22	9MFY21	YoY gr. (%)
<b>Net Sales</b>	<b>60,022</b>	<b>63,649</b>	<b>(5.7)</b>	<b>59,419</b>	<b>1.0</b>	<b>176,461</b>	<b>187,731</b>	<b>(6.0)</b>
Raw Material	27,442	25,723	6.7	25,056	9.5	76,161	74,954	1.6
<i>% of Net Sales</i>	<i>45.7</i>	<i>40.4</i>		<i>42.2</i>		<i>43.2</i>	<i>39.9</i>	
Personnel Cost	8,689	8,807	(1.3)	8,589	1.2	25,977	26,806	(3.1)
<i>% of Net Sales</i>	<i>14.5</i>	<i>13.8</i>		<i>14.5</i>		<i>14.7</i>	<i>14.3</i>	
Others	13,728	15,433	(11.0)	13,907	(1.3)	40,200	44,784	(10.2)
<i>% of Net Sales</i>	<i>22.9</i>	<i>24.2</i>		<i>23.4</i>		<i>22.8</i>	<i>23.9</i>	
Total Expenditure	49,860	49,963	(0.2)	47,552	4.9	142,338	146,544	(2.9)
<b>EBITDA</b>	<b>10,163</b>	<b>13,686</b>	<b>(25.7)</b>	<b>11,867</b>	<b>(14.4)</b>	<b>34,124</b>	<b>41,187</b>	<b>(17.2)</b>
<i>Margin (%)</i>	<i>16.9</i>	<i>21.5</i>		<i>20.0</i>		<i>19.3</i>	<i>21.9</i>	
Depreciation	2,991	2,765	8.1	2,942	1.6	8,730	7,894	10.6
<b>EBIT</b>	<b>7,172</b>	<b>10,921</b>	<b>(34.3)</b>	<b>8,925</b>	<b>(19.6)</b>	<b>25,394</b>	<b>33,294</b>	<b>(23.7)</b>
Other Income	650	1,334	(51.3)	966	(32.7)	2,715	3,027	(10.3)
Interest	161	195	(17.2)	104	54.8	394	563	(29.9)
<b>PBT</b>	<b>7,661</b>	<b>12,060</b>	<b>(36.5)</b>	<b>9,787</b>	<b>(21.7)</b>	<b>27,715</b>	<b>35,758</b>	<b>(22.5)</b>
Extra-Ord. Inc./Exps.	348	21,098		-		348	21,098	
Total Taxes	1,895	3,550	(46.6)	2,709	(30.1)	7,081	10,460	(32.3)
<i>ETR (%)</i>	<i>24.7</i>	<i>29.4</i>		<i>27.7</i>		<i>25.6</i>	<i>29.3</i>	
Minority interest	71	145		111		271	470	
<b>Reported PAT</b>	<b>6,043</b>	<b>29,463</b>	<b>(79.5)</b>	<b>6,967</b>	<b>(13.3)</b>	<b>20,710</b>	<b>45,927</b>	<b>(54.9)</b>

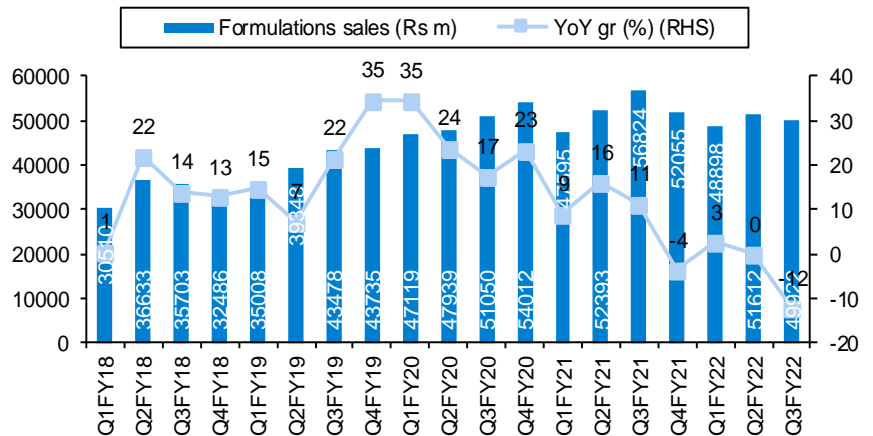
Source: Company, PL

**Exhibit 2: Major Sources of Revenue**

Major sources of revenues	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	YoY gr. (%)	9MFY22	9MFY21	YoY gr. (%)
<b>Formulations</b>	<b>49,922</b>	<b>56,824</b>	<b>(12.1)</b>	<b>51,612</b>	<b>(3.3)</b>	<b>150,432</b>	<b>156,812</b>	<b>(4.1)</b>
<i>% of Net Sales</i>	<i>83.2%</i>	<i>89.3%</i>		<i>86.9%</i>		<i>85.3%</i>	<i>87.3%</i>	
USA	27,452	31,716	(13.4)	29,676	(7.5)	83,940	86,691	(3.2)
<i>% of Net Sales</i>	<i>45.7%</i>	<i>49.8%</i>		<i>49.9%</i>		<i>47.6%</i>	<i>48.2%</i>	
Europe & Emerging Markets	20,913	20,674	1.2	20,486	2.1	60,521	56,405	7.3
<i>% of Net Sales</i>	<i>34.8%</i>	<i>32.5%</i>		<i>34.5%</i>		<i>34.3%</i>	<i>31.4%</i>	
ARV	1,557	4,434	(64.9)	1,450	7.4	5,971	13,716	(56.5)
<i>% of Net Sales</i>	<i>2.6%</i>	<i>7.0%</i>		<i>2.4%</i>		<i>3.4%</i>	<i>7.6%</i>	
<b>API</b>	<b>10,100</b>	<b>6,824</b>	<b>48.0</b>	<b>7,806</b>	<b>29.4</b>	<b>26,025</b>	<b>22,915</b>	<b>13.6</b>
<i>% of Net Sales</i>	<i>16.8%</i>	<i>10.7%</i>		<i>13.1%</i>		<i>14.7%</i>	<i>12.7%</i>	
Betalactam	6,838	3,868	76.8	4,208	62.5	14,882	13,215	12.6
<i>% of Net Sales</i>	<i>11.4%</i>	<i>6.1%</i>		<i>7.1%</i>		<i>8.4%</i>	<i>7.4%</i>	
Non-Betalactam	3,262	2,956	10.4	3,598	(9.3)	11,143	9,700	14.9
<i>% of Net Sales</i>	<i>5.4%</i>	<i>4.6%</i>		<i>6.1%</i>		<i>6.3%</i>	<i>5.4%</i>	

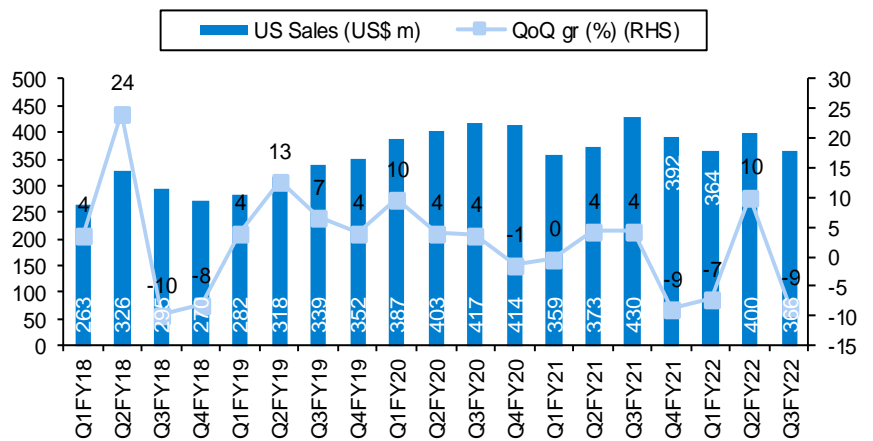
Source: Company, PL

**Exhibit 3: Major Formulation sales & growth**



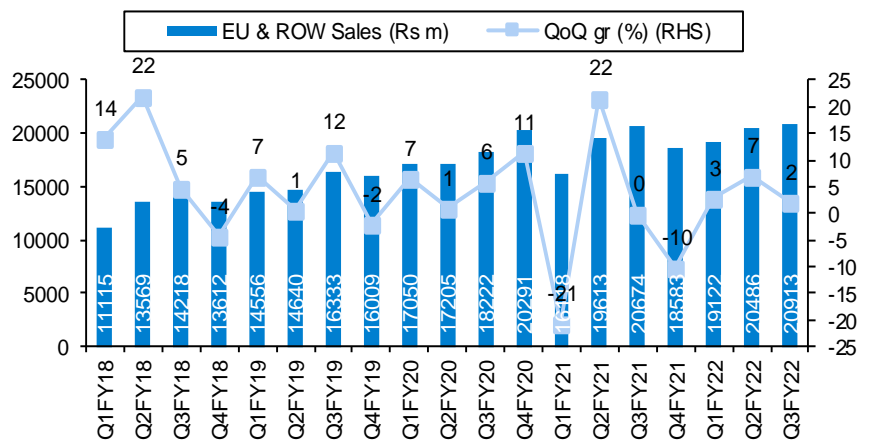
Source: Company, PL

**Exhibit 4: US sales(US\$m): Growth impacted on price erosion**



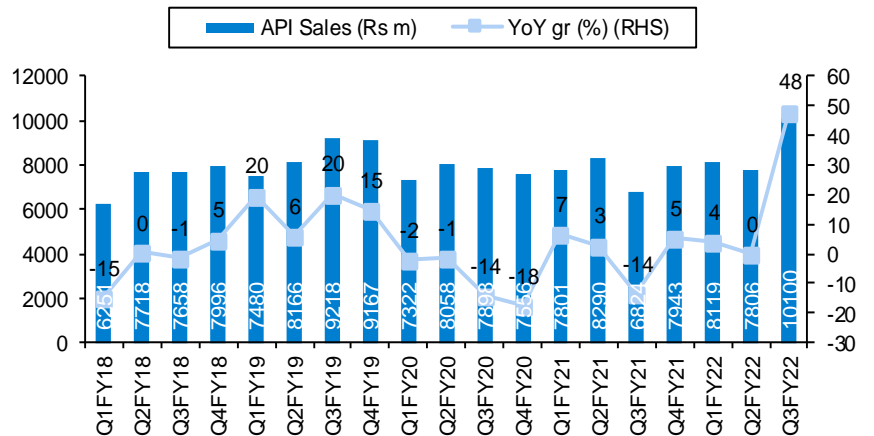
Source: Company, PL

**Exhibit 5: EU & ROW sales: Moderate growth in EU**



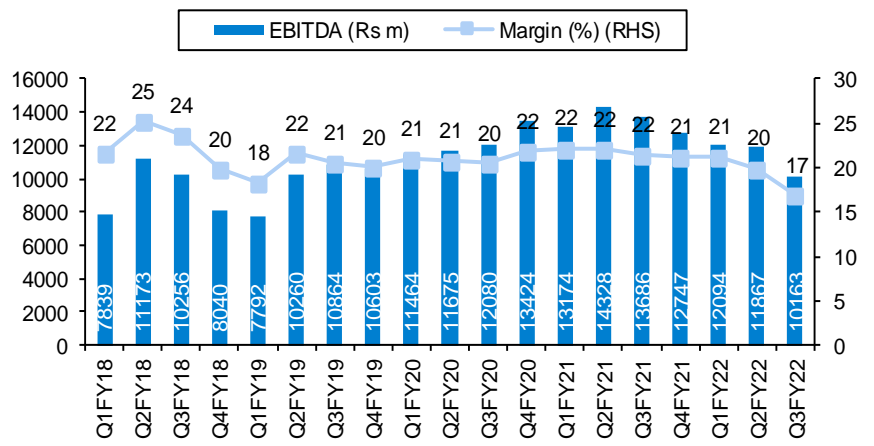
Source: Company, PL

**Exhibit 6: API Sales (Rs m): Demand improved for key products**



Source: Company, PL Higher RM cost impact

**Exhibit 7: EBITDA (Rs m) and EBITDAM: lower GM & changed product mix impacted the margins**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>248,145</b>	<b>235,790</b>	<b>252,076</b>	<b>274,036</b>
YoY gr. (%)	7.2	(5.0)	6.9	8.7
Cost of Goods Sold	99,025	102,569	105,872	112,355
Gross Profit	149,120	133,221	146,204	161,681
Margin (%)	60.1	56.5	58.0	59.0
Employee Cost	35,350	34,820	37,606	40,614
Other Expenses	60,037	53,700	56,327	60,056
<b>EBITDA</b>	<b>53,733</b>	<b>44,701</b>	<b>52,272</b>	<b>61,011</b>
YoY gr. (%)	9.6	(16.8)	16.9	16.7
Margin (%)	21.7	19.0	20.7	22.3
Depreciation and Amortization	10,554	11,609	12,422	13,291
<b>EBIT</b>	<b>43,179</b>	<b>33,092</b>	<b>39,850</b>	<b>47,720</b>
Margin (%)	17.4	14.0	15.8	17.4
Net Interest	745	500	300	200
Other Income	3,808	3,343	3,449	3,770
<b>Profit Before Tax</b>	<b>46,243</b>	<b>35,935</b>	<b>42,999</b>	<b>51,289</b>
Margin (%)	18.6	15.2	17.1	18.7
Total Tax	20,098	9,163	10,965	13,079
Effective tax rate (%)	43.5	25.5	25.5	25.5
<b>Profit after tax</b>	<b>26,145</b>	<b>26,771</b>	<b>32,034</b>	<b>38,210</b>
Minority interest	543	350	300	300
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>53,747</b>	<b>26,769</b>	<b>31,734</b>	<b>37,910</b>
YoY gr. (%)	86.3	(50.2)	18.5	19.5
Margin (%)	21.7	11.4	12.6	13.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>53,747</b>	<b>26,769</b>	<b>31,734</b>	<b>37,910</b>
YoY gr. (%)	86.3	(50.2)	18.5	19.5
Margin (%)	21.7	11.4	12.6	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	53,747	26,769	31,734	37,910
<b>Equity Shares O/s (m)</b>	<b>586</b>	<b>586</b>	<b>586</b>	<b>586</b>
<b>EPS (Rs)</b>	<b>91.7</b>	<b>45.7</b>	<b>54.2</b>	<b>64.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>140,511</b>	<b>154,511</b>	<b>168,511</b>	<b>182,511</b>
Tangibles	140,511	154,511	168,511	182,511
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>40,449</b>	<b>52,058</b>	<b>64,480</b>	<b>77,771</b>
Tangibles	40,449	52,058	64,480	77,771
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>100,062</b>	<b>102,453</b>	<b>104,031</b>	<b>104,740</b>
Tangibles	100,062	102,453	104,031	104,740
Intangibles	-	-	-	-
Capital Work In Progress	24,289	24,289	24,289	24,289
Goodwill	-	-	-	-
Non-Current Investments	5,910	5,910	5,910	5,910
Net Deferred tax assets	(1,219)	(1,219)	(1,219)	(1,219)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	90,266	82,042	86,327	93,848
Trade receivables	35,033	38,760	39,365	42,795
Cash & Bank Balance	54,743	66,145	77,555	89,980
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>333,177</b>	<b>344,760</b>	<b>365,156</b>	<b>392,007</b>
<b>Equity</b>				
Equity Share Capital	586	586	586	586
Other Equity	218,713	242,053	270,364	304,508
<b>Total Network</b>	<b>219,299</b>	<b>242,639</b>	<b>270,950</b>	<b>305,094</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	48,027	38,027	28,027	18,027
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,684	1,684	1,684	1,684
Trade payables	27,947	25,840	27,625	30,031
Other current liabilities	35,011	35,011	35,011	35,011
<b>Total Equity &amp; Liabilities</b>	<b>333,177</b>	<b>344,760</b>	<b>365,156</b>	<b>392,007</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	46,243	35,935	42,999	51,289
Add. Depreciation	10,554	11,609	12,422	13,291
Add. Interest	745	500	300	200
Less Financial Other Income	3,808	3,343	3,449	3,770
Add. Other	(1,078)	-	-	-
Op. profit before WC changes	56,463	48,044	55,721	64,780
Net Changes-WC	(10,668)	102	(5,622)	(11,311)
Direct tax	(12,853)	(9,163)	(10,965)	(13,079)
<b>Net cash from Op. activities</b>	<b>32,943</b>	<b>38,983</b>	<b>39,134</b>	<b>40,391</b>
Capital expenditures	(24,557)	(14,000)	(14,000)	(14,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(24,557)</b>	<b>(14,000)</b>	<b>(14,000)</b>	<b>(14,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(11,370)	(10,000)	(10,000)	(10,000)
Dividend paid	(2,343)	(3,081)	(3,423)	(3,766)
Interest paid	(745)	(500)	(300)	(200)
Others	32,393	-	-	-
<b>Net cash from Fin. activities</b>	<b>17,935</b>	<b>(13,581)</b>	<b>(13,723)</b>	<b>(13,966)</b>
<b>Net change in cash</b>	<b>26,321</b>	<b>11,402</b>	<b>11,410</b>	<b>12,425</b>
Free Cash Flow	14,205	24,983	25,134	26,391

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>63,649</b>	<b>60,015</b>	<b>57,020</b>	<b>59,419</b>
YoY gr. (%)	8.0	(2.5)	(3.8)	(8.4)
Raw Material Expenses	25,723	24,071	23,662	25,056
Gross Profit	37,926	35,944	33,358	34,363
Margin (%)	59.6	59.9	58.5	57.8
<b>EBITDA</b>	<b>13,686</b>	<b>12,747</b>	<b>12,094</b>	<b>11,867</b>
YoY gr. (%)	13.3	(5.0)	(8.2)	(17.2)
Margin (%)	21.5	21.2	21.2	20.0
Depreciation / Depletion	2,765	2,660	2,797	2,942
<b>EBIT</b>	<b>10,921</b>	<b>10,087</b>	<b>9,297</b>	<b>8,925</b>
Margin (%)	17.2	16.8	16.3	15.0
Net Interest	195	182	129	104
Other Income	1,334	781	1,099	966
<b>Profit before Tax</b>	<b>12,060</b>	<b>10,686</b>	<b>10,267</b>	<b>9,787</b>
Margin (%)	18.9	17.8	18.0	16.5
Total Tax	3,550	2,597	2,477	2,709
Effective tax rate (%)	29.4	24.3	24.1	27.7
<b>Profit after Tax</b>	<b>8,509</b>	<b>8,089</b>	<b>7,790</b>	<b>7,078</b>
Minority interest	145	84	90	111
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>29,463</b>	<b>8,012</b>	<b>7,700</b>	<b>6,967</b>
YoY gr. (%)	317.7	(5.6)	(8.4)	(13.5)
Margin (%)	46.3	13.3	13.5	11.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>29,463</b>	<b>8,012</b>	<b>7,700</b>	<b>6,967</b>
YoY gr. (%)	317.7	(5.6)	(8.4)	(13.5)
Margin (%)	46.3	13.3	13.5	11.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>29,463</b>	<b>8,012</b>	<b>7,700</b>	<b>6,967</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>14.3</b>	<b>13.7</b>	<b>13.1</b>	<b>11.9</b>

Source: Company Data, PL Research

**Key Financial Metrics**

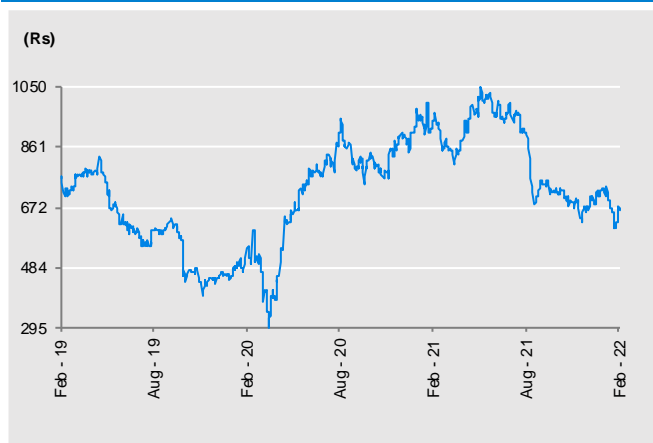
Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	91.7	45.7	54.2	64.7
CEPS	109.7	65.5	75.4	87.4
BVPS	374.3	414.1	462.5	520.7
FCF	24.2	42.6	42.9	45.0
DPS	4.0	4.5	5.0	5.5
<b>Return Ratio(%)</b>				
RoCE	17.5	12.0	13.7	15.3
ROIC	15.5	11.9	13.9	15.8
RoE	27.7	11.6	12.4	13.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	143	147	142	142
<b>Valuation(x)</b>				
PER	7.5	15.0	12.6	10.6
P/B	1.8	1.7	1.5	1.3
P/CEPS	6.2	10.4	9.1	7.8
EV/EBITDA	7.4	8.4	6.8	5.4
EV/Sales	1.6	1.6	1.4	1.2
Dividend Yield (%)	0.6	0.7	0.7	0.8

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22E	FY23E	FY24E
US Formulations	115,259	112,410	121,057	131,688
EU & ROW	83,001	81,446	85,567	94,180
ARV formulations	18,628	7,791	9,313	9,499
APIs	30,859	34,142	36,139	38,669

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-22	Accumulate	780	710
2	10-Nov-21	Accumulate	780	677

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	780	710
2	Cadila Healthcare	Accumulate	465	408
3	Cipla	BUY	1,100	906
4	Divi's Laboratories	Accumulate	4,750	4,517
5	Dr. Reddy's Laboratories	BUY	5,200	4,219
6	Eris Lifesciences	BUY	880	695
7	Glenmark Pharmaceuticals	Accumulate	600	511
8	Indoco Remedies	Accumulate	460	398
9	Ipca Laboratories	BUY	2,450	2,200
10	Lupin	Accumulate	950	872
11	Sun Pharmaceutical Industries	BUY	1,050	835
12	Torrent Pharmaceuticals	BUY	3,560	3,161

**PL's Recommendation Nomenclature (Absolute Performance)**

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





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