

Retail Equity Research

Aurobindo Pharma Limited

Pharmaceuticals

BSE CODE: 524804

NSE CODE: AUROPHARMA

Bloomberg CODE: ARBP:IN

SENSEX: 59,411

BUY

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 463 TARGET Rs. 554 RETURN 20% ↑
(Closing: 01-03-23)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

New products to drive financial performance.

Aurobindo Pharma Ltd (ARBP) is a leading pharmaceutical company that is vertically integrated with business units engaged in formulations, custom synthesis, peptides, R&D and API.

- ARBP's revenue in Q3FY23 rose 6.7% YoY to Rs. 6,407cr, mainly driven by revenue from the US. Its PAT declined 13.8% YoY (+20.0% QoQ) to Rs. 491cr.
- EBITDA margin contracted 200bps YoY to 14.9% (+30bps QoQ), primarily due to increased R&D expenses and higher other overheads.
- The US market share recovery, the Penicillin-G project, and the biosimilars business' new product launches are expected to support the company in generating strong cash flow from FY25. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 554 based on 12x FY25E adjusted EPS.

Revenue rises as the US and RoW segments improve

ARBP's Q3FY23 revenue rose 6.7% YoY to Rs. 6,407cr, driven by better volume growth, demand and stable pricing. Revenue from formulations increased 9.2% YoY and 14.3% QoQ, while that from API fell 5.5% YoY and 1.5% QoQ. The US business improved 9.3% YoY to Rs. 3,001cr driven by a rise in volume and higher demand, which accounted for 46.8% of consolidated revenue. The RoW business rose a significant 25.7% YoY (+10.4% QoQ) to Rs. 498.9cr. The European business was largely stable YoY at Rs. 1,701cr. Revenue is expected to improve further going forward, supported by new product launches quartering Q3 FY23. EBITDA decreased 6.1% YoY to Rs. 954cr (+14.0% QoQ) on account of growth in R&D expenses and other overheads. Consequently, EBITDA margin shrank 200 bps YoY to 14.9% (+30bps QoQ). Finance costs rose to Rs 45cr, up 178.7% YoY and 77.8% QoQ, primarily due to volatility in multiple currency loan and rate hike by the US Fed. PAT fell 13.8% YoY (+20.0% QoQ) to Rs.491cr.

Key concall highlights

- In terms of US business, the company is expected to generate a double-digit growth going forward.
- ARB aims to commercialise 40 ANDAs in the next 12 months and has received a few approvals, which are in the process of launching in Q4 FY23.
- The company expects to generate strong cash flow from FY25, supported by the Penicillin-G project and biosimilars business.

New products and strong pipeline to drive financial performance.

In Q3FY23, the company introduced 11 products including six injectables, received final approval for 15 ANDAs and filed 11 new ANDAs, including 2 injectables for approval. Moreover, Pen G and biosimilar projects are in the process of commissioning. These projects are expected to generate cash from FY25.

Valuation

In the coming quarter, we expect margin to remain under pressure as R&D expenditure is expected to be elevated. However, the company's new products and upcoming projects are likely to support its long-term performance. In addition, the US business is recovering, and sales has increased due to higher demand, volume and stable price. The US is expected to follow the trend in the coming quarter and fiscal year. Therefore, we remain optimistic about the stock and retain our BUY rating with a revised target price of Rs. 554 based on 12x FY25E adjusted EPS.

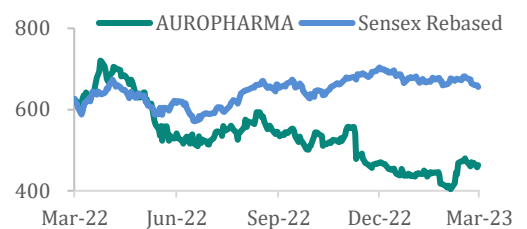
Company Data

Market Cap (cr)	Rs. 27,163
Enterprise Value (cr)	Rs. 27,518
Outstanding Shares (cr)	58.6
Free Float	48.0%
Dividend Yield	1.0%
52 week high	Rs. 730
52 week low	Rs. 397
6m average volume	88,100
Beta	0.7
Face value	Rs. 1

Shareholding %	Q1FY23	Q2FY23	Q3FY23
Promoters	51.8	51.8	51.8
FII's	20.7	21.4	22.3
MFs/Insti	17.3	16.6	14.9
Public	8.8	9.9	10.6
Others	1.4	0.3	0.3
Total	100.0	100.0	100.0
Promoters' pledge	14.97	14.92	16.15

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-1.2%	-14.1%	-25.9%
Absolute Sensex	-6.1%	1.1%	5.6%
Relative Return*	4.9%	-15.1%	-31.5%

*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	25,630	27,242	29,010
Growth (%)	9.3	6.3	6.5
EBITDA	3,901	4,663	5,292
EBITDA Margin (%)	15.2	17.1	18.2
Adj. PAT	1,971	2,304	2,704
Growth (%)	(29.0)	16.9	17.4
Adj. EPS	33.6	39.3	46.2
Growth (%)	(29.0)	16.9	17.4
P/E	13.8	11.8	10.0
P/B	1.0	1.0	0.9
EV/EBITDA	7.1	5.8	4.9
ROE (%)	7.5	8.1	8.8
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %	9MFY23	9MFY22	YoY Growth %
Revenue	6,407	6,002	6.7	5,739	11.6	18,382	17,646	4.2
EBITDA	954	1,016	<i>(6.1)</i>	837	<i>14.0</i>	2,756	3,412	<i>(19.2)</i>
EBITDA margins	14.9	16.9	(200bps)	14.6	30bps	15.0	19.3	(430bps)
Depreciation	321	299	7.5	298	7.8	899	873	3.0
EBIT	633	717	<i>(11.7)</i>	539	<i>17.5</i>	1,857	2,539	<i>(26.9)</i>
Interest	45	16	178.7	25	77.8	85	39	115.3
Other Income	93	65	42.6	11	735.4	116	271	(57.2)
Exceptional Items	-	35	<i>n.m.</i>	-	<i>n.m.</i>	-	35	<i>n.m.</i>
PBT	680	794	<i>(14.3)</i>	523	<i>30.0</i>	1,882	2,779	<i>(32.3)</i>
Tax	189	189	<i>(0.2)</i>	113	67.4	461	708	<i>(34.9)</i>
Share of profit from Associate	(1)	(7)	91.7	(1)	52.0	(6)	(27)	78.7
Minority Interest	(0)	(0)	43.2	1	<i>n.m.</i>	1	(1)	<i>n.m.</i>
Reported PAT	491	605	<i>(18.8)</i>	409	<i>20.0</i>	1,421	2,072	<i>(31.4)</i>
Adjustments	-	(35)	<i>n.m.</i>	-	<i>n.m.</i>	-	(35)	<i>n.m.</i>
Adj. PAT	491	570	<i>(13.8)</i>	409	<i>20.0</i>	1,421	2,037	<i>(30.2)</i>
No. of shares	58.6	58.6	0.0	58.6	0.1	58.6	58.6	0.0
Adj. EPS (Rs.)	8.4	9.7	<i>(13.8)</i>	7.0	<i>19.9</i>	24.2	34.8	<i>(30.3)</i>

Segment revenue

	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %
US	3,001	2,745	9.3	2,638	13.8
Europe	1,701	1,694	0.4	1,516	12.2
RoW	499	397	25.7	452	10.4
Antiretroviral drug formulations (ARVs)	251	156	60.9	164	53.0
Total Formulations	5,452	4,992	9.2	4,770	14.3
Active pharmaceutical ingredient (APIs)	955	1,010	<i>(5.4)</i>	969	<i>(1.4)</i>
Total Sales	6,407	6,002	6.7	5,739	11.6

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	25,329	27,353	25,630	27,242	29,010	1.2	<i>(0.4)</i>
EBITDA	4,692	5,381	3,901	4,663	5,292	<i>(16.9)</i>	<i>(13.4)</i>
Margins (%)	18.5	19.7	15.2	17.1	18.2	<i>(330bps)</i>	<i>(260bps)</i>
Adj. PAT	2,690	3,138	1,971	2,304	2,704	<i>(26.8)</i>	<i>(26.6)</i>
Adj. EPS	45.9	53.6	33.6	39.3	46.2	<i>(26.8)</i>	<i>(26.6)</i>

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	24,775	23,455	25,630	27,242	29,010
% change	7.3	(5.3)	9.3	6.3	6.5
EBITDA	5,333	4,387	3,901	4,663	5,292
% change	9.6	(17.7)	(11.1)	19.5	13.5
Depreciation	1,055	1,127	1,380	1,615	1,702
EBIT	4,278	3,260	2,521	3,047	3,590
Interest	74	49	116	93	84
Other Income	2,759	(159)	(31)	(31)	(31)
PBT	7,344	3,373	2,624	3,174	3,725
% change	96.2	(54.1)	(22.2)	21.0	17.4
Tax	2,010	726	653	870	1,021
Tax Rate (%)	27.4	21.5	24.9	27.4	27.4
Reported PAT	5,335	2,648	1,971	2,304	2,704
Adj*	(2,815)	128	-	-	-
Adj PAT	2,520	2,776	1,971	2,304	2,704
% change	(11.8)	10.2	(29.0)	16.9	17.4
No. of shares (cr)	58.6	58.6	58.6	58.6	58.6
Adj EPS (Rs.)	43.0	47.4	33.6	39.3	46.2
% change	(11.8)	10.2	(29.0)	16.9	17.4
DPS (Rs.)	4.0	4.5	4.5	4.5	4.5
CEPS (Rs.)	61.0	66.6	57.2	66.9	75.2

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	6,390	3,775	3,351	3,919	4,406
Non-cash adj.	(2,310)	44	(377)	104	99
Changes in W.C	(751)	1,197	(2,444)	(559)	(607)
C.F. Operation	3,329	5,016	530	3,465	3,898
Capital exp.	(1,826)	(2,324)	(2,179)	(2,316)	(2,466)
Change in inv.	2,432	(1,017)	(133)	(141)	(150)
Other invest.CF	(8)	129	-	-	-
C.F - Investment	599	(3,212)	(2,311)	(2,457)	(2,616)
Issue of equity	-	-	-	-	-
Issue/repay debt	(1,082)	(2,687)	(237)	(214)	(192)
Dividends paid	(234)	(264)	(264)	(264)	(264)
Other finance.CF	(48)	(18)	(116)	(93)	(84)
C.F - Finance	(1,365)	(2,969)	(617)	(570)	(540)
Chg. in cash	2,563	(1,164)	(2,399)	438	742
Closing cash	5,373	4,163	1,764	2,202	2,944

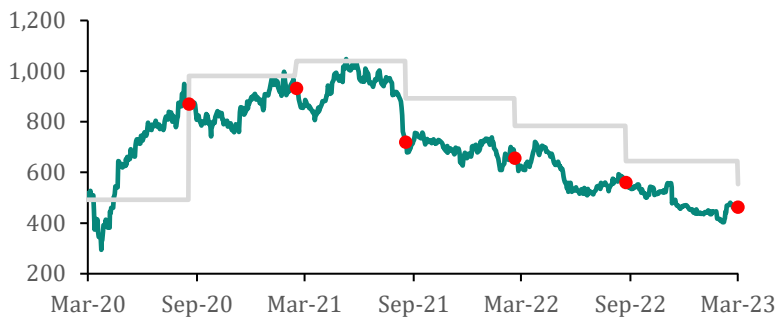
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	5,373	4,163	1,764	2,202	2,944
Accounts Receivable	3,503	4,012	4,665	4,958	5,280
Inventories	9,027	7,554	9,437	9,814	10,220
Other Cur. Assets	1,920	2,394	2,128	2,137	2,145
Investments	337	539	591	643	695
Gross Fixed Assets	9,254	11,578	13,756	16,072	18,538
Net Fixed Assets	6,887	7,728	8,307	8,814	9,368
CWIP	2,429	2,938	3,157	3,350	3,561
Intangible Assets	3,120	3,613	3,694	3,783	3,881
Def. Tax (Net)	453	289	260	346	406
Other Assets	806	692	713	736	761
Total Assets	33,854	33,922	34,716	36,783	39,260
Current Liabilities	5,862	6,032	5,515	5,672	5,842
Provisions	157	172	172	172	172
Debt Funds	4,971	2,373	2,135	1,922	1,730
Other Liabilities	934	771	613	696	755
Equity Capital	59	59	59	59	59
Reserves & Surplus	21,871	24,517	26,224	28,265	30,705
Shareholder's Fund	21,930	24,576	26,283	28,323	30,764
Minority Interest	(1)	(2)	(2)	(2)	(2)
Total Liabilities	33,854	33,922	34,716	36,783	39,260
BVPS (Rs.)	374	419	449	483	525

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	21.5	18.7	15.2	17.1	18.2
EBIT margin (%)	17.3	13.9	9.8	11.2	12.4
Net profit mgn.(%)	21.5	11.3	7.7	8.5	9.3
ROE (%)	24.3	10.8	7.5	8.1	8.8
ROCE (%)	15.9	12.1	8.9	10.1	11.0
W.C & Liquidity					
Receivables (days)	51.6	62.4	66.4	66.4	66.4
Inventory (days)	332.7	271.9	290.9	290.9	290.9
Payables (days)	103.0	97.3	86.1	86.1	86.1
Current ratio (x)	1.9	2.2	2.4	2.6	2.8
Quick ratio (x)	0.9	1.1	0.9	1.0	1.2
Turnover & Leverage					
Gross asset T.O (x)	3.4	2.8	2.5	2.2	1.9
Total asset T.O (x)	0.8	0.7	0.7	0.8	0.8
Int. coverage ratio (x)	57.4	67.0	21.7	32.8	42.8
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.1	1.6	1.1	1.0	0.9
EV/EBITDA (x)	9.6	8.5	7.1	5.8	4.9
P/E (x)	20.5	14.1	13.8	11.8	10.0
P/BV (x)	2.4	1.6	1.0	1.0	0.9

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
27-Aug-19	BUY	676
11-Dec-19	BUY	492
18-Aug-20	BUY	981
15-Feb-21	BUY	1,040
18-Aug-21	BUY	892
18-Feb-22	BUY	784
24-Aug-22	BUY	645
2-Mar-23	BUY	554

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India.

Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com,

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