

Aurobindo Pharma

Estimate change



TP change



Rating change



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Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	444.8 / 5.8
52-Week Range (INR)	791 / 281
1, 6, 12 Rel. Per (%)	9/85/31
12M Avg Val (INR M)	2760

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	231.0	253.2	270.9
EBITDA	48.6	52.2	56.9
Adj. PAT	28.8	31.3	34.1
EBIT Margin (%)	16.9	16.4	16.6
Cons. Adj. EPS (INR)	49.2	53.2	57.8
EPS Gr. (%)	13.9	8.7	9.0
BV/Sh. (INR)	286.9	337.8	392.2

Ratios

Net D:E	0.2	0.1	0.1
RoE (%)	18.8	17.1	15.9
RoCE (%)	14.1	13.6	13.1
Payout (%)	5.2	4.7	6.0

Valuations

P/E (x)	15.5	14.3	13.1
EV/EBITDA (x)	8.3	7.5	7.0
Div. Yield (%)	0.3	0.3	0.5
FCF Yield (%)	7.8	4.0	2.4
EV/Sales (x)	1.8	1.6	1.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.0	51.9	51.9
DII	12.6	13.2	13.7
FII	22.3	21.4	21.5
Others	13.2	13.5	13.0

FII Includes depository receipts

CMP: INR759
TP: INR880 (+16%)
Buy

Better traction in US, EU; superior product mix drives earnings

CAPA completed at Unit-7; pursuing virtual inspections at other sites

- Despite slowdown in ANDA approvals due to regulatory hurdles, ARBP delivered better-than-expected earnings on increased market share in existing products. With the VAI classification at Unit-4 and an increasing number of filings from sites under successful compliance, we expect the pace of launches to improve in the US market going forward. Turnaround in Apotex and continuous effort to better margins in the EU business would further boost overall profitability.
- We raise our EPS estimates for FY21/FY22E by 4.4%/9% to factor a robust launch pipeline for the US market and improving profitability in the EU business. Accordingly, we revise our price target to INR880 (from INR745 earlier), valuing ARBP at 13x 12M forward earnings. Maintain Buy.

Better-than expected performance on all fronts

- ARBP's 4QFY20 sales were up 16.4% YoY to INR61.6b (est.: INR58.2b). Growth was largely led by: a) US formulations (48.6% of sales; 17% YoY constant currency growth to USD413m) and b) the Europe business (27% of sales; 26% YoY growth). The ARV and Growth markets (6% of sales each) grew ~30% YoY in 4QFY20. The API business (12% of sales) was down 17.6% YoY, which dragged down overall growth to some extent.
- The gross margin (GM) at 59.4% was up 290bp YoY due to a superior product mix.
- However, the EBITDA margin at 21.8% (est.: 20.4%) was up 40bp YoY due to higher other expenses / employee cost (+240bp YoY /+50bp YoY as a percentage of sales), offset by lower R&D spend (-50bp YoY as a percentage of sales). EBITDA grew 19% YoY to INR13.4b (est.: INR11.9b).
- ARBP saw forex loss of INR260m and exceptional cost of INR120m related to the acquisition. Adjusting for the same, PAT was INR8.6b (est.: INR7b), up 29.7% on revenue growth, better operating margins, and a lower tax rate.
- FY20 revenues/EBITDA/PAT came in at INR231b/INR49b/INR29b, up 18%/21%/14% on a YoY basis on account of robust performances in key markets in the US/EU.

Highlights from management commentary

- Regulatory aspect: ARBP has completed CAPA and updated the USFDA recently for Unit-7. ARBP has completed remediation, including consultant certifications for units 1, 9, and 11. ARBP has requested for a desktop review for Unit-11.
- ARBP guided for R&D spend at 5.5% of sales, primarily toward clinical trials for biosimilars and complex products.
- ARBP intends to file 50–60 ANDAs and launch a similar number of products in FY21, including already approved products (25).
- ARBP intends to be net debt free by FY22 v/s the earlier guidance for FY23.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

We raise ARBP's EPS estimate for FY20/FY21 by 4.4%/9%, and expect a 9% earnings CAGR over FY20–22, led by new launches and increased market share in key markets (US/EU). We continue to value ARBP at 13x 12M forward earnings and arrive at a price target of INR880. We remain positive on ARBP on account of a robust ANDA pipeline, pending approval, as well as a niche product pipeline build-up for the developed markets. Maintain Buy.

Quarterly performance (Consolidated)

Y/E March	(INR m)											
	FY19				FY20				FY19	FY20	FY20E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	42,503	47,514	52,697	52,922	54,446	56,005	58,950	61,584	195,636	230,985	58,239	5.7%
YoY Change (%)	15.5	7.1	21.5	30.7	28.1	17.9	11.9	16.4	18.6	18.1	10.0	
EBITDA	7,792	10,260	10,864	11,303	11,464	11,675	12,080	13,424	40,219	48,643	11,903	12.8%
YoY Change (%)	-7.4	-8.2	5.9	40.6	47.1	13.8	11.2	18.8	6.2	20.9	5.3	
Depreciation	1,545	1,637	1,631	1,866	2,409	2,433	2,501	2,324	6,680	9,667	2,536	
EBIT	6,247	8,623	9,233	9,437	9,055	9,241	9,579	11,100	33,540	38,976	9,367	
YoY Change (%)	-12.1	-12.5	4.0	45.8	45.0	7.2	3.8	17.6	3.8	16.2	-1	
Interest	295	354	477	501	499	409	371	318	1,627	1,598	316	
Other Income	437	263	134	323	110	206	220	326	1,157	862	214	
PBT before EO expense	6,389	8,532	8,890	9,259	8,666	9,038	9,428	11,108	33,070	38,240	9,264	19.9%
Forex loss/(gain)	682	397	-505	28	-48	272	-89	262	603	397	0	
Exceptional (expenses)/income	0	-268	-250	(1,062)	-127	-128	-129	123	(1,581)	(261)	0	
PBT	5,707	7,866	9,144	8,169	8,587	8,638	9,388	10,969	30,887	37,582	9,264	18.4%
Tax	1,155	1,754	2,048	2,311	2,278	2,244	2,329	2,285	7,269	9,135	2,327	
Rate (%)	20.2	22.3	22.4	28.3	26.5	26.0	24.8	20.8	23.5	24.3	25.1	
Minority Interest	-3	-2	-26	4	-47	-1	6	185	-29	143	-13	
Reported PAT	4,555	6,114	7,122	5,854	6,357	6,395	7,053	8,499	23,647	28,304	6,950	22.3%
Adj PAT	5,095	6,632	6,925	6,636	6,415	6,691	7,083	8,609	25,288	28,798	6,950	23.9%
YoY Change (%)	-2.8	-15.1	5.5	22.6	25.9	0.9	2.3	29.7	1.1	13.9	4.7	
Margins (%)	12.0	14.0	13.1	12.5	11.8	11.9	12.0	14.0	12.9	12.5	11.9	

Key performance Indicators (Consolidated)

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Formulations	35,008	39,348	43,478	43,735	47,119	47,939	51,050	54,012	161,571	200,119
YoY Change (%)	14.7	7.4	21.8	34.6	34.6	21.8	17.4	23.5	19.4	23.9
ARV form.	1,556	2,440	2,813	2,915	3,185	2,379	3,134	3,818	9,725	12,515
YoY Change (%)	-36.4	17.6	17.7	96.2	104.7	-2.5	11.4	31.0	15.8	28.7
US generic form.	18,896	22,268	24,332	24,811	26,884	28,355	29,694	29,903	90,307	114,835
YoY Change (%)	11.5	6.1	27.4	42.7	42.3	27.3	22.0	20.5	21.3	27.2
EU and ROW form.	14,556	14,640	16,333	16,009	17,050	17,205	18,222	20,291	61,539	72,769
YoY Change (%)	31.0	7.9	14.9	17.6	17.1	17.5	11.6	26.7	17.2	18.2
APIs	7,480	8,166	9,218	9,168	7,322	8,058	7,898	7,556	34,030	30,834
YoY Change (%)	19.7	5.8	20.4	14.7	-2.1	-1.3	-14.3	-17.6	14.7	-9.4
Cost Break-up										
RM Cost (% of Sales)	44.9	43.0	45.4	43.5	42.2	42.3	43.5	40.6	44.2	42.1
Staff Cost (% of Sales)	14.0	13.2	12.3	13.5	14.3	13.9	13.5	14.0	13.2	13.9
R&D Expenses(% of Sales)	4.0	4.6	4.8	4.4	4.5	4.0	4.3	3.9	4.5	4.1
Other Cost (% of Sales)	18.8	17.7	16.9	17.3	17.9	19.0	18.2	19.6	17.6	18.5
Gross Margins(%)	55.1	57.0	54.6	56.5	57.8	57.7	56.5	59.4	55.8	57.9
EBITDA Margins(%)	18.3	21.6	20.6	21.4	21.1	20.8	20.5	21.8	20.6	21.1
EBIT Margins(%)	14.7	18.1	17.5	17.8	16.6	16.5	16.2	18.0	17.1	16.9

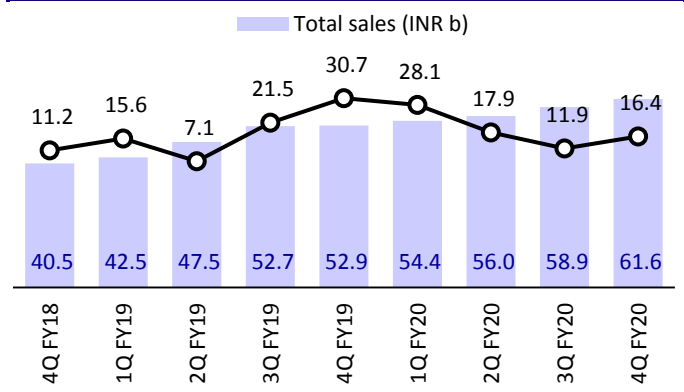


Conference call highlights

- Lower injectables sales in Q4FY20 were due to lower hospitalizations / elective surgeries, affecting the sale of Ertapenem.
- GM improvement was ascribed to product mix, favorable currency, and lower raw material cost.
- ARBP is developing eight inhalers (six metered dose inhalers; two dry powder inhalers), eight transdermal patches, five biosimilars, and 36 topicals. Clinical trials for a depot injection are expected to start in 3QFY21.
- The first two biosimilar products would be filed in Europe at the end of this year or early next year. The company is expected to acquire approvals for this in seven months, and this would be reflected in revenues in FY22.
- ARBP expects the Apotex business to achieve breakeven in 2HFY21.
- ARBP guided for capex of USD150–200m for FY21.

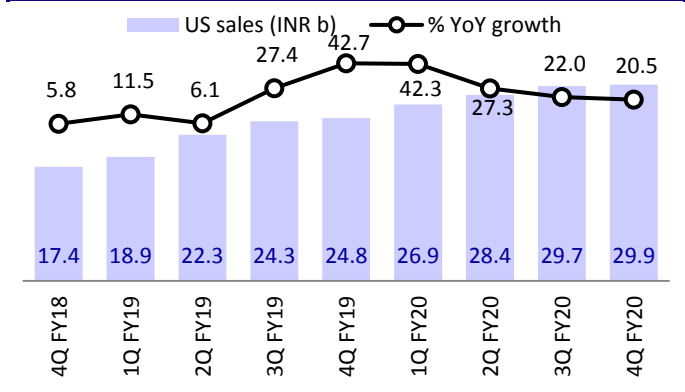
Key exhibits

Exhibit 1: 16.4% YoY growth in revenues (4QFY20)



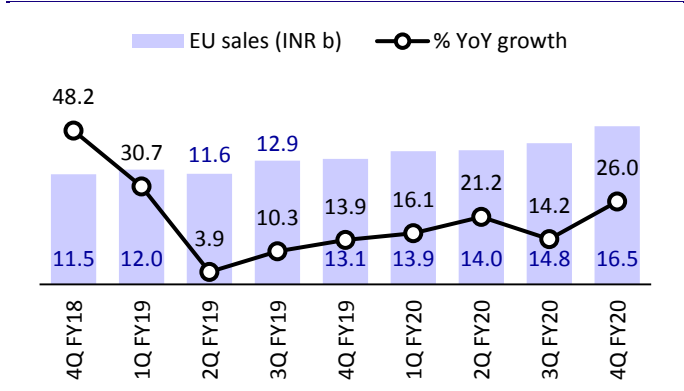
Source: MOFSL, Company

Exhibit 2: US business grew a strong 21% YoY



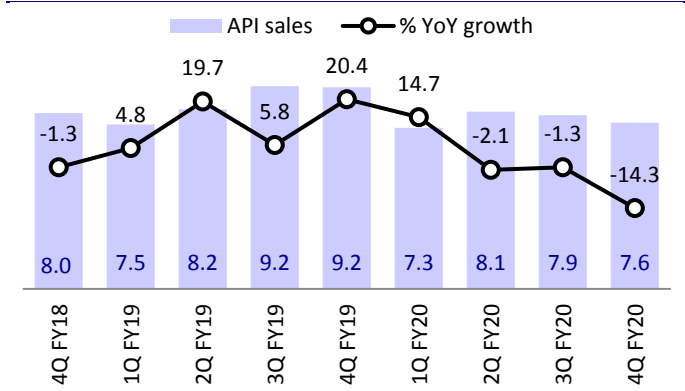
Source: MOFSL, Company

Exhibit 3: EU sales run-rate on an uptrend YoY

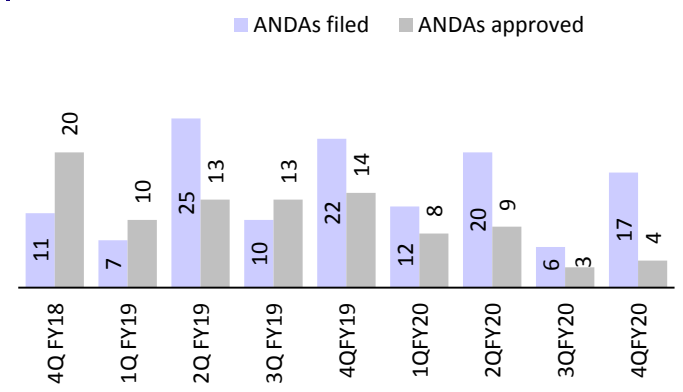


Source: MOFSL, Company

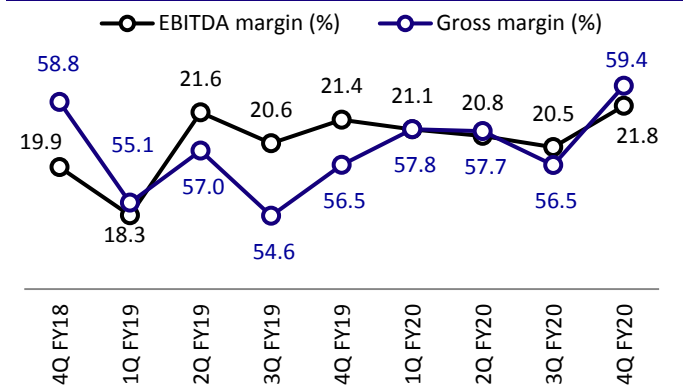
Exhibit 4: APIs declined 14% YoY



Source: MOFSL, Company

Exhibit 5: ARBP filed for 17 ANDAs during the quarter

Source: MOFSL, Company

Exhibit 6: Gross margin at +290bp YoY

Source: MOFSL, Company

Valuation view

Injectables drives US growth; on track to develop complex products

ARBP garnered a 15% CAGR in US Generics sales over FY16–20, driven by 32% growth in Injectables. Oral Solids (OSDs) and other dosage forms grew at a 13% CAGR; Natrol grew at a 5% CAGR during this period. Inorganic growth also supported overall growth to some extent. Particularly, for FY20, ARBP delivered 25.5% YoY growth to USD1.6b.

ARBP has a strong product pipeline, with 161 ANDAs pending approval. While injectables and oral solids remain the key dosages in the pipeline over the near term, ARBP is also in the process of developing/filing complex products in domains such as Inhalers, Topicals, Transdermals, Biosimilars, and Depot Injections. The VAI classification minimizes regulatory risk, further improving visibility from the Injectables pipeline. We await clarity on compliance for other sites (Unit 1/9/11), currently facing regulatory concerns. Considering a 3–5% price erosion in the base business and the gradual pace of approvals for complex products, we expect ARBP to deliver a 3% CAGR (constant currency terms) in the US sales base over FY20–22.

Europe – on the path to improving profitability

The EU business grew 19.4% YoY to INR59b in FY20. The 17% CAGR over FY16–20 in the EU business was supported by acquisitions (Generis in FY18 / Apotex's Europe business in FY19), in addition to increased product offerings and higher penetration. With further enhancement in the product portfolio as well as better traction in recently added markets, we expect a 9% CAGR in the Europe business over FY20–22. Furthermore, with improving margins in the Apotex business and an increasing shift in manufacturing to facilities in India, we expect better profitability in the overall Europe business going forward.

Financial leverage on the downtrend

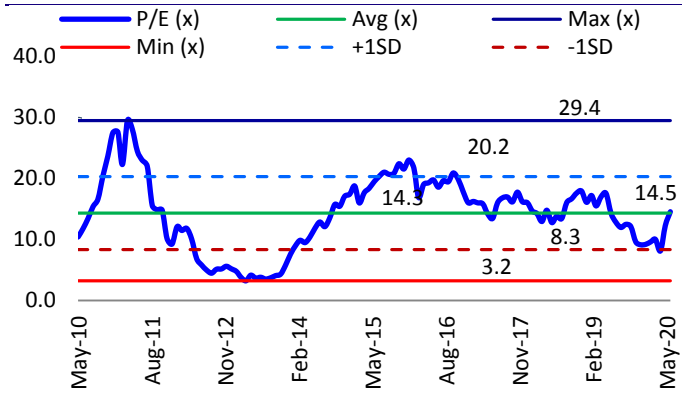
The company has reduced net debt by USD87m in Q4FY20 and USD234m in FY20. This now stands at USD359m. ARBP has guided to be net debt free by FY22; this provides further comfort from a financial leverage perspective.

Valuation and view:

We raise our EPS estimate for ARBP for FY20/FY21 by 4.4%/9%, and expect a 9% earnings CAGR over FY20–22, led by new launches and increased market share in key markets (US/EU). We continue to value ARBP at 13x 12M forward earnings and

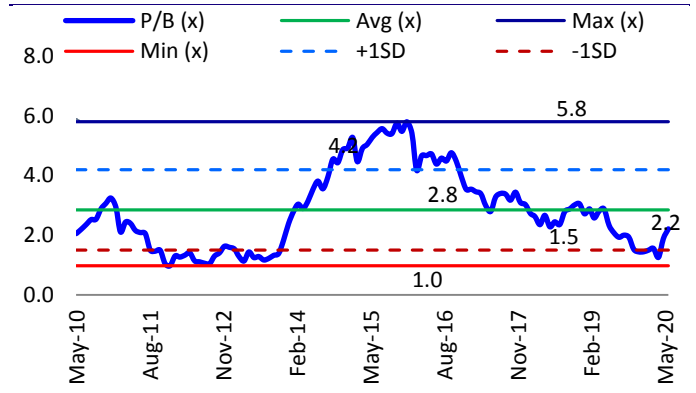
arrive at a price target of INR880. We remain positive on ARBP on account of a robust ANDA pipeline, pending approval, as well as a niche product pipeline build-up for developed markets. Maintain Buy.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

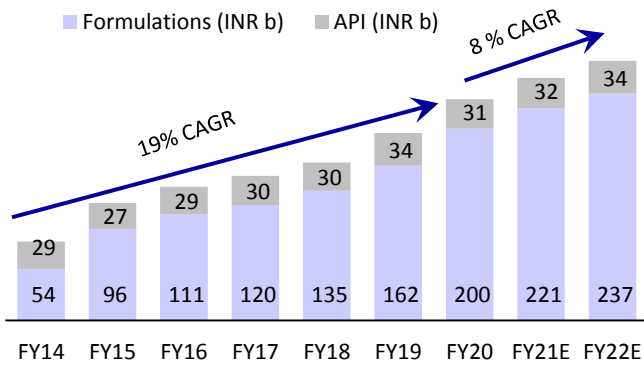
Exhibit 8: P/B chart



Source: MOFSL, Company, Bloomberg

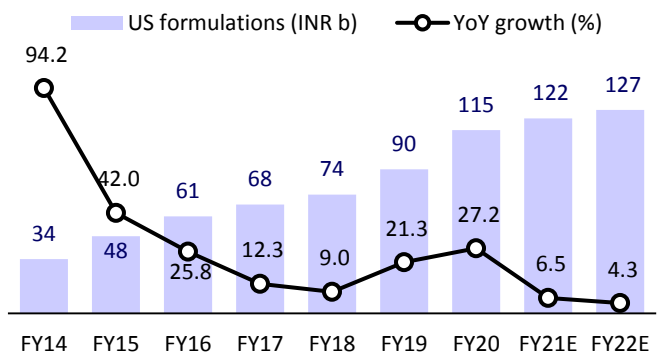
Story in charts

Exhibit 9: Expect sales CAGR of 8% over FY20–22



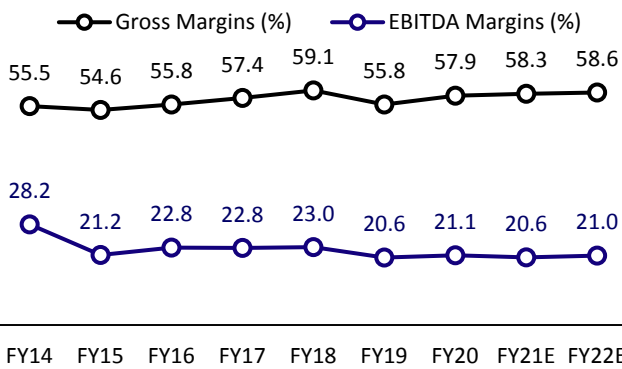
Source: Company, MOFSL

Exhibit 10: US business to grow at 5% CAGR over FY20–22



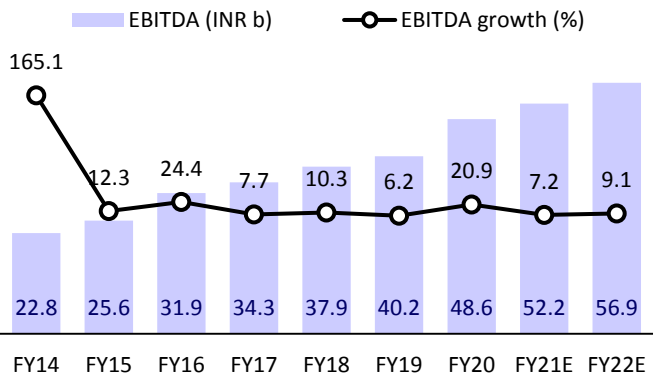
Source: Company, MOFSL

Exhibit 11: Margins to improve gradually



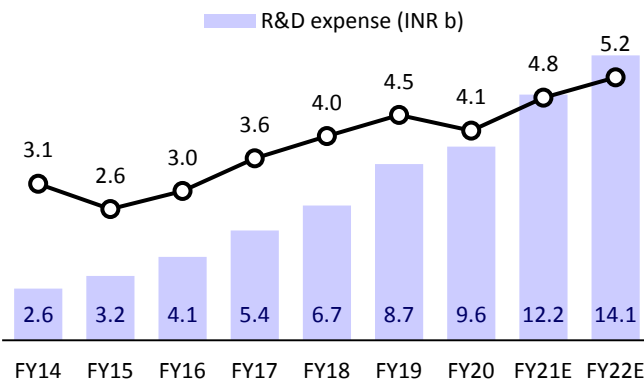
Source: Company, MOFSL

Exhibit 12: Expect EBITDA CAGR of 8.2% over FY20–22



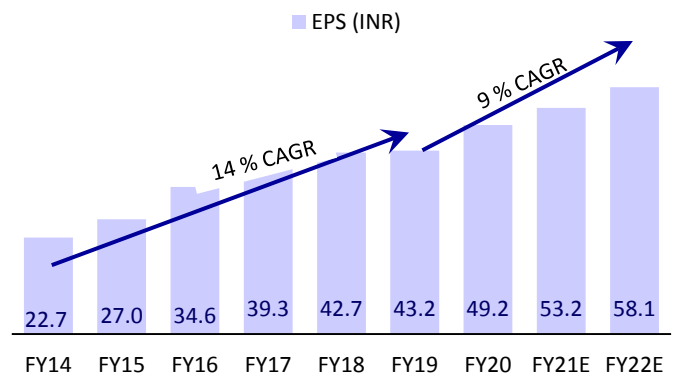
Source: Company, MOFSL

Exhibit 13: R&D expense to increase going forward



Source: Company, MOFSL

Exhibit 14: Expect EPS CAGR of ~9% over FY20–22



Source: Company, MOFSL

Financials and Valuations

Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	121,205	139,553	150,897	164,998	195,636	230,985	253,215	270,944
Change (%)	49.6	15.1	8.1	9.3	18.6	18.1	9.6	7.0
Total Expenditure	95,569	107,671	116,556	127,113	155,416	182,342	201,053	214,046
EBITDA	25,636	31,882	34,341	37,885	40,219	48,643	52,162	56,898
Margin (%)	21.2	22.8	22.8	23.0	20.6	21.1	20.6	21.0
Depreciation	3,326	3,924	4,276	5,580	6,680	9,667	10,362	11,467
EBIT	22,310	27,958	30,065	32,305	33,540	38,976	41,800	45,431
Int. and Finance Charges	843	927	667	777	1,627	1,598	1,442	1,460
Other Income	808	701	538	1,020	1,157	862	750	790
PBT bef. EO Exp.	22,275	27,733	29,936	32,548	33,070	38,240	41,108	44,760
EO Items	-596	-304	621	-168	-2,183	-658	0	0
PBT after EO Exp.	21,679	27,429	30,557	32,380	30,887	37,582	41,108	44,760
Current Tax	5,966	7,207	7,596	8,183	7,269	9,135	9,866	10,698
Deferred Tax	0	0	0	0	0	0	0	1
Tax Rate (%)	27.5	26.3	24.9	25.3	23.5	24.3	24.0	23.9
Less: Minority Interest	-45	-30	-55	-34	-29	143	-55	-55
Reported PAT	15,758	20,252	23,015	24,231	23,647	28,304	31,297	34,117
Adjusted PAT	15,758	20,251	23,015	25,021	25,288	28,798	31,297	34,117
Change (%)	19.1	28.5	13.6	8.7	1.1	13.9	8.7	9.0
Margin (%)	13.0	14.5	15.3	15.2	12.9	12.5	12.4	12.6

Consolidated - Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	584	585	586	586	586	586	586	586
Total Reserves	50,975	72,288	93,133	116,218	138,322	167,518	197,350	229,416
Net Worth	51,559	72,873	93,719	116,804	138,908	168,104	197,936	230,002
Minority Interest	258	26	21	18	16	1	1	1
Deferred Liabilities	2,058	-1,823	-1,185	765	980	1,393	1,421	1,449
Total Loans	38,636	44,155	30,841	44,825	67,532	54,223	56,934	51,241
Capital Employed	92,511	115,230	123,397	162,413	207,436	223,721	256,292	282,693
Gross Block	53,821	41,312	53,650	70,719	97,987	116,412	127,412	142,412
Less: Accum. Deprn.	17,405	3,455	7,168	11,843	18,298	27,965	38,328	49,795
Net Fixed Assets	36,416	37,856	46,482	58,876	79,689	88,447	89,084	92,617
Goodwill on Consolidation	640	4,063	4,063	8,165	8,325	9,159	9,159	9,159
Capital WIP	4,196	8,359	12,374	13,995	13,419	16,218	16,218	16,218
Total Investments	198	1,230	2,459	3,115	3,602	5,547	5,547	5,547
Curr. Assets, Loans&Adv.	87,647	105,631	95,439	125,312	157,675	168,260	201,160	219,886
Inventory	36,113	40,561	43,305	58,584	72,456	76,999	83,894	101,415
Account Receivables	35,392	46,067	35,042	38,721	34,150	43,152	55,499	65,323
Cash and Bank Balance	4,691	8,003	5,135	12,616	19,572	28,422	44,568	35,948
Loans and Advances	11,451	11,001	11,957	15,390	31,498	19,689	17,200	17,200
Curr. Liability & Prov.	36,587	41,909	37,420	47,051	55,275	63,911	64,877	60,734
Account Payables	20,511	24,570	24,883	26,274	25,522	25,450	34,252	30,108
Other Current Liabilities	13,650	15,776	11,415	18,209	26,104	33,547	30,000	30,000
Provisions	2,426	1,563	1,123	2,568	3,649	4,914	625	626
Net Current Assets	51,060	63,722	58,019	78,260	102,400	104,350	136,283	159,152
Appl. of Funds	92,511	115,230	123,397	162,413	207,436	223,721	256,292	282,693

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	27.0	34.6	39.3	42.7	43.2	49.2	53.4	58.2
Cash EPS	32.7	41.3	46.6	52.2	54.6	65.7	71.1	77.8
BV/Share	88.3	124.5	160.0	199.4	237.1	286.9	337.8	392.6
DPS	2.2	2.3	1.9	3.7	2.5	2.5	2.5	3.5
Payout (%)	9.9	8.0	6.0	10.9	6.8	5.2	4.7	6.0
Valuation (x)								
P/E	28.2	22.0	19.4	17.8	17.7	15.5	14.3	13.1
Cash P/E	23.3	18.4	16.4	14.6	14.0	11.6	10.7	9.8
P/BV	8.6	6.1	4.8	3.8	3.2	2.7	2.3	1.9
EV/Sales	3.4	3.0	2.7	2.5	2.2	1.8	1.6	1.5
EV/EBITDA	16.2	13.1	11.8	10.9	10.6	8.3	7.5	7.0
Dividend Yield (%)	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.5
FCF per share	5.1	-0.5	27.0	7.3	1.6	50.4	25.8	15.6
Return Ratios (%)								
RoE	35.4	32.5	27.6	23.8	19.8	18.8	17.1	15.9
RoCE	20.4	20.4	19.0	17.4	14.4	14.1	13.6	13.1
RoIC	20.9	22.8	22.5	20.4	16.9	17.1	17.5	16.7
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	3.4	2.8	2.3	2.0	2.0	2.0	1.9
Inventory (Days)	198	227	238	275	277	280	278	301
Debtor (Days)	91	107	98	82	68	61	71	81
Creditor (Days)	113	134	140	138	109	96	103	105
Working Cap. (Days)	177	200	196	219	235	246	246	278
Leverage Ratio (x)								
Current Ratio	2.4	2.5	2.6	2.7	2.9	2.6	3.1	3.6
Interest Cover Ratio	26	30	45	42	21	24	29	31
Net Debt/Equity	0.7	0.5	0.3	0.3	0.3	0.2	0.1	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	22,310	27,443	30,608	32,412	30,914	37,430	41,800	45,431
Depreciation	3,326	3,924	4,276	5,580	6,680	9,667	10,362	11,467
Interest / Dividend received	808	689	384	509	1,370	1,207	750	790
Direct Taxes Paid	-5,966	-7,326	-7,737	-6,986	-7,698	-7,298	-9,866	-10,698
(Inc)/Dec in WC	-2,515	-10,794	5,341	-10,358	-14,845	2,769	-16,934	-22,868
CF from Operations	17,963	13,936	32,872	21,157	16,420	43,775	26,113	24,122
Others	-596	262	-86	-1,609	90	38	0	0
CF from Operating incl EO	17,367	14,198	32,786	19,548	16,510	43,813	26,113	24,122
(inc)/dec in FA	-14,389	-14,475	-16,942	-15,299	-15,591	-14,311	-11,000	-15,000
Free Cash Flow	2,978	-277	15,844	4,249	919	29,502	15,113	9,122
(Pur)/Sale of Investments	0	23	-929	-3,967	-13,435	-1,366	0	0
CF from Investments	-14,388	-14,452	-17,870	-19,266	-29,026	-15,677	-11,000	-15,000
Change in network								
Inc/(Dec) in Debt	2,298	6,033	-17,279	2,858	26,242	-13,130	2,711	-5,693
Interest Paid	-843	-835	-568	-742	-1,515	-1,266	-1,442	-1,460
Dividend Paid	-1,563	-1,616	-1,372	-2,641	-1,599	-1,884	-1,465	-2,051
CF from Fin. Activity	-322	3,566	-17,784	7,200	19,472	-19,287	1,033	-17,741
Inc/Dec of Cash	2,656	3,312	-2,868	7,482	6,955	8,850	16,146	-8,619
Opening Balance	1,786	4,691	8,003	5,135	12,616	19,572	28,422	44,568
Closing Balance	4,442	8,003	5,134	12,617	19,572	28,422	44,568	35,948

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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