

Aurobindo Pharma Ltd.



Aurobindo Pharma Ltd.

Strong growth in the US and injectables to drive margins

CMP INR 580	Target INR 626	Potential Upside 7.9%	Market Cap (INR Mn) INR 3,39,780	Recommendation ACCUMULATE	Sector Pharmaceuticals
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Result Highlights of Q1FY23:

- Aurobindo reported revenue growth of 9.4% YoY (+7.3% QoQ) to INR 62.36 bn in Q1FY23 after a continuous decline in growth, on a YoY basis, over the last few quarters. This improvement was the result of a return of growth in the US, strong growth in Growth markets, and robust growth posted in Anti-Retroviral (ARV) segment.
- Gross Profit Margins (GPMs) declined 479 bps YoY (-284 bps QoQ) to 53.7% in Q1FY23 due to increased raw materials costs, YoY and QoQ, in Q1FY23. EBITDA Margins for the quarter declined 574 bps YoY (-130 bps QoQ) to 15.5% and EBITDA declined 20.2% YoY (-1.0% QoQ) to INR 9.65 bn in Q1FY23.
- Injectables revenue now forms 26.3% of the US revenue vs. 24.6% it was in Q1FY22 and 26.8% it was in Q4FY22.

MARKET DATA

Shares outs (Mn)	586
Equity Cap (INR Mn)	245,741
Mkt Cap (INR Mn)	3,39,780
52 Wk H/L (INR)	767/503
Volume Avg (3m K)	1,774
Face Value (INR)	1
Bloomberg Code	ARBP IS Equity

KEY FINANCIALS

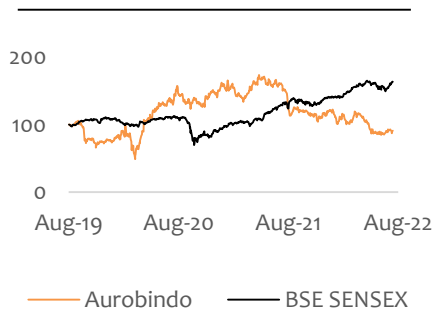
INR Millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,30,985	2,47,746	2,34,555	2,57,189	2,76,881
EBITDA	48,643	53,334	43,868	42,250	50,968
Adj PAT	28,968	25,203	27,062	26,560	34,925
Adj. EPS (INR)	49.44	43.02	46.19	45.33	59.61
EBITDA Margin (%)	21.1%	21.5%	18.7%	16.4%	18.4%
NPM (%)	12.5%	10.2%	11.5%	10.3%	12.6%

Source: Company, KRChoksey Research

Revenue grows in Q1FY23: Aurobindo reported revenue growth of 9.4% YoY (+7.3% QoQ) to INR 62.36 bn in Q1FY23 after a continuous decline in growth, over the last few quarters. This improvement was the result of a return of growth in the US, strong growth in Growth markets, and robust growth posted in Anti-Retroviral (ARV) segment. Growth markets include INR 456.0 mn of domestic formulations revenue in Q1FY23. The US segment (47.6% of total revenue) revenue increased at 10.8% YoY (+8.9% QoQ), Growth Markets (6.9%) revenue rose by 30.8% YoY (+10.0% QoQ), and ARV segment revenue (6.1%) increased at a strong pace of 28.1% YoY (+60.9% QoQ) in Q1FY23. At the same time, API revenue (14.5%) increased at 11.7% YoY (-0.7% QoQ) while Europe formulation revenue (24.8%) declined at 2.2% YoY (+0.5% QoQ) in Q1FY23. The growth in the US was partially driven by forex gains and partly due to strong growth seen in injectable revenue, YoY, in Q1FY23. The company is the largest generics company in the US by Rx dispensed (Source: IQVIA MAT June 22). Injectables revenue now forms 26.3% of the US revenue vs. 24.6% it was in Q1FY22 and 26.8% it was in Q4FY22. The company has filed 13 ANDAs including 4 injectables in Q1FY23 vs. 8 ANDAs including 2 injectables in Q1FY22 and 14 ANDAs including 3 injectables in Q4FY22. The company has launched 7 products including 5 injectables in Q1FY23 vs. 5 products in Q1FY22 vs. 4 products including 1 injectable in Q4FY22. The higher pace of injectable launches in Q1FY23 is a positive. Europe revenue was affected by unfavorable currency movement, as on a constant currency basis it grew at 5.9% YoY to EUR 189.0 mn in Q1FY23. Growth markets performance was driven by strong growth in Canada.

Profitability declined YoY and QoQ: Gross Profit Margins (GPMs) declined 479 bps YoY (-284 bps QoQ) to 53.7% in Q1FY23 due to increased raw materials costs, YoY and QoQ, in Q1FY23. EBITDA Margins for the quarter declined 574 bps YoY (-130 bps QoQ) to 15.5% and EBITDA declined 20.2% YoY (-1.0% QoQ) to INR 9.65 bn in Q1FY23. Reported Net Profit declined 32.4% YoY (-9.7% QoQ) to INR 5.20 bn in Q1FY23. Also, Adj. Net Profit (adjusted for exceptional items and foreign exchange gains) declined at 26.0% YoY (-23.7% QoQ) to INR 5.49 bn in Q1FY23 after other income declined by 50.0% YoY (+39.3% QoQ) and interest expenses increased by 13.6% YoY (+58.8% QoQ), unfavorably, in Q1FY23.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,260
NIFTY	17,944

SHARE HOLDING PATTERN (%)

Particulars	June-22 (%)	Mar-22 (%)	Dec-21 (%)
Promoters	51.8	51.8	51.8
FIIs	20.7	20.8	21.4
DIIs	17.3	17.5	16.5
Others	10.2	9.9	10.3
Total	100.0	100.0	100.0

8.6%

Revenue CAGR between FY22 and FY24E

13.6%

Adj. PAT CAGR between FY22 and FY24E

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Key Concall Highlights: (i) Aurobindo Pharma USA's revenue increased 5.0% YoY to USD 214.0 mn in Q1FY23 (ii) The revenue for Auromedics, Injectable business in the US, increased at a higher pace of 16.0% YoY to USD 71.7 mn in Q1FY23 (iii) The company has 741 ANDAs filings, including 516 with final approvals. Nearly 35 of them are Tentative Approvals (TAs) including 8 PEPFAR and the balance of 190 ANDAs are under review, on a cumulative basis, as of Q1FY23 (iv) R&D expenses stood at INR 3.10 bn or 5.0% of the revenue in Q1FY23 (v) Net organic Capex was USD 61.0 mn and an average forex rate was INR 76.98 in Q1FY23 (vi) Net cash from investments was USD 337.0 mn as of Q1FY23 while the average finance cost was 1.8% due to running multiple currency loans. (viii) FCF was USD 121.0 mn, out of which nearly USD 53.0 mn was spent on Capex, another USD 8.0 mn on the PLI project, USD 34.0 mn on dividends, and USD 22.0 mn for the acquisition of the business in Q1FY23 (vii) Due to robust FCF, the company was able to reduce gross debt to USD 277.0 mn as of Q1FY23 from USD 313.0 mn as of Q4FY22 (xi) The company is confident of hitting double-digit growth for Injectables revenue, globally, in FY23, which has been at a single digit growth rate (YoY) in Q1FY23. The global annualized revenue for injectables was at USD 440.0 mn for FY22, which is expected to reach USD 650.0- 700.0 mn by FY24.

Valuation and view

We believe, nearly secular growth across segments, YoY and QoQ, in Q1FY23, is a major positive. It can be attributed to a return of growth in the US, strong growth in Growth markets, and robust growth posted in the Anti-Retroviral (ARV) segment. The cost pressures partially offset by improved growth in the US specialty injectable business should drive margins at an improved pace, going forward. **We expect Aurobindo's revenue and adj. PAT to grow at 8.6% and 13.6% CAGR, respectively, (vs. 8.5%/11.7% CAGR growth before) over FY22-FY24E. Since our last update on the company in June 22, the shares have risen by 9.0%. The stock is trading at 12.8x/9.7x its FY23E/FY24 EPS estimates. We apply the same 10.5x multiple on FY24E EPS of INR 59.61 (vs. earlier INR 57.63) and increase the Target Price (TP) to INR 626 (vs. earlier TP of INR 605). Since it indicates an upside potential of 7.9% over the CMP, we maintain our "ACCUMULATE" rating on the shares of Aurobindo Pharma.**

Segments Result (INR Mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Formulation	48,898	51,612	49,922	48,960	53,294
USA	26,812	29,676	27,452	27,281	29,711
Europe	15,829	16,623	16,943	15,407	15,481
Growth Markets	3,293	3,863	3,970	3,913	4,306
Anti-retrovirals	2,964	1,450	1,557	2,359	3,796
API	8,119	7,807	10,100	9,129	9,065
Betalactum	3,836	4,209	6,838	5,942	5,514
Non-Betalactum	4,283	3,598	3,262	3,187	3,551
Dossier Income	2	0	0	0	0
Revenue from Operations	57,019	59,419	60,022	58,089	62,359

Segments Performance (% YoY)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Formulation	2.7%	-1.5%	-12.1%	-6.0%	9.0%
USA	-1.5%	6.9%	-13.4%	-4.7%	10.8%
Europe	19.7%	9.7%	1.4%	-0.8%	-2.2%
Growth Markets	13.7%	-13.5%	0.2%	28.0%	30.8%
Anti-retrovirals	-30.3%	-71.2%	-64.9%	-52.0%	28.1%
API	4.1%	-5.8%	48.0%	14.9%	11.7%
Betalactum	-23.3%	-3.1%	76.7%	45.4%	43.7%
Non-Betalactum	53.1%	-8.8%	10.4%	-17.4%	-17.1%
Dossier Income	-33%	-100%	NM	-100%	-100%
Revenue from Operations	2.9%	-2.1%	-5.7%	-3.3%	9.4%

Revenue Mix (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Formulation	86%	87%	83%	84%	85%
USA	47%	50%	46%	47%	48%
Europe	28%	28%	28%	27%	25%
Growth Markets	6%	7%	7%	7%	7%
Anti-retrovirals	5%	2%	3%	4%	6%
API	14%	13%	17%	16%	15%
Betalactum	7%	7%	11%	10%	9%
Non-Betalactum	8%	6%	5%	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 20	FY 21	FY 22	FY 23E	FY 24E
Revenues	2,30,985	2,47,746	2,34,555	2,57,189	2,76,881
COGS	97,352	99,025	1,01,403	1,16,602	1,23,198
Gross profit	1,33,633	1,48,722	1,33,152	1,40,587	1,53,683
Employee cost	77,250	83,173	73,718	80,514	85,833
Other expenses	52,798	60,037	54,775	62,036	63,634
EBITDA	48,643	53,334	43,868	42,250	50,968
EBITDA Margin	21.1%	21.5%	18.7%	16.4%	18.4%
Depreciation & amortization	9,667	10,554	11,265	10,607	11,214
EBIT	38,976	42,780	32,603	31,643	39,754
Interest expense	1,598	745	486	558	559
Other income	862	3,808	2,504	2,024	2,293
PBT	37,582	73,990	34,040	33,108	41,488
Tax	9,135	20,098	7,256	6,344	6,344
Minority interest	-15	-10	-10	45	60
PAT	28,310	53,349	26,482	26,560	34,925
Adj. PAT	28,968	25,203	27,062	26,560	34,925
EPS (INR)	48.3	91.0	45.2	45.3	59.6
Adj. EPS	49.4	43.0	46.2	45.3	59.6

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	43,813	33,289	50,165	34,740	39,119
Net Cash Flow from/(used in) Investing Activities	(15,677)	5,987	(32,116)	(2,307)	(1,861)
Net Cash Flow from Financing Activities	(19,472)	(13,648)	(29,693)	(12,711)	(11,448)
Net Inc/Dec in cash equivalents	8,665	25,628	(11,644)	19,722	25,810
Opening Balance	18,837	27,637	53,735	41,625	61,348
Adjustments	136	469	(467)	0	0
Closing Balance Cash and Cash Equivalents	27,637	53,735	41,625	61,348	87,157

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	21.1%	21.5%	18.7%	16.4%	18.4%
Tax rate (%)	24.3%	27.2%	21.3%	19.2%	15.3%
Net Profit Margin (%)	12.5%	10.2%	11.5%	10.3%	12.6%
RoE (%)	17.2%	11.5%	11.0%	9.8%	24.3%
RoCE (%)	17.7%	17.3%	13.0%	11.8%	22.6%
EPS (INR)	48.3	91.0	45.2	45.3	59.6

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Non-current assets					
Property, plant and equipment	64,948	68,866	72,204	63,460	54,046
Capital work-in-progress	16,218	24,289	29,376	29,376	29,376
Goodwill (Net)	9,159	4,289	4,754	4,754	4,754
Other intangible assets	19,857	20,581	23,282	21,611	19,811
Intangible assets under development	3,641	6,326	8,096	8,096	8,096
Financial assets					
Investments	5,547	4,312	5,390	5,910	6,362
Loans	58	73	63	69	75
Other financial assets	1,170	1,433	1,289	1,414	1,522
Deferred tax assets (Net)	1,632	4,527	2,886	3,164	3,407
Non-current tax assets (Net)	831	1,283	3,190	3,498	3,765
Other non-current assets	2,076	4,327	7,460	8,180	8,806
Total non-current assets	1,25,138	1,40,305	1,57,990	1,49,531	1,40,020
Current assets					
Inventories	76,999	90,266	75,539	82,828	89,170
Financial assets					
Trade receivables	43,152	35,033	40,123	43,994	47,363
Cash and cash equivalents	27,637	53,735	41,625	61,348	87,157
Bank balances other than (iii) above	784	1,008	275	275	275
Loans	137	143	127	127	127
Other financial assets	401	15,617	16,341	12,379	13,327
Other current assets	15,015	836	3,409	18,306	19,708
Total current assets	1,64,125	1,98,235	1,81,227	2,23,046	2,60,915
TOTAL ASSETS	2,89,263	3,38,540	3,39,217	3,72,577	4,00,935
EQUITY AND LIABILITIES					
Equity					
Equity share capital	586	586	586	586	586
Other equity	1,67,518	2,18,713	2,45,174	2,70,334	3,03,418
Equity attributable to the equity shareholders	1,68,104	2,19,299	2,45,760	2,70,920	3,04,004
Non-controlling interests	1	-9	-19	-15	-9
Total equity	1,68,105	2,19,290	2,45,741	2,70,918	3,04,008
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	0	1,684	2,492	2,492	2,492
Lease obligations	2,644	2,662	3,186	3,186	3,186
Provisions	747	1,571	1,718	1,976	2,272
Deferred tax liabilities (Net)	3,025	5,746	4,110	4,726	5,435
Other non-current liabilities	875	936	411	411	411
Total non-current liabilities	7,291	12,599	11,917	12,791	13,796
Current liabilities					
Financial liabilities					
Borrowings	54,223	48,027	21,236	11,236	1,236
Lease obligations	0	0	1,599	0	0
Trade payables	25,450	27,947	27,031	41,529	43,879
Other financial liabilities	22,387	21,293	17,747	20,406	21,561
Other current liabilities	6,359	5,562	11,662	13,410	14,169
Provisions	4,167	1,719	1,706	1,706	1,706
Current tax liabilities (Net)	1,282	2,104	580	580	580
Total current liabilities	1,13,867	1,06,651	81,560	88,868	83,130
Total liabilities	1,21,158	1,19,250	93,477	1,01,659	96,926
TOTAL EQUITY AND LIABILITIES	2,89,263	3,38,540	3,39,217	3,72,577	4,00,935

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
18-Aug-22	580	626	ACCUMULATE	Buy	More than 15%
02-Jun-22	533	605	ACCUMULATE		
10-Feb-22	684	756	ACCUMULATE	Accumulate	5% – 15%
09-Nov-21	677	756	ACCUMULATE		
17-Aug-21	731	801	ACCUMULATE	Hold	0 – 5%
30-Jun-21	968	1,044	ACCUMULATE		
03-Jun-21	968	1,044	ACCUMULATE	Reduce	-5% – 0
17-Mar-21	841	1,044	BUY		
15-Dec-21	897	1,044	BUY	Sell	Less than – 5%
24-Sep-21	780	1,027	BUY		
14-Aug-20	879	1,027	BUY		
05-Jun-20	759	894	BUY		

ANALYST CERTIFICATION:

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