

August 15, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	635		635	
Sales (Rs. m)	2,56,029	2,71,645	2,47,762	2,67,534
% Chng.	3.3	1.5		
EBITDA (Rs. m)	45,939	51,000	46,294	52,111
% Chng.	(0.8)	(2.1)		
EPS (Rs.)	45.3	51.9	46.1	52.7
% Chng.	(1.7)	(1.4)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	2,47,718	2,34,543	2,56,029	2,71,645
EBITDA (Rs. m)	53,306	43,856	45,939	51,000
Margin (%)	21.5	18.7	17.9	18.8
PAT (Rs. m)	53,348	26,476	26,541	30,421
EPS (Rs.)	91.1	45.2	45.3	51.9
Gr. (%)	87.5	(50.4)	0.2	14.6
DPS (Rs.)	4.0	4.5	5.0	5.5
Yield (%)	0.7	0.8	0.8	0.9
RoE (%)	27.5	11.4	10.3	10.8
RoCE (%)	17.4	12.1	12.2	12.9
EV/Sales (x)	1.4	1.4	1.3	1.2
EV/EBITDA (x)	6.4	7.5	7.3	6.5
PE (x)	6.5	13.1	13.1	11.4
P/BV (x)	1.6	1.4	1.3	1.2

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.864 / Rs.503
Sensex / Nifty	59,463 / 17,698
Market Cap	Rs.348bn / \$ 4,365m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.1092.66m

Shareholding Pattern (%)

Promoter's	51.83
Foreign	20.71
Domestic Institution	15.59
Public & Others	11.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.9	(15.2)	(28.2)
Relative	0.5	(17.1)	(33.8)

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US scale up is key

Quick Pointers:

- US sales was healthy QoQ; price erosion to tune of 2-3% in Q1.
- Strong operating cash flow; net cash stands at \$337mn.

Aurobindo Pharma's (ARBP) operating performance continued to remain weak in Q1FY23, given cost headwinds. We believe cost pressures to remain in near term and margin trajectory should improve from H2FY23. 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 FY24. At CMP, stock is trading at 11.4x FY24E P/E. We broadly maintained our estimates. We recommend 'Accumulate' with TP of Rs635.

- Healthy US sales; EU remain weak:** Formulations business sales grew 9% YoY and QoQ at Rs53bn. US revenue came at \$385m (up 6% QoQ) against our est of \$365mn, primarily on volume growth and lower than expected price erosion. EU sales declined by 2% YoY, while RoW business grew 30% YoY aided by domestic formulation consolidation. ARV sales improved by 28% YoY to Rs 3.8bn (up 10% QoQ) above our est. API sales grew strongly by 12% YoY on increased demand in key products.
- Adjusted EBIDTA in line with our estimates:** Gross margins came in at 53.7% (down 280bps) on higher input cost. Moreover, other expenses were up 3% QoQ and up 20% YoY mainly led by higher freight cost and one off expenses to tune of Rs600mn. R&D cost came at 5% of sales; down 13% YoY. Resultant EBIDTA came in at Rs9.7bn (down 1% QoQ). Adjusted for one off EBIDTA was in line with our estimate. There was forex loss to the tune of Rs282mn. Tax rate came in at 23.2%. Resultant PAT came in at Rs5.2bn, down 10% QoQ vs our est of Rs6bn.
- Key concall takeaways: (1)** Other expenses included one off Rs600mn related to reschedule of production process to meet certain regulatory compliance **(2)** Company launched 7 new products including 4 injectable in the US market; Filed 13 ANDAs including 4 injectable in Q1. **(3)** Overall reported global injectable sales of \$72mn in Q1FY23; guided for double digit growth aided by new launches and maintain its \$650-700mn sales guidance over next 2-3 years. Expect to file and launch 20-30 products annually from FY24 onwards **(3)** Witnessed 2-3% price erosion in base business in US in Q1 which was negated by volume growth. Expects to minimize impact by new launches. **(4)** Mgt expects 5-8% growth for EU market in FY23 on stable business growth. **(5)** Capex was \$61mn in Q1 of which \$8mn towards PLI scheme. Net cash stands at \$337mn **(6)** Currently have 225 pending ANDAs in US including tentative approvals. Looking for more 50 products to file in near term. Potentially to add \$300-350mn sales over next 2 years **(7)** Company working on commissioning of additional six plants for different projects which will drive the growth in coming years.

Exhibit 1: 1QFY22 Result Overview (Rs m) : Weak margins

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	62,359	57,020	9.4	58,094	7.3
Raw Material	28,867	23,662	22.0	25,242	14.4
<i>% of Net Sales</i>	<i>46.3</i>	<i>41.5</i>		<i>43.5</i>	
Personnel Cost	8,802	8,699	1.2	8,532	3.2
<i>% of Net Sales</i>	<i>14.1</i>	<i>15.3</i>		<i>14.7</i>	
Others	15,043	12,564	19.7	14,575	3.2
<i>% of Net Sales</i>	<i>24.1</i>	<i>22.0</i>		<i>25.1</i>	
Total Expenditure	52,712	44,926	17.3	48,350	9.0
EBITDA	9,647	12,094	(20.2)	9,744	(1.0)
<i>Margin (%)</i>	<i>15.5</i>	<i>21.2</i>		<i>16.8</i>	
Depreciation	2,795	2,797	(0.1)	2,536	10.2
EBIT	6,852	9,297	(26.3)	7,208	(4.9)
Other Income	124	1,099	(88.8)	489	(74.7)
Interest	146	129	13.6	92	58.8
PBT	6,830	10,267	(33.5)	7,605	(10.2)
Extra-Ord. Inc./Exps.	-	-		(1,628)	
Total Taxes	1,586	2,477	(36.0)	175	806.9
<i>ETR (%)</i>	<i>23.2</i>	<i>24.1</i>		<i>2.3</i>	
Minority interest	40	90		41	
Reported PAT	5,204	7,700	(32.4)	5,761	(9.7)

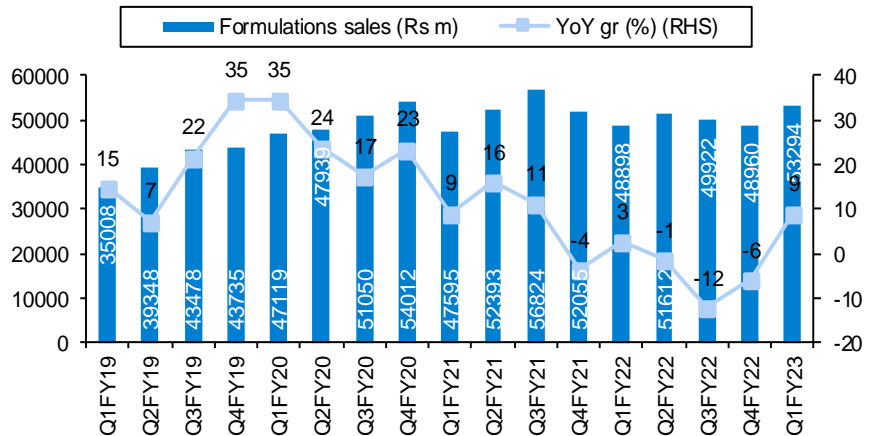
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Formulations	53,294	48,898	9.0	48,960	8.9
<i>% of Net Sales</i>	<i>85.5</i>	<i>85.8</i>		<i>84.3</i>	
USA	29,711	26,812	10.8	27,281	8.9
<i>% of Net Sales</i>	<i>47.6</i>	<i>47.0</i>		<i>47.0</i>	
Europe & Emerging Markets	19,787	19,122	3.5	19,320	2.4
<i>% of Net Sales</i>	<i>31.7</i>	<i>33.5</i>		<i>33.3</i>	
ARV	3,796	2,964	28.1	2,359	60.9
<i>% of Net Sales</i>	<i>6.1</i>	<i>5.2</i>		<i>4.1</i>	
API	9,065	8,119	11.7	9,129	(0.7)
<i>% of Net Sales</i>	<i>14.5</i>	<i>14.2</i>		<i>15.7</i>	
Betalactum	5,514	3,836	43.7	5,942	(7.2)
<i>% of Net Sales</i>	<i>8.8</i>	<i>6.7</i>		<i>10.2</i>	
Non-Betalactum	3,551	4,283	(17.1)	3,187	11.4
<i>% of Net Sales</i>	<i>5.7</i>	<i>7.5</i>		<i>5.5</i>	<i>8.9</i>

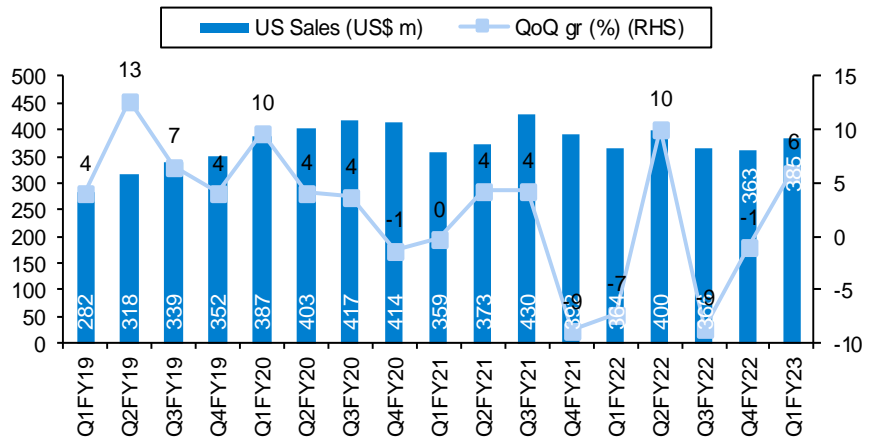
Source: Company, PL

Exhibit 3: Major Formulation sales & growth



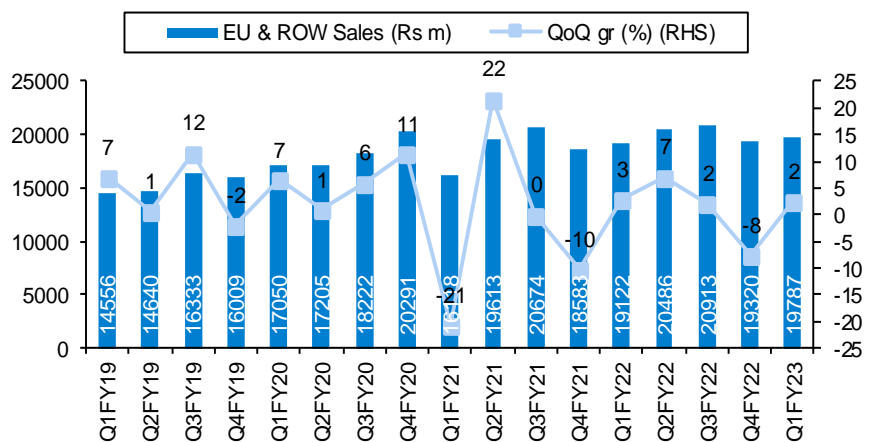
Source: Company, PL

Exhibit 4: US sales(US\$m): Growth driven by volume



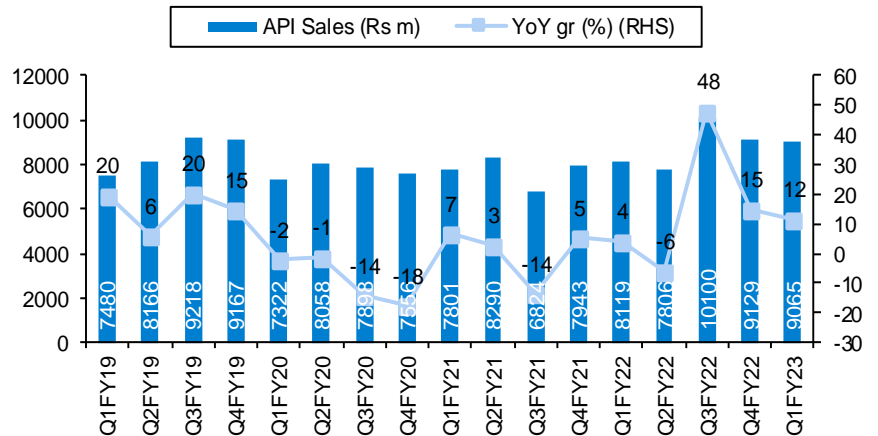
Source: Company, PL

Exhibit 5: EU & ROW sales: Muted EU; likely to ramp-up on new launches



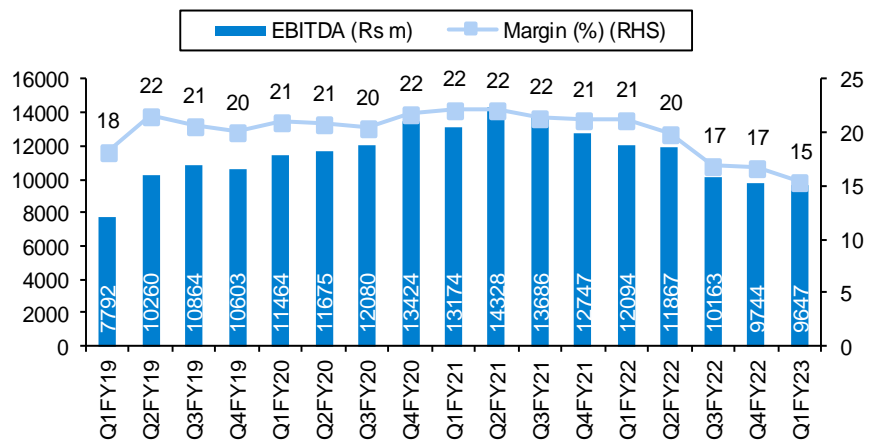
Source: Company, PL

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: Higher overheads and one time Rs600mn exps in Q1 impacted the margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	2,47,718	2,34,543	2,56,029	2,71,645
YoY gr. (%)	7.2	(5.3)	9.2	6.1
Cost of Goods Sold	99,025	1,01,403	1,13,933	1,17,622
Gross Profit	1,48,693	1,33,140	1,42,096	1,54,023
Margin (%)	60.0	56.8	55.5	56.7
Employee Cost	35,350	34,509	37,270	40,252
Other Expenses	60,037	54,775	58,887	62,772
EBITDA	53,306	43,856	45,939	51,000
YoY gr. (%)	9.6	(17.7)	4.8	11.0
Margin (%)	21.5	18.7	17.9	18.8
Depreciation and Amortization	10,554	11,265	11,828	12,538
EBIT	42,752	32,591	34,111	38,461
Margin (%)	17.3	13.9	13.3	14.2
Net Interest	745	486	400	300
Other Income	3,836	3,210	2,318	2,800
Profit Before Tax	45,844	35,314	36,029	40,961
Margin (%)	18.5	15.1	14.1	15.1
Total Tax	20,098	7,256	9,187	10,240
Effective tax rate (%)	43.8	20.5	25.5	25.0
Profit after tax	25,746	28,057	26,841	30,721
Minority interest	543	302	300	300
Share Profit from Associate	-	-	-	-
Adjusted PAT	53,348	26,476	26,541	30,421
YoY gr. (%)	87.5	(50.4)	0.2	14.6
Margin (%)	21.5	11.3	10.4	11.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	53,348	26,476	26,541	30,421
YoY gr. (%)	87.5	(50.4)	0.2	14.6
Margin (%)	21.5	11.3	10.4	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	53,348	26,476	26,541	30,421
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	91.1	45.2	45.3	51.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	1,40,511	1,65,131	1,92,131	2,17,131
Tangibles	1,40,511	1,65,131	1,92,131	2,17,131
Intangibles	-	-	-	-
Acc: Dep / Amortization	40,449	51,714	63,542	76,080
Tangibles	40,449	51,714	63,542	76,080
Intangibles	-	-	-	-
Net fixed assets	1,00,062	1,13,417	1,28,589	1,41,051
Tangibles	1,00,062	1,13,417	1,28,589	1,41,051
Intangibles	-	-	-	-
Capital Work In Progress	24,289	29,376	29,376	29,376
Goodwill	-	-	-	-
Non-Current Investments	5,910	9,972	9,972	9,972
Net Deferred tax assets	(1,219)	(1,224)	(1,224)	(1,224)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	90,266	75,539	87,681	93,029
Trade receivables	35,033	40,123	39,983	42,421
Cash & Bank Balance	54,743	41,900	31,650	32,294
Other Current Assets	-	-	-	-
Total Assets	3,33,177	3,35,540	3,54,986	3,78,652
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,18,713	2,45,174	2,68,292	2,94,947
Total Networkth	2,19,299	2,45,760	2,68,878	2,95,533
Non-Current Liabilities				
Long Term borrowings	48,027	21,236	16,236	11,236
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,684	2,492	2,492	2,492
Trade payables	27,947	27,031	28,058	29,769
Other current liabilities	35,011	37,818	37,818	37,818
Total Equity & Liabilities	3,33,177	3,35,540	3,54,986	3,78,652

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	45,844	35,314	36,029	40,961
Add. Depreciation	10,554	11,265	11,828	12,538
Add. Interest	745	486	400	300
Less Financial Other Income	3,836	3,210	2,318	2,800
Add. Other	(1,078)	103	-	-
Op. profit before WC changes	56,064	47,168	48,257	53,800
Net Changes-WC	(10,668)	15,578	(13,497)	(8,849)
Direct tax	(12,853)	(12,582)	(9,187)	(10,240)
Net cash from Op. activities	32,544	50,165	25,573	34,710
Capital expenditures	(24,557)	(30,772)	(27,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(24,557)	(30,772)	(27,000)	(25,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(11,370)	(26,367)	(5,000)	(5,000)
Dividend paid	(2,343)	(2,637)	(3,423)	(3,766)
Interest paid	(745)	(486)	(400)	(300)
Others	32,792	(2,745)	-	-
Net cash from Fin. activities	18,334	(32,235)	(8,823)	(9,066)
Net change in cash	26,321	(12,843)	(10,250)	645
Free Cash Flow	13,806	23,118	(1,427)	9,710

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	59,419	60,022	58,094	62,359
YoY gr. (%)	(8.4)	(5.7)	(3.2)	9.4
Raw Material Expenses	25,056	27,442	25,242	28,867
Gross Profit	34,363	32,580	32,852	33,492
Margin (%)	57.8	54.3	56.5	53.7
EBITDA	11,867	10,163	9,744	9,647
YoY gr. (%)	(17.2)	(25.7)	(23.6)	(20.2)
Margin (%)	20.0	16.9	16.8	15.5
Depreciation / Depletion	2,942	2,991	2,536	2,795
EBIT	8,925	7,172	7,208	6,852
Margin (%)	15.0	11.9	12.4	11.0
Net Interest	104	161	92	146
Other Income	966	650	489	124
Profit before Tax	9,787	7,661	7,605	6,830
Margin (%)	16.5	12.8	13.1	11.0
Total Tax	2,709	1,895	175	1,586
Effective tax rate (%)	27.7	24.7	2.3	23.2
Profit after Tax	7,078	5,766	7,430	5,243
Minority interest	111	71	41	40
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,967	6,043	5,761	5,204
YoY gr. (%)	(13.5)	(79.5)	(28.1)	(32.4)
Margin (%)	11.7	10.1	9.9	8.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,967	6,043	5,761	5,204
YoY gr. (%)	(13.5)	(79.5)	(28.1)	(32.4)
Margin (%)	11.7	10.1	9.9	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,967	6,043	5,761	5,204
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	11.9	9.7	12.6	8.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	91.1	45.2	45.3	51.9
CEPS	109.1	64.4	65.5	73.3
BVPS	374.3	419.5	458.9	504.4
FCF	23.6	39.5	(2.4)	16.6
DPS	4.0	4.5	5.0	5.5
Return Ratio(%)				
RoCE	17.4	12.1	12.2	12.9
ROIC	15.4	11.1	10.5	11.1
RoE	27.5	11.4	10.3	10.8
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	0.0	(0.1)
Net Working Capital (Days)	143	138	142	142
Valuation(x)				
PER	6.5	13.1	13.1	11.4
P/B	1.6	1.4	1.3	1.2
P/CEPS	5.4	9.2	9.1	8.1
EV/EBITDA	6.4	7.5	7.3	6.5
EV/Sales	1.4	1.4	1.3	1.2
Dividend Yield (%)	0.7	0.8	0.8	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
US Formulations	1,12,306	1,11,221	1,20,946	1,26,103
EU & ROW	85,953	79,842	85,531	92,613
ARV formulations	18,628	8,330	12,352	13,125
APIs	30,859	35,156	37,200	39,804

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Accumulate	635	544
2	01-Jun-22	Accumulate	635	534
3	08-Apr-22	Accumulate	759	699
4	10-Feb-22	Accumulate	759	684
5	07-Jan-22	Accumulate	780	710
6	10-Nov-21	Accumulate	780	677

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	Hold	1,010	1,016
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,262
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	362
17	Narayana Hrudayalaya	BUY	810	686
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	425	364

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



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