

Aurobindo Pharma Ltd.



Aurobindo Pharma Ltd.

Stable performance across the geographies

CMP INR 657	Target INR 665	Potential Upside 1.3%	Market Cap (INR Mn) INR 3,86,192	Recommendation HOLD	Sector Pharmaceuticals
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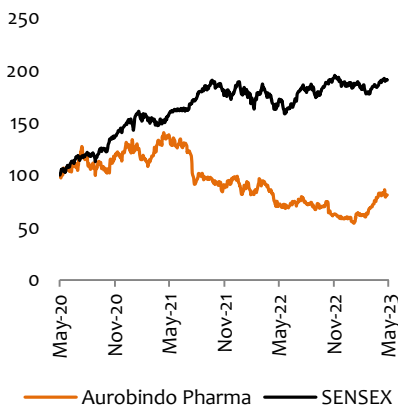
Result Highlights of Q4FY23:

- In Q4FY23, Aurobindo reported a revenue of INR 64,730 Mn (+11.04% YoY and +1.0% QoQ) driven by healthy growth in US/ ROW markets and the API business. For FY23, the company reported a revenue of INR 2,48,553.8 Mn.
- During the quarter, EBITDA grew by 2.9% YoY and 5% QoQ to INR 10,022 Mn. The margins contracted by 129 bps YoY to report to 15.5%(+59 bps QoQ), the dip in the margins was as a result of change in product mix and one off expenses of INR 400-450 mn.
- The net profit for the quarter stood at INR 5,109 Mn (-11.4% YoY and +4.1% QoQ). The net profit margins contracted by 203bps YoY(+23bps QoQ).EPS during the quarter stood at INR 8.6 against INR 8.2 in Q3FY23 and INR 9.8 in Q4FY22.

MARKET DATA

Shares outs (Mn)	586
Equity Cap (INR Mn)	2,55,407
Mkt Cap (INR Mn)	3,86,192
52 Wk H/L (INR)	662/ 397
Volume Avg (3m K)	2067.5
Face Value (INR)	1
Bloomberg Code	ARBPI Equity

SHARE PRICE PERFORMANCE



KEY FINANCIALS

INR mns	FY21	FY22	FY23	FY24E	FY25E
Revenue	2,47,746	2,47,061	2,48,554	2,65,087	2,81,008
EBITDA	53,334	56,374	37,582	45,885	50,352
Adj PAT	25,203	39,567	19,275	29,197	32,487
Adj. EPS (INR)	43.02	67.53	32.90	49.83	55.45
EBITDA Margin (%)	21.5%	22.8%	15.1%	17.3%	17.9%
NPM (%)	10.2%	16.0%	7.8%	11.0%	11.6%

Source: Company, KRChoksey Research

Revenue improved in US and API businesses :

Aurobindo Pharma had a satisfactory performance in the current quarter due to stable demand and pricing conditions across their portfolio and geographical regions. In Q4FY23, the company's revenue reached INR 64,730 mn, showing an 11.4% increase compared to the previous year and a 1.0% increase compared to the previous quarter. This growth was primarily driven by the US market, growth markets, and the API segment. The US revenue accounted for 47.0% of the total revenue, with a YoY increase of 11.6% to INR 30,450 mn and a QoQ increase of 1.5%. The US injectable business revenue saw a 3% YoY increase and an 18% QoQ increase, amounting to USD 71.9 mn. The combined sales of specialty OSD and other Eugia specialties were USD 81 mn during the quarter. Europe revenue increased by 7.7% YoY to INR 16,600 mn, representing 25.6% of consolidated revenues. In Euro terms, Europe revenue grew by 3.0% YoY to EUR 188 mn. The growth markets saw a significant YoY growth of 51.3% and a QoQ growth of 18.7%, contributing 5.2% to the revenue. The ARV business revenue for Q4FY23 was INR 1,590 mn, accounting for 2.5% of total revenue. The API business contributed 15.7% to the revenue, generating INR 10,170 mn, with a YoY growth of 11.4% and a QoQ growth of 6.5% driven by increased demand for key products. Aurobindo is well-positioned to capitalize on favorable market conditions, including a rising number of drugs in short supply, reduced competition, and a consistent pace of approvals for the company. Furthermore, the inclusion of g-revlimid starting from the Q3FY24 is expected to support the growth of Aurobindo Pharma's US business.

Margins affected due of change in product mix and one off expenses:

During the quarter, Aurobindo Pharma achieved a gross profit of INR 35,420 mn, indicating a YoY growth of 7.8% and a QoQ growth of 1.2%. However, the gross margins contracted by 183 basis points (bps) YoY and increased by 10 bps QoQ to 54.72%. This contraction was primarily due to change in product mix. The company reported an EBITDA of INR 10,022 mn for the quarter, reflecting a YoY growth of 2.9% and a QoQ growth of 5.0%. However, the EBITDA margin contracted by 129 bps YoY and increased by 59 bps QoQ to 15.5%. This contraction was a result of lower gross margin, higher other expense and one-off expenses of around INR 450-500 mn from clawback tax in Europe.

MARKET INFO

SENSEX	62,622
NIFTY	18,534

SHARE HOLDING PATTERN (%)

Particulars	Mar-23 (%)	Dec-22 (%)	Sep-22 (%)
Promoters	51.8	51.8	51.8
FIIIs	23.0	22.3	21.4
DIIIs	15.1	14.9	16.6
Others	10.1	11.0	10.2
Total	100.0	100.0	100.0

6.3%

Revenue CAGR between FY23 and FY25E

29.8%

Adj. PAT CAGR between FY23 and FY25E

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Key Concall Highlights: (i) Gross margins decreased due to a one-time item, resulting in a decline in the revenue due to the clawback taxes in certain European countries. This reduction is also a significant factor in the decline of the EBITDA margin. During that quarter, the company incurred expenses of approximately INR 450-500 mn as part of these one-time items. (ii) On the back of healthy approvals pipeline, sales of generic injectable are projected to rise, while revenue from branded injectable is expected to remain around USD 25-30 mn. (iii) The company has initiated the production of exhibit batches at the Vizag plant, with the first filing anticipated in Sep'23. This filing is not limited to European markets but also includes other identified markets. (iv) R&D expenses are estimated to be approximately 6%-6.5% of sales. Additionally, the company anticipates incurring expenses of around INR 4000 mn per quarter, regardless of the turnover. (v) Aurobindo plans to allocate USD 130-140 Mn for the Pen-G project in FY24. (vi) The company has obtained final approval for the generic version of Revlimid. According to the framework, the product will be launched in Oct'23. While the revenue contribution may not be substantial, it will significantly influence the bottom line of the business. (vii) The first three quarters experienced a significant amount of price erosion in the US market, but the fourth quarter remained relatively stable. (viii) The benefits of increased volumes in bulk sales will be evident in the first quarter. Furthermore, the launch of a few products will contribute to the top line within 12 months. (ix) The biosimilar business, which offers differentiated products, is expected to enhance margins starting from FY25, and make a meaningful revenue contribution in FY26-27. (x) The company has filed a DMF for Liraglutide, a peptide product, and expects to file one more peptide DMF by FY24. Additionally, they intend to file b-Xolair for the US market in FY25. (xi) As per the management guidance, the EBITDA margin (ex-gRevlimid) is expected to gradually increase to 17-18% in FY24.

Valuation and view: We believe, Q4FY23 was a one-off in terms of heightened pressure in the US and Europe revenues, and we should see normalization in coming quarters. The growth market revenue and ARV revenue continued to see healthy growth. Q4FY23 saw sequential improvement in the gross margins. Overall EBITDA margins should improve with the normalization of the topline resulting in lower other expenses as % of sales. Aurobindo continues to target higher global injectable sales, although the target for the same has been delayed by a year. We reduce our FY24E revenue estimate by 5.3% to factor in the delay. **We expect Aurobindo's revenue and adj. PAT to grow at 6.3% and 29.8% CAGR, respectively, over FY23-FY25E. Since our last update, current market price crossed our target price. The stock is currently trading at 13.2x/11.8x of our estimated FY24E/FY25E EPS. We assign a P/E multiple of 12.0x on FY25E EPS of INR 55.4 to arrive at a Target Price (TP) of INR 665 (earlier TP INR 626) and revised the recommendation from 'Accumulate' to 'Hold', as the upside potential is 1.3% from its CMP of INR 657.**

Segments Result (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Formulation	48,960	53,294	47,700	54,525	54,560
USA	27,281	29,711	26,376	30,012	30,450
Europe	15,407	15,481	15,162	17,012	16,600
Growth Markets	3,913	4,306	4,519	4,989	5,920
Anti-retrovirals	2,359	3,796	1,643	2,512	1,590
API	9,129	9,065	9,694	9,546	10,180
Betalactum	5,942	5,514	6,358	6,231	6,380
Non-Betalactum	3,187	3,551	3,336	3,315	3,800
Dossier Income	0	0	0	0	0
Revenue from Operations	58,089	62,359	57,394	64,071	64,740

Segments Performance (% YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Formulation	-6.0%	9.0%	-7.6%	9.2%	11.4%
USA	-4.7%	10.8%	-11.1%	9.3%	11.6%
Europe	-0.8%	-2.2%	-8.8%	0.4%	7.7%
Growth Markets	28.0%	30.8%	17.0%	25.7%	51.3%
Anti-retrovirals	-52.0%	28.1%	13.3%	61.3%	-32.6%
API	14.9%	11.7%	24.2%	-5.5%	11.5%
Betalactum	45.4%	43.7%	51.1%	-8.9%	7.4%
Non-Betalactum	-17.4%	-17.1%	-7.3%	1.6%	19.2%
Dossier Income	-100%	-100%	NA	NA	NA
Revenue from Operations	-3.3%	9.4%	-3.4%	6.7%	11.4%

Revenue Mix (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Formulation	84%	85%	83%	85%	84%
USA	47%	48%	46%	47%	47%
Europe	27%	25%	26%	27%	26%
Growth Markets	7%	7%	8%	8%	9%
Anti-retrovirals	4%	6%	3%	4%	2%
API	16%	15%	17%	15%	16%
Betalactum	10%	9%	11%	10%	10%
Non-Betalactum	5%	6%	6%	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 mns	FY21	FY22	FY23	FY24E	FY25E
Revenues	2,47,746	2,47,061	2,48,554	2,65,087	2,81,008
COGS	99,025	1,01,403	1,12,933	1,20,638	1,27,015
Gross profit	1,48,722	1,45,658	1,35,621	1,44,449	1,53,992
Employee cost	83,173	73,718	96,525	1,10,011	1,15,213
Other expenses	60,037	54,775	62,817	60,921	64,299
EBITDA	53,334	56,374	37,582	45,885	50,352
EBITDA Margin	21.5%	22.8%	15.1%	17.3%	17.9%
Depreciation & amortization	10,554	11,265	12,446	10,776	11,381
EBIT	42,780	45,108	25,136	35,109	38,971
Interest expense	745	486	1,405	1,068	949
Other income	3,808	2,504	2,906	3,181	3,372
PBT	73,990	46,546	26,242	37,222	41,394
Tax	20,098	7,256	6,849	7,817	8,693
Minority interest	-10	-10	2	50	55
PAT	53,349	38,987	19,275	29,197	32,487
Adj. PAT	25,203	39,567	19,275	29,197	32,487
EPS (INR)	91.0	45.2	32.9	49.8	55.4
Adj. EPS	43.0	67.5	32.9	49.8	55.4

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR mns	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	33,289	50,165	23,868	49,097	39,800
Net Cash Flow from/(used in) Investing Activities	5,987	(32,116)	(39,778)	(18,458)	(18,265)
Net Cash Flow from Financing Activities	(13,648)	(29,693)	18,144	(26,695)	(1,741)
Net Inc/Dec in cash equivalents	25,628	(11,644)	2,234	3,944	19,793
Opening Balance	27,637	53,735	41,625	43,923	47,867
Adjustments	469	(467)	(64)	0	0
Closing Balance Cash and Cash Equivalents	53,735	41,625	43,923	47,867	67,660

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	21.5%	22.8%	15.1%	17.3%	17.9%
Tax rate (%)	27.2%	15.6%	26.1%	21.0%	21.0%
Net Profit Margin (%)	10.2%	16.0%	7.8%	11.0%	11.6%
RoE (%)	11.5%	16.1%	7.2%	24.3%	21.1%
RoCE (%)	17.3%	17.7%	8.7%	22.6%	20.6%
EPS (INR)	91.0	45.2	32.9	49.8	55.4

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR mns	FY21	FY22	FY23	FY24E	FY25E
Non-current assets					
Property, plant and equipment	68,866	72,204	75,434	82,269	89,514
Capital work-in-progress	24,289	29,376	44,964	44,964	44,964
Goodwill (Net)	4,289	4,754	5,961	5,961	5,961
Other intangible assets	20,581	23,282	28,843	27,119	25,293
Intangible assets under development	6,326	8,096	8,936	8,936	8,936
Financial assets					
Investments	4,312	5,390	3,017	5,783	6,130
Loans	73	63	56	68	72
Other financial assets	1,433	1,289	1,504	1,383	1,466
Deferred tax assets (Net)	4,527	2,886	6,775	3,096	3,282
Non-current tax assets (Net)	1,283	3,190	2,885	3,422	3,628
Other non-current assets	4,327	7,460	5,069	8,004	8,485
Total non-current assets	1,40,305	1,57,990	1,83,443	1,91,006	1,97,732
Current assets					
Inventories	90,266	75,539	85,112	81,050	85,918
Financial assets					
Trade receivables	35,033	40,123	44,664	43,050	45,636
Cash and cash equivalents	53,735	41,625	43,963	47,867	67,660
Bank balances other than (iii) above	1,008	275	16,879	16,879	16,879
Loans	143	127	124	124	124
Other financial assets	15,617	16,341	2,904	12,760	13,526
Other current assets	836	3,409	20,301	18,868	20,001
Total current assets	1,98,235	1,81,227	2,15,457	2,22,108	2,51,254
TOTAL ASSETS	3,38,540	3,39,217	3,98,900	4,13,114	4,48,986
EQUITY AND LIABILITIES					
Equity					
Equity share capital	586	586	586	586	586
Other equity	2,18,713	2,45,174	2,67,813	2,95,471	3,26,246
Equity attributable to the equity shareholders	2,19,299	2,45,760	2,68,399	2,96,057	3,26,832
Non-controlling interests	-9	-19	120	125	131
Total equity	2,19,290	2,45,741	2,68,519	2,96,182	3,26,962
Liabilities					
Non-current liabilities					
Financial liabilities					
Borrowings	1,684	2,492	6,190	2,492	2,492
Lease obligations	2,662	3,186	3,215	3,215	3,215
Provisions	1,571	1,718	1,727	1,986	2,284
Deferred tax liabilities (Net)	5,746	4,110	3,896	4,481	5,153
Other non-current liabilities	936	411	415	415	415
Total non-current liabilities	12,599	11,917	15,444	12,590	13,560
Current liabilities					
Financial liabilities					
Borrowings	48,027	21,236	42,426	21,236	21,236
Lease obligations	0	1,599	1,032	1,032	1,032
Trade payables	27,947	27,031	38,713	42,967	45,238
Other financial liabilities	21,293	17,747	17,214	21,113	22,229
Other current liabilities	5,562	11,662	11,433	13,875	14,608
Provisions	1,719	1,706	2,005	2,005	2,005
Current tax liabilities (Net)	2,104	580	2,116	2,116	2,116
Total current liabilities	1,06,651	81,560	1,14,938	1,04,343	1,08,464
Total liabilities	1,19,250	93,477	1,30,381	1,16,933	1,22,024
TOTAL EQUITY AND LIABILITIES	3,38,540	3,39,217	3,98,900	4,13,114	4,48,986

Source: Company, KRChoksey Research

Aurobindo Pharma Ltd.

Aurobindo Pharma Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendat ion		
31-May-23	657	665	Hold	Our Rating	
18-Aug-22	580	626	ACCUMULATE	Upside	
02-Jun-22	533	605	ACCUMULATE	Buy	
10-Feb-22	684	756	ACCUMULATE	More than 15%	
09-Nov-21	677	756	ACCUMULATE	Accumulate	
17-Aug-21	731	801	ACCUMULATE	5% – 15%	
30-Jun-21	968	1,044	ACCUMULATE	Hold	
03-Jun-21	968	1,044	ACCUMULATE	0 – 5%	
17-Mar-21	841	1,044	BUY	Reduce	
15-Dec-21	897	1,044	BUY	-5% – 0	
24-Sep-21	780	1,027	BUY	Sell	
14-Aug-20	879	1,027	BUY	Less than – 5%	

ANALYST CERTIFICATION:

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