

# Aurobindo Pharma

BUY

CMP Rs938

Target Rs1,080

Upside 13.2%

<b>Our View</b>	✓ Strong momentum in injectables business to support US business as acceleration unlikely in slow growing oral solids
	✓ Steady margin uptick over next 2 years as better margin injectables business offset to an extent by lackluster oral solids profitability
	✓ Net cash balance sheet offers comfort; as also gives firepower to plug gaps in US portfolio
	✓ FY21 estimates change as gains from Natrol sale are crystalized; minor 2% cut to FY23 EPS on marginally lower US sales assumption
<b>Highlights</b>	✓ BUY stays on unchanged 15x PE; sustained execution to drive stock upside
	✓ Adjusted for Natrol, US revs up 10% yoy vs reported 6% yoy. Cc growth at 2% yoy on reported basis. Injectables business remains on strong growth trajectory
	✓ Europe cc growth less than 2% yoy as sales benefited from 12% yoy FX tailwind; company expects European margin to pick up pace from current low double digit run rate
<b>Risk to our call</b>	✓ Margin stood at 21.5% with a gain of 100bps yoy. Gain could have been higher but for loss of export incentive and lack of 1mth of Natrol sales
	✓ Auro took Rs4.3bn provisional write off relating to business and covid in some markets
	✓ Any increased competition in injectables can lead to margin deterioration pretty quickly

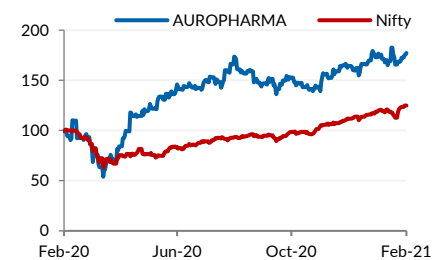
## Exhibit 1: Result table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
<b>Revenues</b>	<b>63,649</b>	<b>64,834</b>	<b>(1.8)</b>	<b>58,950</b>	<b>8.0</b>
RM + inventory	(20,253)	(18,411)	10.0	(20,119)	0.7
Purchase of goods	(5,470)	(6,746)	(18.9)	(5,531)	(1.1)
Staff	(8,807)	(9,119)	(3.4)	(7,978)	10.4
Other expenses	(15,433)	(16,230)	(4.9)	(13,242)	16.6
<b>Operating profit</b>	<b>13,686</b>	<b>14,328</b>	<b>(4.5)</b>	<b>12,080</b>	<b>13.3</b>
<b>OPM (%)</b>	<b>21.5</b>	<b>22.1</b>	<b>-60 bps</b>	<b>20.5</b>	<b>101 bps</b>
Depreciation	(2,765)	(2,573)	7.5	(2,501)	10.6
Interest	(195)	(157)	24.1	(371)	(47.5)
Other income	1,334	538	148.2	309	331.3
Tax	(10,591)	(3,873)	173.4	(2,329)	354.8
<b>Effective tax rate (%)</b>	<b>88.9</b>	<b>32.5</b>	<b>56ppts</b>	<b>24.5</b>	<b>64ppts</b>
Minority/Associate	(145)	(205)		(6)	
Exceptional	28,139			(129)	
<b>PAT</b>	<b>29,463</b>	<b>8,057</b>	<b>265.7</b>	<b>7,053</b>	<b>317.7</b>

## Stock data (as on Feb 11, 2021)

Nifty	15,107
52 Week h/l (Rs)	1024 / 289
Market cap (Rs/USD mn)	567159 / 7786
Outstanding Shares (mn)	586
6m Avg t/o (Rs mn):	3,268
Div yield (%):	0.1
Bloomberg code:	ARBP IN
NSE code:	AUROPHARMA

## Stock performance



	1M	3M	1Y
Absolute return	2.4%	27.4%	79.7%

## Shareholding pattern (As of Dec'20 end)

Promoter	51.9%
FII+DII	37.6%
Others	10.5%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,080	1,080

## Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	93.7	61.6	70.7
EPS (Old)	59.6	64.3	72.2
% change	57.3	-4.2	-2.1

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## Q3 HIGHLIGHTS

- ✓ Global injectables business should reach revenue of US\$650-700mn in next 3-4 years.
- ✓ Injectables products - launching 4 products during 4Q FY21 and another 11-15 products in FY22. Injectables margins are better than orals.
- ✓ US business- increasing vols in the existing portfolio which has led to increase in sales.
- ✓ PLI incentive scheme - been awarded 3 products which will require Rs30bn of capex over 2-2.5 years; would require independent plants for these products.
- ✓ PLI capacity capex will be for both PLI scheme and captive consumption
- ✓ API- target to double sales in next 4-5 years; includes sales from PLI scheme and large volume products sales. The company is also internally expanding capacity which will help to drive the sales
- ✓ Vaccine - current facility is for Bacterial vaccine, completed the Phase 2 of the Pneumococcal vaccine and expect to start Phase 3 trials from March 2021.
- ✓ Timeline will be 12-18 months post getting approval for Phase 3 trials and the company will launch the product in Brazil
- ✓ Aurobindo forayed into viral vaccines with an acquisition through its step down subsidiary Auro Vaccines in Feb 2020. Auro Vaccines is developing 4 viral vaccines including one for COVID-19.
- ✓ UB612 - Covid vaccine in partnership with Covaxx - trial should by start by next month and expect it to get it done by July.
- ✓ Regular capex is US\$ 200-225 mn (more capex will flow in API business for a short term).
- ✓ Commercialization of Vizag plant will take 15 months

### Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	195,636	230,985	252,808	272,297	302,627
yoy growth (%)	18.6	18.1	9.4	7.7	11.1
OPM (%)	20.2	21.1	21.6	22.2	22.6
yoy growth (%)	(2.4)	19.7	93.8	(34.3)	14.8
EPS (Rs)	40.4	48.4	93.7	61.6	70.7
P/E (x)	23.2	19.4	10.0	15.2	13.3
P/BV (x)	4.0	3.3	2.5	2.2	1.9
EV/EBITDA (x)	13.4	10.8	9.1	7.8	6.4
Debt/Equity (x)	0.5	0.3	0.3	0.2	0.2
ROE (%)	19.6	19.0	14.1	15.4	15.3
ROCE (%)	24.8	24.5	21.5	20.0	19.8

Source: Company, YES Sec - Research

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