

May 29, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	660660		565	
Sales (Rs. m)	2,72,431	2,91,512	2,67,405	2,87,555
% Chng.	1.9	1.4		
EBITDA (Rs. m)	46,638	51,135	44,009	49,015
% Chng.	6.0	4.3		
EPS (Rs.)	44.9	50.4	42.3	48.3
% Chng.	6.3	4.3		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	2,34,543	2,48,551	2,72,431	2,91,512
EBITDA (Rs. m)	43,856	37,580	46,638	51,135
Margin (%)	18.7	15.1	17.1	17.5
PAT (Rs. m)	26,476	19,273	26,329	29,510
EPS (Rs.)	45.2	32.9	44.9	50.4
Gr. (%)	(50.4)	(27.2)	36.6	12.1
DPS (Rs.)	4.5	5.0	6.0	7.0
Yield (%)	0.7	0.8	1.0	1.1
RoE (%)	11.4	7.5	9.4	9.7
RoCE (%)	12.1	8.6	10.3	10.8
EV/Sales (x)	1.4	1.4	1.3	1.2
EV/EBITDA (x)	7.8	9.2	7.5	6.8
PE (x)	13.5	18.6	13.6	12.1
P/BV (x)	1.5	1.3	1.2	1.1

Key Data

ARB.N.BO | ARBP IN

52-W High / Low	Rs.648 / Rs.397
Sensex / Nifty	62,846 / 18,599
Market Cap	Rs.358bn / \$ 4,335m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.1022.68m

Shareholding Pattern (%)

Promoter's	51.83
Foreign	23.03
Domestic Institution	15.08
Public & Others	10.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.9)	31.0	15.4
Relative	(3.7)	30.7	0.8

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Aurobindo Pharma (ARBP IN)

Rating: BUY | CMP: Rs611 | TP: Rs660

Improving US visibility

Quick Pointers:

- US sales up by 2% QoQ; gRevlimid launch in Oct-23.
- Guided OPM to improve to 17-18% from current level of 15.5% in FY24.

Our FY24/25E EPS est. stands increased by 6%/4% to factor in higher margins. Aurobindo Pharma's (ARBP) Q4FY23 EBITDA of Rs10bn (up 5% QoQ) with OPM of 15.5% (up 60 bps QoQ) was in-line with our estimate. We expect margin trajectory to further improve from FY24. Pick up in US sales hinge on timely niche approvals along with stabilization of pricing pressure in base business. We believe 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 12x FY25E P/E. We reiterate our 'Buy' rating with revised TP of Rs660/share (Rs565 earlier), based on 13x FY25E EPS.

- Steady revenue growth of 12%YoY to Rs65bn in major markets:** Formulations business sales grew 11% YoY, flat QoQ at Rs55bn. US revenue remains stable at \$370m (up 2% QoQ) in-line with our est, EU sales were up 8% YoY, above our estimate. RoW business grew 51% YoY aided by PLI incentive. Adj for this growth was 38% YoY. Major declined in ARV sales to Rs1.6bn; down 33% YoY and 37% QoQ. API sales improved by 11.4% YoY on increased demand.
- Steady GMs; OPM improve QoQ:** Gross margins came in at 54.7% (flat QoQ). There were certain one off items- Rs450-500mn expenses related to clawback taxes in some of the European countries and Rs480mn PLI incentives. Other expenses increased by 4% QoQ vs revenue growth of 1% QoQ. R&D cost came at 6.3% of sales; down 10% YoY and flat QoQ. Resultant EBITDA came in at Rs10bn (up 5% QoQ); in-line with our est. OPM came in at 15.5%, up 60 bps QoQ. Tax came in higher at 31%. There was forex gain of Rs227mn. Resultant PAT came in at Rs5.1bn vs our est of Rs5.5bn.
- Key concall takeaways: (1) US sales:** Company launched 10 new products including 4 injectable in the US market; Filed 12 ANDAs including 3 injectable. Total Eugia specialty sales including OSD remains at \$81mn. Management expects growth to increase in coming period **(2) R&D** spend was steady QoQ, and guided to remain at current levels of Rs4bn/quarter irrespective of revenue. Till date invested Rs19bn on biosimilar, see FY25/26 as an inflection point. So far filed 2 products with EMA, 3 with UKMHRA and 2 with Health Canada **(3) Capex** was \$105mn in Q4 of which \$31mn was towards PLI scheme and guided annual capex of \$250mn. Net cash stands at \$194mn end of Q4FY23 **(4) The China plant** has fully installed and expected to commissioned by Q1FY25, while Pen-G plant is expected to be operational by end of CY23 **(5) All 11 USFDA approved** are under VAI status, while one of the API plant remained under warning letter **(6) Drug shortages** in US are at highest level. Some of new business orders likely to stay in medium term **(7) gRevlimid** – Have secure final approval and likely launch by Oct-23.

Exhibit 1: 4QFY23 Result Overview (Rs m) : In-line EBITDA aided by healthy formulation revenues

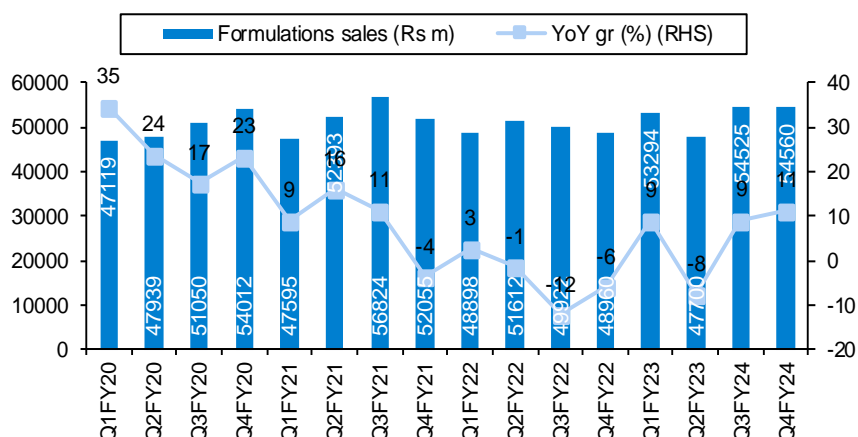
Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	YoY gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	64,730	58,094	11.4	64,071	1.0	248,554	234,555	6.0
Raw Material	29,310	25,242	16.1	29,076	0.8	112,933	101,403	11.4
<i>% of Net Sales</i>	<i>45.3</i>	<i>43.5</i>		<i>45.4</i>		<i>45.4</i>	<i>43.2</i>	
Personnel Cost	8,519	8,532	(0.2)	9,217	(7.6)	35,223	34,509	2.1
<i>% of Net Sales</i>	<i>13.2</i>	<i>14.7</i>		<i>14.4</i>		<i>14.2</i>	<i>14.7</i>	
Others	16,879	14,575	15.8	16,234	4.0	62,817	54,775	14.7
<i>% of Net Sales</i>	<i>26.1</i>	<i>25.1</i>		<i>25.3</i>		<i>25.3</i>	<i>23.4</i>	
Total Expenditure	54,708	48,350	13.2	54,527	0.3	210,972	190,687	10.6
EBITDA	10,022	9,744	2.9	9,544	5.0	37,582	43,868	(14.3)
<i>Margin (%)</i>	<i>15.5</i>	<i>16.8</i>		<i>14.9</i>		<i>15.1</i>	<i>18.7</i>	
Depreciation	3,456	2,536	36.3	3,214	7.5	12,446	11,265	10.5
EBIT	6,566	7,208	(8.9)	6,330	3.7	25,136	32,603	(22.9)
Other Income	1,349	489	176.0	927	45.6	2,510	3,204	(21.6)
Interest	556	92	503.7	450	23.7	1,405	486	188.8
PBT	7,359	7,605	(3.2)	6,807	8.1	26,242	35,320	(25.7)
Extra-Ord. Inc./Exps.	-	(1,628)		-		-	(1,280)	
Total Taxes	2,242	175	1,181.6	1,891	18.5	6,849	7,256	(5.6)
<i>ETR (%)</i>	<i>30.5</i>	<i>2.3</i>		<i>27.8</i>		<i>26.1</i>	<i>20.5</i>	
Minority interest	59	41		6		117	313	
Reported PAT	5,059	5,761	(12.2)	4,910	3.0	19,277	26,471	(27.2)

Source: Company, PL

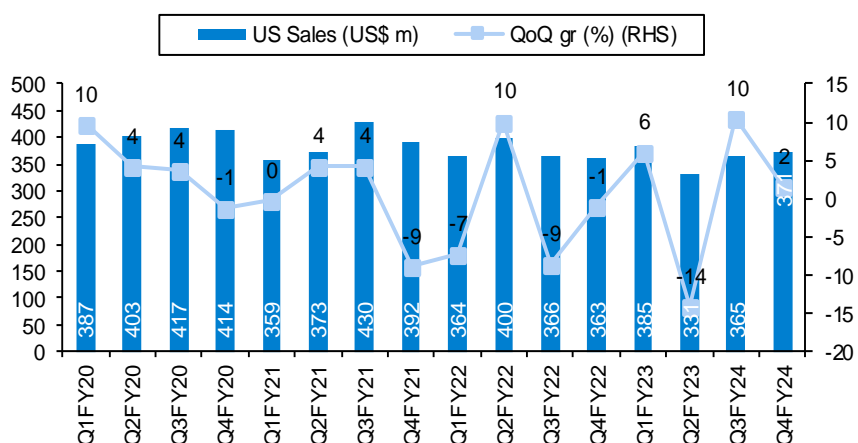
Exhibit 2: Strong revenue growth across US and EU markets

Major sources of revenues	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	YoY gr. (%)	FY23	FY22	YoY gr. (%)
Formulations	54,560	48,960	11.4	54,525	0.1	210,079	199,392	5.4
<i>% of Net Sales</i>	<i>84.3</i>	<i>84.3</i>		<i>85.1</i>		<i>84.5</i>	<i>85.0</i>	
USA	30,450	27,281	11.6	30,012	1.5	116,549	111,221	4.8
<i>% of Net Sales</i>	<i>47.0</i>	<i>47.0</i>		<i>46.8</i>		<i>46.9</i>	<i>47.4</i>	
Europe & Emerging Markets	22,520	19,320	16.6	22,001	2.4	83,989	79,841	5.2
<i>% of Net Sales</i>	<i>34.8</i>	<i>33.3</i>		<i>34.3</i>		<i>33.8</i>	<i>34.0</i>	
ARV	1,590	2,359	(32.6)	2,512	(36.7)	9,541	8,330	14.5
<i>% of Net Sales</i>	<i>2.5</i>	<i>4.1</i>		<i>3.9</i>		<i>3.8</i>	<i>3.6</i>	
API	10,170	9,129	11.4	9,546	6.5	38,475	35,154	9.4
<i>% of Net Sales</i>	<i>15.7</i>	<i>15.7</i>		<i>14.9</i>		<i>15.5</i>	<i>15.0</i>	
Betalactum	6,370	5,942	7.2	6,231	2.2	24,473	20,824	17.5
<i>% of Net Sales</i>	<i>9.8</i>	<i>10.2</i>		<i>9.7</i>		<i>9.8</i>	<i>8.9</i>	
Non-Betalactum	3,800	3,187	19.2	3,315	14.6	14,002	14,330	(2.3)
<i>% of Net Sales</i>	<i>5.9</i>	<i>5.5</i>		<i>5.2</i>		<i>5.6</i>	<i>6.1</i>	

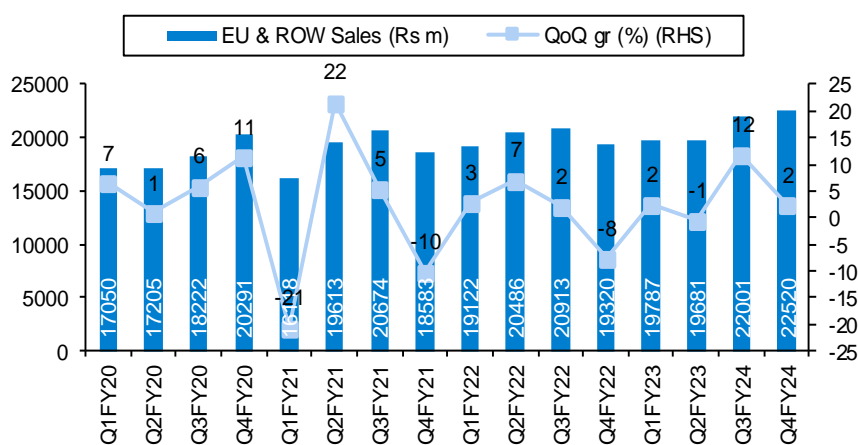
Source: Company, PL

Exhibit 3: Major Formulation sales & growth


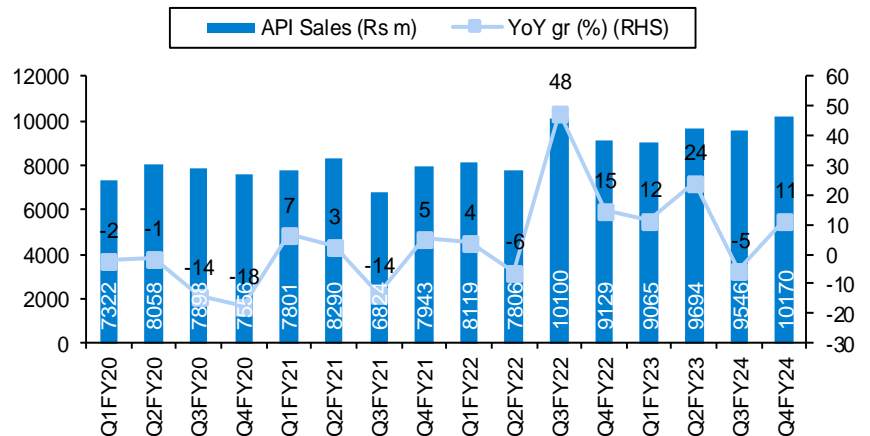
Source: Company, PL

Exhibit 4: QoQ growth led by increased demand and stable pricing


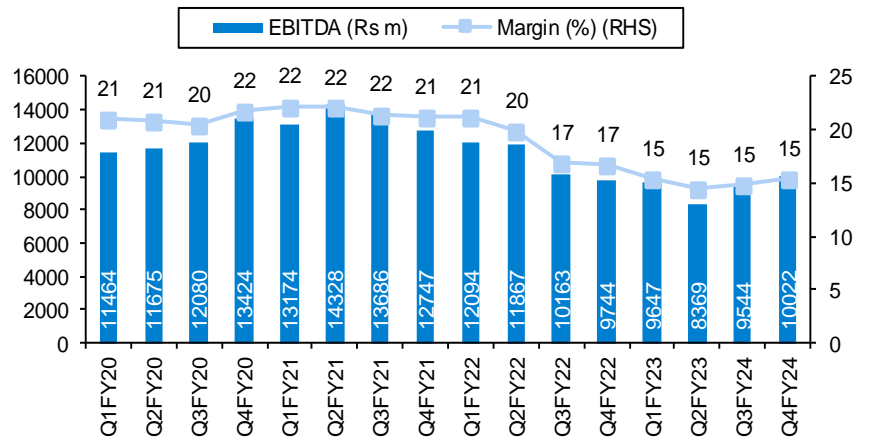
Source: Company, PL

Exhibit 5: EU & ROW sales: strong growth in Brazil and Canada business


Source: Company, PL

Exhibit 6: YoY growth led by increased external demand


Source: Company, PL

Exhibit 7: Margins at 15.5%; improve 60 bps QoQ


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,34,543	2,48,551	2,72,431	2,91,512
YoY gr. (%)	(5.3)	6.0	9.6	7.0
Cost of Goods Sold	1,01,403	1,12,933	1,20,288	1,27,569
Gross Profit	1,33,140	1,35,619	1,52,143	1,63,943
Margin (%)	56.8	54.6	55.8	56.2
Employee Cost	34,509	35,223	38,040	40,703
Other Expenses	54,775	62,817	67,465	72,105
EBITDA	43,856	37,580	46,638	51,135
YoY gr. (%)	(17.7)	(14.3)	24.1	9.6
Margin (%)	18.7	15.1	17.1	17.5
Depreciation and Amortization	11,265	12,446	13,165	13,955
EBIT	32,591	25,134	33,473	37,180
Margin (%)	13.9	10.1	12.3	12.8
Net Interest	486	1,405	1,100	800
Other Income	3,210	2,510	3,000	3,300
Profit Before Tax	35,314	26,239	35,373	39,680
Margin (%)	15.1	10.6	13.0	13.6
Total Tax	7,256	6,849	8,843	9,920
Effective tax rate (%)	20.5	26.1	25.0	25.0
Profit after tax	28,057	19,391	26,529	29,760
Minority interest	302	118	200	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	26,476	19,273	26,329	29,510
YoY gr. (%)	(50.4)	(27.2)	36.6	12.1
Margin (%)	11.3	7.8	9.7	10.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	26,476	19,273	26,329	29,510
YoY gr. (%)	(50.4)	(27.2)	36.6	12.1
Margin (%)	11.3	7.8	9.7	10.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,476	19,273	26,329	29,510
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	45.2	32.9	44.9	50.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	1,65,131	1,83,333	2,08,333	2,33,333
Tangibles	1,65,131	1,83,333	2,08,333	2,33,333
Intangibles	-	-	-	-
Acc: Dep / Amortization	51,714	64,160	77,325	91,280
Tangibles	51,714	64,160	77,325	91,280
Intangibles	-	-	-	-
Net fixed assets	1,13,417	1,19,173	1,31,008	1,42,053
Tangibles	1,13,417	1,19,173	1,31,008	1,42,053
Intangibles	-	-	-	-
Capital Work In Progress	29,376	44,964	44,964	44,964
Goodwill	-	-	-	-
Non-Current Investments	9,972	5,427	5,427	5,427
Net Deferred tax assets	(1,224)	2,879	2,879	2,879
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	75,539	85,112	89,566	95,840
Trade receivables	40,123	44,664	48,515	51,913
Cash & Bank Balance	41,900	60,842	51,381	49,670
Other Current Assets	-	-	-	-
Total Assets	3,35,540	3,91,267	4,05,055	4,27,479
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,45,174	2,67,813	2,90,034	3,14,751
Total Network	2,45,760	2,68,399	2,90,620	3,15,337
Non-Current Liabilities				
Long Term borrowings	21,236	42,426	37,426	32,426
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,492	6,190	6,190	6,190
Trade payables	27,031	38,713	35,080	37,537
Other current liabilities	37,818	38,299	38,299	38,299
Total Equity & Liabilities	3,35,540	3,91,267	4,05,056	4,27,480

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	35,314	26,239	35,373	39,680
Add. Depreciation	11,265	12,446	13,165	13,955
Add. Interest	486	1,405	1,100	800
Less Financial Other Income	3,210	2,510	3,000	3,300
Add. Other	103	(5,154)	-	-
Op. profit before WC changes	47,168	34,936	49,638	54,435
Net Changes-WC	15,578	3,178	(15,047)	(10,634)
Direct tax	(12,582)	(7,172)	(8,843)	(9,920)
Net cash from Op. activities	50,165	30,942	25,748	33,881
Capital expenditures	(30,772)	(32,920)	(25,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(30,772)	(32,920)	(25,000)	(25,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(26,367)	20,753	(5,000)	(5,000)
Dividend paid	(2,637)	(4,395)	(4,108)	(4,793)
Interest paid	(486)	(1,405)	(1,100)	(800)
Others	(2,745)	5,966	-	-
Net cash from Fin. activities	(32,235)	20,920	(10,208)	(10,593)
Net change in cash	(12,843)	18,941	(9,460)	(1,712)
Free Cash Flow	23,118	3,738	748	8,881

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	45.2	32.9	44.9	50.4
CEPS	64.4	54.1	67.4	74.2
BVPS	419.5	458.1	496.0	538.2
FCF	39.5	6.4	1.3	15.2
DPS	4.5	5.0	6.0	7.0
Return Ratio(%)				
RoCE	12.1	8.6	10.3	10.8
ROIC	11.1	7.6	9.5	9.8
RoE	11.4	7.5	9.4	9.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	138	134	138	138
Valuation(x)				
PER	13.5	18.6	13.6	12.1
P/B	1.5	1.3	1.2	1.1
P/CEPS	9.5	11.3	9.1	8.2
EV/EBITDA	7.8	9.2	7.5	6.8
EV/Sales	1.4	1.4	1.3	1.2
Dividend Yield (%)	0.7	0.8	1.0	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	62,359	57,394	64,071	64,730
YoY gr. (%)	9.4	(3.4)	6.7	11.4
Raw Material Expenses	28,867	25,680	29,076	29,310
Gross Profit	33,492	31,713	34,996	35,420
Margin (%)	53.7	55.3	54.6	54.7
EBITDA	9,647	8,369	9,544	10,022
YoY gr. (%)	(20.2)	(29.5)	(6.1)	2.9
Margin (%)	15.5	14.6	14.9	15.5
Depreciation / Depletion	2,795	2,981	3,214	3,456
EBIT	6,852	5,388	6,330	6,566
Margin (%)	11.0	9.4	9.9	10.1
Net Interest	146	253	450	556
Other Income	124	111	927	1,349
Profit before Tax	6,830	5,246	6,807	7,359
Margin (%)	11.0	9.1	10.6	11.4
Total Tax	1,586	1,130	1,891	2,242
Effective tax rate (%)	23.2	21.5	27.8	30.5
Profit after Tax	5,243	4,116	4,916	5,118
Minority interest	40	12	6	59
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,204	4,104	4,910	5,059
YoY gr. (%)	(32.4)	(41.1)	(18.7)	(12.2)
Margin (%)	8.3	7.2	7.7	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,204	4,104	4,910	5,059
YoY gr. (%)	(32.4)	(41.1)	(18.7)	(12.2)
Margin (%)	8.3	7.2	7.7	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,204	4,104	4,910	5,059
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	8.9	7.0	8.4	8.6

Source: Company Data, PL Research

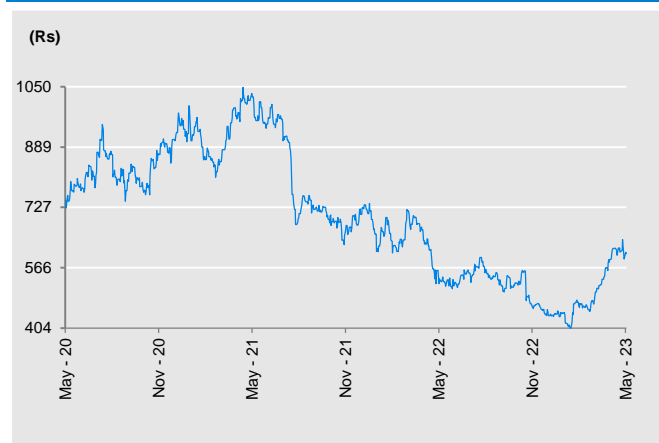
Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
US Formulations	1,11,221	1,16,538	1,28,059	1,34,769
EU & ROW	79,842	83,990	92,398	99,742
ARV formulations	8,330	9,540	10,800	12,800
APIs	35,156	38,480	41,174	44,201

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	565	522
2	11-Feb-23	BUY	565	469
3	06-Jan-23	Accumulate	550	444
4	16-Nov-22	Accumulate	550	492
5	06-Oct-22	Accumulate	635	535
6	15-Aug-22	Accumulate	635	593
7	07-Jul-22	Accumulate	635	544
8	01-Jun-22	Accumulate	635	534

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	335	270
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	937
5	Divi's Laboratories	Hold	2,700	3,098
6	Dr. Reddy's Laboratories	Reduce	4,500	4,867
7	Eris Lifesciences	BUY	780	638
8	Fortis Healthcare	BUY	330	288
9	Glenmark Pharmaceuticals	Reduce	570	609
10	HealthCare Global Enterprises	BUY	375	294
11	Indoco Remedies	BUY	400	340
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,055
14	Krishna Institute of Medical Sciences	BUY	1,660	1,527
15	Lupin	Hold	730	750
16	Max Healthcare Institute	BUY	565	523
17	Narayana Hrudayalaya	BUY	980	827
18	Sun Pharmaceutical Industries	BUY	1,140	970
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	520	508

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

ANALYST CERTIFICATION

(Indian Clients)

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