

November 16, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	550		635	
Sales (Rs. m)	2,61,147	2,80,835	2,71,645	2,90,703
% Chng.	(3.9)	(3.4)		
EBITDA (Rs. m)	46,393	50,132	51,017	55,171
% Chng.	(9.1)	(9.1)		
EPS (Rs.)	45.6	49.9	51.9	56.4
% Chng.	(12.2)	(11.6)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	2,34,543	2,44,430	2,61,147	2,80,835
EBITDA (Rs. m)	43,856	40,501	46,393	50,132
Margin (%)	18.7	16.6	17.8	17.9
PAT (Rs. m)	26,476	21,931	26,718	29,226
EPS (Rs.)	45.2	37.4	45.6	49.9
Gr. (%)	(50.4)	(17.2)	21.8	9.4
DPS (Rs.)	4.5	5.0	5.5	5.5
Yield (%)	0.9	1.0	1.1	1.1
RoE (%)	11.4	8.6	9.7	9.7
RoCE (%)	12.1	10.4	11.6	11.9
EV/Sales (x)	1.2	1.1	1.1	1.0
EV/EBITDA (x)	6.2	6.8	5.9	5.4
PE (x)	10.9	13.2	10.8	9.9
P/BV (x)	1.2	1.1	1.0	0.9

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.742 / Rs.457
Sensex / Nifty	61,873 / 18,403
Market Cap	Rs.288bn / \$ 3,556m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.922.78m

Shareholding Pattern (%)

Promoter's	51.83
Foreign	21.40
Domestic Institution	16.22
Public & Others	10.55
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	(12.5)	(29.2)
Relative	(10.4)	(25.3)	(30.6)

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Aurobindo Pharma (ARBP IN)

Rating: ACCUMULATE | CMP: Rs492 | TP: Rs550

Challenges persist

Quick Pointers:

- US sales down 14% QoQ; on lower volume, shelf stock adj and price erosion.
- Delayed its specialty sales guidance of \$650mn by 1 year to FY25.

We cut our FY23-25E EPS est. by 10-17% to factor in lower margins and US sales. Aurobindo Pharma's (ARBP) performance was weak in H1FY23, given cost headwinds and lower US sales. 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 11x FY24E P/E. We recommend 'Accumulate' with revised TP of Rs550 (Rs635 earlier) based on 12x FY24E earnings.

- Weak US sales drag revenues:** Formulations business sales declined 8% YoY and 11% QoQ at Rs48bn. US revenue came at \$331m (down 14% QoQ) against our est of \$385mn, primarily on account of volume drop due to low demand, continued price erosion and one-time shelf adjustment. EU sales declined by 9% YoY, while RoW business grew 17% YoY. ARV sales adversely impacted to Rs1.6bn; down 57% QoQ. API sales grew strongly by 24% YoY on increased demand in key products.
- Another quarter of margin pressure:** Gross margins came in at 55.3% (up 160bps YoY). The YoY decline of 250 bps was due to pressure on input cost. Other expenses declined by 3% QoQ vs revenue decline of 8% QoQ. R&D cost came at 4.8% of sales; down 31% YoY. Resultant EBITDA came in at Rs8.4bn (down 13% QoQ); vs our est of Rs10bn. Tax came in lower at 22%. There was forex gain of Rs250mn. Resultant PAT came in at Rs4.1bn, down 21% QoQ vs our est of Rs5.7bn.
- Key concall takeaways:** (1) **US sales:** Company launched 6 new products including 2 injectable in the US market; Filed 14 ANDAs including 2 injectable. (2) There was sharp volumes decline in injectables, shelf-stock adjustment in Vasopressin and single digit price erosion. It expects to launch 20+ products in FY2023, and expects to file 30+ products every year (3) Overall reported US injectable sales of US\$49mn (down 28% YoY) in Q2FY23. Guidance of +\$650mn specialty sales delayed by a year to FY2025 which factors in gRevlimid launch (4) The construction at Vizag plant is complete and the company plan to take exhibit batches in H2FY23. Company will start filings from its Vizag plant from H1FY24 targeting filings for US, Europe and emerging markets. (5) Capex was \$81mn in Q2 of which \$31mn towards PLI scheme and guided annual capex of \$150mn. (6) Net cash stands at \$337mn end of Q2FY23 which is kept as reserved and could potentially use for debt reduction and two important projects including Penicillin Project (7) Mr Sharath Reddy (Promoter son) has been relieved from his executive responsibilities post recent arrest by ED.

Exhibit 1: 2QFY23 Result Overview (Rs m) : margins under pressure

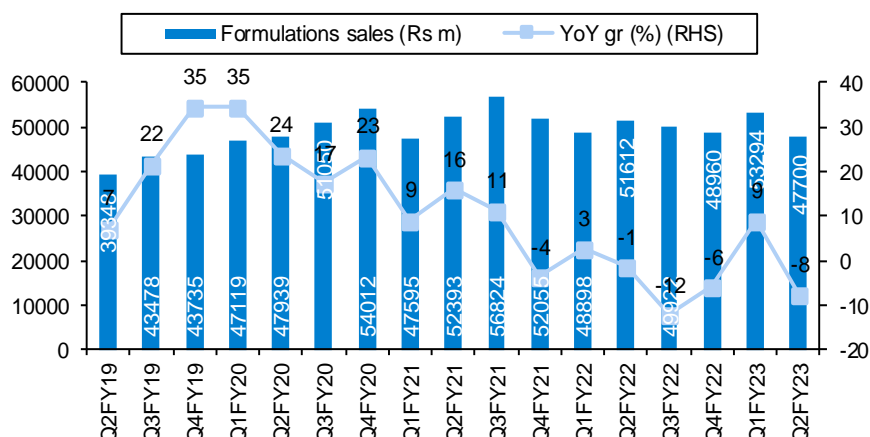
Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	YoY gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	57,394	59,419	(3.4)	62,359	(8.0)	119,753	116,439	2.8
Raw Material	25,680	25,056	2.5	28,867	(11.0)	54,547	48,718	12.0
<i>% of Net Sales</i>	<i>44.7</i>	<i>42.2</i>		<i>46.3</i>		<i>45.5</i>	<i>41.8</i>	
Personnel Cost	8,685	8,589	1.1	8,802	(1.3)	17,486	17,288	1.1
<i>% of Net Sales</i>	<i>15.1</i>	<i>14.5</i>		<i>14.1</i>		<i>14.6</i>	<i>14.8</i>	
Others	14,660	13,907	5.4	15,043	(2.5)	29,703	26,472	12.2
<i>% of Net Sales</i>	<i>25.5</i>	<i>23.4</i>		<i>24.1</i>		<i>24.8</i>	<i>22.7</i>	
Total Expenditure	49,025	47,552	3.1	52,712	(7.0)	101,737	92,478	10.0
EBITDA	8,369	11,867	(29.5)	9,647	(13.3)	18,016	23,961	(24.8)
<i>Margin (%)</i>	<i>14.6</i>	<i>20.0</i>		<i>15.5</i>		<i>15.0</i>	<i>20.6</i>	
Depreciation	2,981	2,942	1.3	2,795	6.7	5,776	5,739	0.6
EBIT	5,388	8,925	(39.6)	6,852	(21.4)	12,240	18,222	(32.8)
Other Income	111	966	(88.5)	124	(10.3)	235	2,065	(88.6)
Interest	253	104	142.7	146	72.9	399	233	71.3
PBT	5,246	9,787	(46.4)	6,830	(23.2)	12,076	20,054	(39.8)
Extra-Ord. Inc./Exps.	-	-		-		-	-	
Total Taxes	1,130	2,709	(58.3)	1,586	(28.8)	2,716	5,187	(47.6)
<i>ETR (%)</i>	<i>21.5</i>	<i>27.7</i>		<i>23.2</i>		<i>22.5</i>	<i>25.9</i>	
Minority interest	12	111		40		52	201	
Reported PAT	4,104	6,967	(41.1)	5,204	(21.1)	9,307	14,667	(36.5)

Source: Company, PL

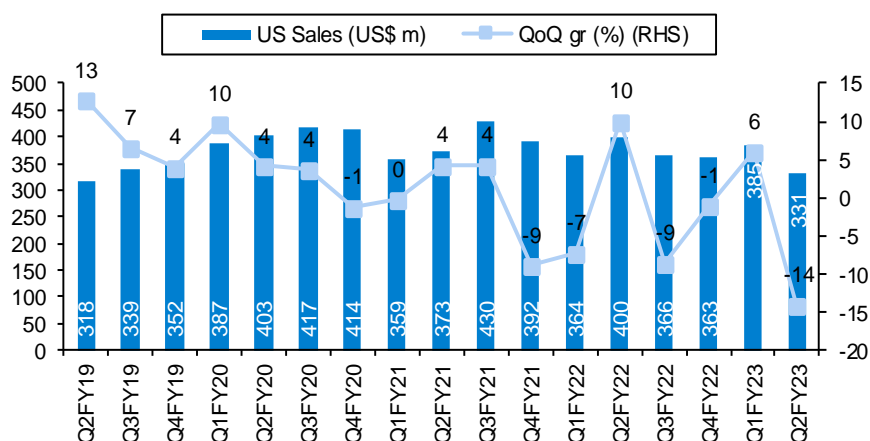
Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	YoY gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Formulations	47,700	51,612	(7.6)	53,294	(10.5)	100,994	100,510	0.5
<i>% of Net Sales</i>	<i>83.1</i>	<i>86.9</i>		<i>85.5</i>		<i>84.3</i>	<i>86.3</i>	
USA	26,376	29,676	(11.1)	29,711	(11.2)	56,087	56,488	(0.7)
<i>% of Net Sales</i>	<i>46.0</i>	<i>49.9</i>		<i>47.6</i>		<i>46.8</i>	<i>48.5</i>	
Europe & Emerging Markets	19,681	20,486	(3.9)	19,787	(0.5)	39,468	39,608	(0.4)
<i>% of Net Sales</i>	<i>34.3</i>	<i>34.5</i>		<i>31.7</i>		<i>33.0</i>	<i>34.0</i>	
ARV	1,643	1,450	13.3	3,796	(56.7)	5,439	4,414	23.2
<i>% of Net Sales</i>	<i>2.9</i>	<i>2.4</i>		<i>6.1</i>		<i>4.5</i>	<i>3.8</i>	
API	9,694	7,806	24.2	9,065	6.9	18,759	15,925	17.8
<i>% of Net Sales</i>	<i>16.9</i>	<i>13.1</i>		<i>14.5</i>		<i>15.7</i>	<i>13.7</i>	
Betalactum	6,358	4,208	51.1	5,514	15.3	11,872	8,044	47.6
<i>% of Net Sales</i>	<i>11.1</i>	<i>7.1</i>		<i>8.8</i>		<i>9.9</i>	<i>6.9</i>	
Non-Betalactum	3,336	3,598	(7.3)	3,551	(6.1)	6,887	7,881	(12.6)
<i>% of Net Sales</i>	<i>5.8</i>	<i>6.1</i>		<i>5.7</i>		<i>5.8</i>	<i>6.8</i>	

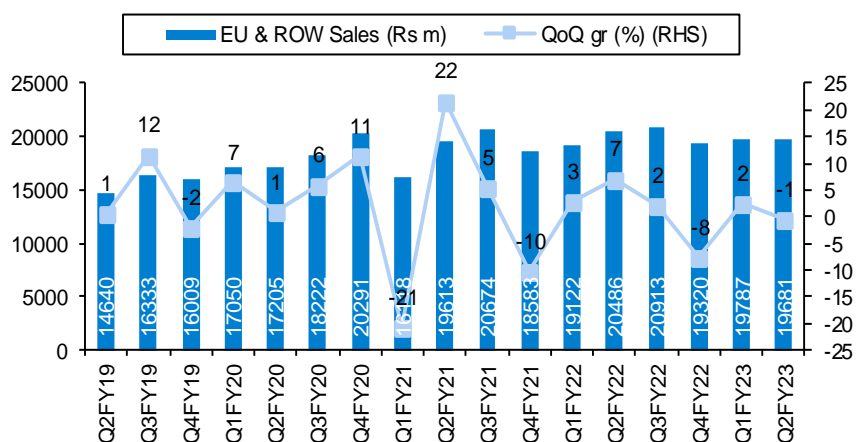
Source: Company, PL

Exhibit 3: Major Formulation sales & growth


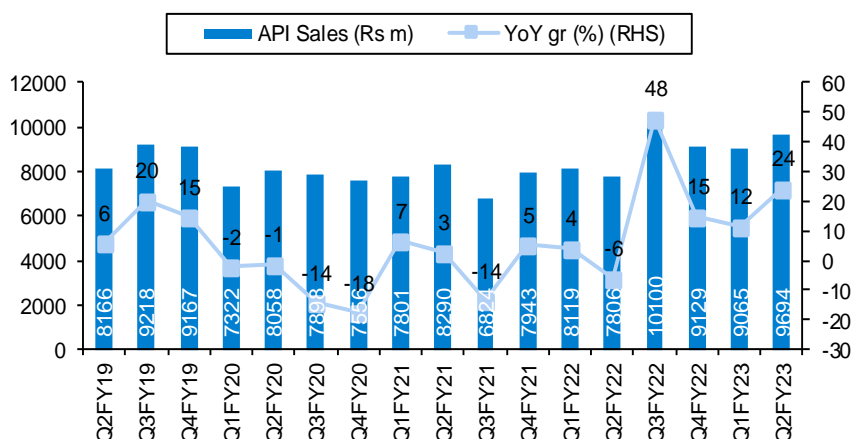
Source: Company, PL

Exhibit 4: US sales(US\$m): Growth impacted on price erosion and lower vols


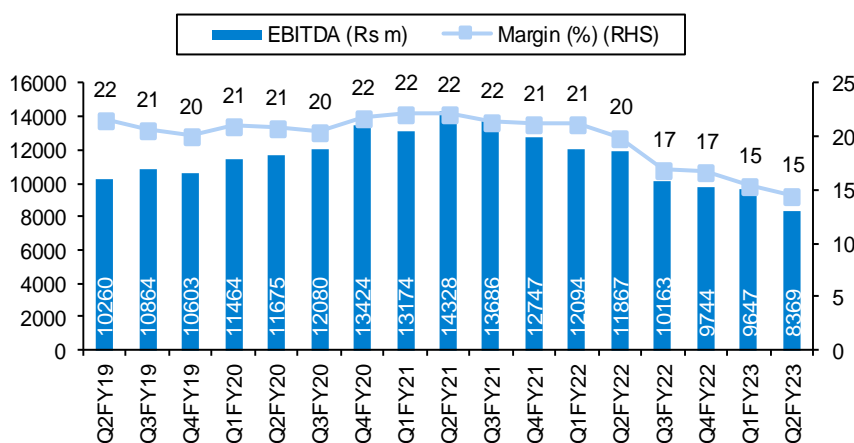
Source: Company, PL

Exhibit 5: EU & ROW sales: Weak EU sales


Source: Company, PL

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


Source: Company, PL

Exhibit 7: EBITDA (Rs m) and EBITDAM: Negative operating leverage impacted the margins


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,34,543	2,44,430	2,61,147	2,80,835
YoY gr. (%)	(5.3)	4.2	6.8	7.5
Cost of Goods Sold	1,01,403	1,09,504	1,13,599	1,22,163
Gross Profit	1,33,140	1,34,925	1,47,548	1,58,672
Margin (%)	56.8	55.2	56.5	56.5
Employee Cost	34,509	35,199	38,015	40,866
Other Expenses	54,775	59,225	63,140	67,674
EBITDA	43,856	40,501	46,393	50,132
YoY gr. (%)	(17.7)	(7.6)	14.5	8.1
Margin (%)	18.7	16.6	17.8	17.9
Depreciation and Amortization	11,265	11,716	12,419	13,164
EBIT	32,591	28,785	33,974	36,968
Margin (%)	13.9	11.8	13.0	13.2
Net Interest	486	800	650	500
Other Income	3,210	1,656	2,700	2,900
Profit Before Tax	35,314	29,642	36,024	39,368
Margin (%)	15.1	12.1	13.8	14.0
Total Tax	7,256	7,410	9,006	9,842
Effective tax rate (%)	20.5	25.0	25.0	25.0
Profit after tax	28,057	22,231	27,018	29,526
Minority interest	302	300	300	300
Share Profit from Associate	-	-	-	-
Adjusted PAT	26,476	21,931	26,718	29,226
YoY gr. (%)	(50.4)	(17.2)	21.8	9.4
Margin (%)	11.3	9.0	10.2	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	26,476	21,931	26,718	29,226
YoY gr. (%)	(50.4)	(17.2)	21.8	9.4
Margin (%)	11.3	9.0	10.2	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,476	21,931	26,718	29,226
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	45.2	37.4	45.6	49.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,65,131	1,92,131	2,17,131	2,42,131
Tangibles	1,65,131	1,92,131	2,17,131	2,42,131
Intangibles	-	-	-	-
Acc: Dep / Amortization	51,714	63,430	75,848	89,012
Tangibles	51,714	63,430	75,848	89,012
Intangibles	-	-	-	-
Net fixed assets	1,13,417	1,28,701	1,41,283	1,53,119
Tangibles	1,13,417	1,28,701	1,41,283	1,53,119
Intangibles	-	-	-	-
Capital Work In Progress	29,376	29,376	29,376	29,376
Goodwill	-	-	-	-
Non-Current Investments	9,972	9,972	9,972	9,972
Net Deferred tax assets	(1,224)	(1,224)	(1,224)	(1,224)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	75,539	83,709	89,434	96,176
Trade receivables	40,123	38,171	40,782	43,856
Cash & Bank Balance	41,900	31,440	27,833	26,047
Other Current Assets	-	-	-	-
Total Assets	3,35,540	3,49,104	3,69,189	3,92,107
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,45,174	2,63,682	2,86,634	3,12,094
Total Network	2,45,760	2,64,268	2,87,220	3,12,680
Non-Current Liabilities				
Long Term borrowings	21,236	16,236	11,236	6,236
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,492	2,492	2,492	2,492
Trade payables	27,031	26,787	28,619	30,776
Other current liabilities	37,818	37,818	37,818	37,818
Total Equity & Liabilities	3,35,540	3,49,104	3,69,189	3,92,107

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	35,314	29,642	36,024	39,368
Add. Depreciation	11,265	11,716	12,419	13,164
Add. Interest	486	800	650	500
Less Financial Other Income	3,210	1,656	2,700	2,900
Add. Other	103	-	-	-
Op. profit before WC changes	47,168	42,158	49,093	53,032
Net Changes-WC	15,578	(8,984)	(9,277)	(10,710)
Direct tax	(12,582)	(7,410)	(9,006)	(9,842)
Net cash from Op. activities	50,165	25,763	30,809	32,479
Capital expenditures	(30,772)	(27,000)	(25,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(30,772)	(27,000)	(25,000)	(25,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(26,367)	(5,000)	(5,000)	(5,000)
Dividend paid	(2,637)	(3,423)	(3,766)	(3,766)
Interest paid	(486)	(800)	(650)	(500)
Others	(2,745)	-	-	-
Net cash from Fin. activities	(32,235)	(9,223)	(9,416)	(9,266)
Net change in cash	(12,843)	(10,460)	(3,606)	(1,786)
Free Cash Flow	23,118	(1,237)	5,809	7,479

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	60,022	58,094	62,359	57,394
YoY gr. (%)	(5.7)	(3.2)	9.4	(3.4)
Raw Material Expenses	27,442	25,242	28,867	25,680
Gross Profit	32,580	32,852	33,492	31,713
Margin (%)	54.3	56.5	53.7	55.3
EBITDA	10,163	9,744	9,647	8,369
YoY gr. (%)	(25.7)	(23.6)	(20.2)	(29.5)
Margin (%)	16.9	16.8	15.5	14.6
Depreciation / Depletion	2,991	2,536	2,795	2,981
EBIT	7,172	7,208	6,852	5,388
Margin (%)	11.9	12.4	11.0	9.4
Net Interest	161	92	146	253
Other Income	650	489	124	111
Profit before Tax	7,661	7,605	6,830	5,246
Margin (%)	12.8	13.1	11.0	9.1
Total Tax	1,895	175	1,586	1,130
Effective tax rate (%)	24.7	2.3	23.2	21.5
Profit after Tax	5,766	7,430	5,243	4,116
Minority interest	71	41	40	12
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,043	5,761	5,204	4,104
YoY gr. (%)	(79.5)	(28.1)	(32.4)	(41.1)
Margin (%)	10.1	9.9	8.3	7.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,043	5,761	5,204	4,104
YoY gr. (%)	(79.5)	(28.1)	(32.4)	(41.1)
Margin (%)	10.1	9.9	8.3	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,043	5,761	5,204	4,104
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	9.7	12.6	8.9	7.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	45.2	37.4	45.6	49.9
CEPS	64.4	57.4	66.8	72.3
BVPS	419.5	451.0	490.2	533.7
FCF	39.5	(2.1)	9.9	12.8
DPS	4.5	5.0	5.5	5.5
Return Ratio(%)				
RoCE	12.1	10.4	11.6	11.9
ROIC	11.1	9.1	10.0	10.1
RoE	11.4	8.6	9.7	9.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	(0.1)
Net Working Capital (Days)	138	142	142	142
Valuation(x)				
PER	10.9	13.2	10.8	9.9
P/B	1.2	1.1	1.0	0.9
P/CEPS	7.6	8.6	7.4	6.8
EV/EBITDA	6.2	6.8	5.9	5.4
EV/Sales	1.2	1.1	1.1	1.0
Dividend Yield (%)	0.9	1.0	1.1	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
US Formulations	1,11,221	1,15,863	1,21,732	1,29,985
EU & ROW	79,842	80,992	87,911	94,876
ARV formulations	8,330	10,374	11,700	13,260
APIs	35,156	37,200	39,804	42,714

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Accumulate	635	535
2	15-Aug-22	Accumulate	635	593
3	07-Jul-22	Accumulate	635	544
4	01-Jun-22	Accumulate	635	534
5	08-Apr-22	Accumulate	759	699
6	10-Feb-22	Accumulate	759	684
7	07-Jan-22	Accumulate	780	710

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	360	304
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	375	295
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,982
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

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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