

## Pharmaceuticals

Target price: Rs1,091

## Target price revision

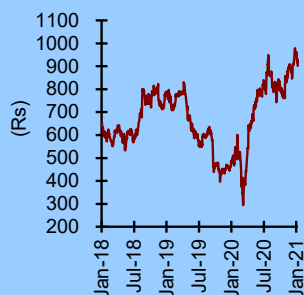
Rs1,091 from Rs970

## Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	52.0	52.0	51.9
Institutional investors	35.2	36.7	37.6
MFs and others	12.2	11.0	9.9
Banks/FIs	0.1	0.1	0.0
Insurance co	0.3	0.1	0.2
FIs	22.6	25.5	27.5
Others	12.8	11.3	10.5

Source: BSE India

## Price chart



## Aurobindo Pharma

BUY

Upgrade from Add

## Approval for 3 products under PLI Scheme

Rs924

Aurobindo Pharma (Aurobindo) received approval from government of India for three fermentation based products under Production Linked Incentive (PLI) Scheme. These products include *Penicillin G*, *7-ACA* and *Erythromycin Thiocyanate (TIOC)*. Currently, these products are largely dependent on China imports. Post approval under the PLI scheme, Aurobindo will become a very large player in anti-biotic space. The combined committed capital investment for these three products stands at Rs30.4bn which can easily be funded from internal accruals and can have asset turnover between 1-1.5x. We believe this is a positive development for Aurobindo that would ensure continuous growth momentum over medium term without straining balance sheet. Upgrade to BUY.

► **Wins approval for three products under PLI Scheme:** Aurobindo won government approval under PLI Scheme for three anti-biotic products namely, *Penicillin G*, *7-ACA* and *TIOC*. The respective committed production capacities and committed capital investment for these products are 15,000MT, 2,000MT & 1,600MT and Rs13.9bn, Rs8.13bn & Rs8.34bn.

► **Financial impact:** We assume asset turnover ratio for these capacities as ~1.2x and Aurobindo can generate annual revenue of ~Rs36bn with an EBITDA margin of ~16%, implying annual EBITDA of ~Rs5.8bn (>10% of FY22E EBITDA). Additionally, the cumulative incentive from PLI scheme would be ~Rs24bn over a five-year period. The below table shows an estimate of financial metrics for this investment (Rs30.4bn).

## Revenue and earnings from PLI investment

Rs mn	FY24E	FY25E	FY26E	FY27E	FY28E
Fixed Asset turnover (x)	0.8	1.0	1.2	1.2	1.2
Revenue	24,312	30,390	36,468	36,468	36,468
EBITDA	3,647	4,862	5,835	5,835	5,835
EBITDA Margin (%)	15.0	16.0	16.0	16.0	16.0
PLI scheme incentive	3,647	4,559	5,470	5,470	5,470
(-) Depreciation	3,039	3,039	3,039	3,039	3,039
PBT	4,255	6,382	8,266	8,266	8,266
(-) Tax	1,064	1,595	2,067	2,067	2,067
PAT	3,191	4,786	6,200	6,200	6,200
EPS (Rs)	5.4	8.2	10.6	10.6	10.6

Source: I-Sec, PIB

► **Outlook:** We remain positive on Aurobindo's long-term outlook considering its strong US pipeline with potential to launch >30 products every year, significant benefit of scale in APIs, and growing contribution from complex generics (injectables, ophthalmics, penems, etc.). We expect it to register 5.5% revenue and 8.9% earnings CAGR over FY20-FY23. Growth appears lower due to the Natrol divestment in US.

Market Cap	Rs541bn/US\$7.4bn
Reuters/Bloomberg	ARBN.BO/ARBP IN
Shares Outstanding (mn)	585.9
52-week Range (Rs)	996/281
Free Float (%)	48.0
FII (%)	27.5
Daily Volume (USD/'000)	45,917
Absolute Return 3m (%)	18.1
Absolute Return 12m (%)	85.5
Sensex Return 3m (%)	20.7
Sensex Return 12m (%)	20.4

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	230,985	249,105	255,854	271,310
Net Income (Rs mn)	28,310	31,493	33,803	37,240
EPS (Rs)	49.1	53.7	57.7	63.5
% Chg YoY	16.3	9.3	7.3	10.2
P/E (x)	18.8	17.2	16.0	14.5
CEPS (Rs)	64.8	71.2	75.8	83.2
EV/E (x)	11.7	10.3	9.7	8.5
Dividend Yield (%)	0.5	0.5	0.6	0.6
RoCE (%)	13.7	13.9	14.4	14.6
RoE (%)	18.8	17.3	16.0	15.3

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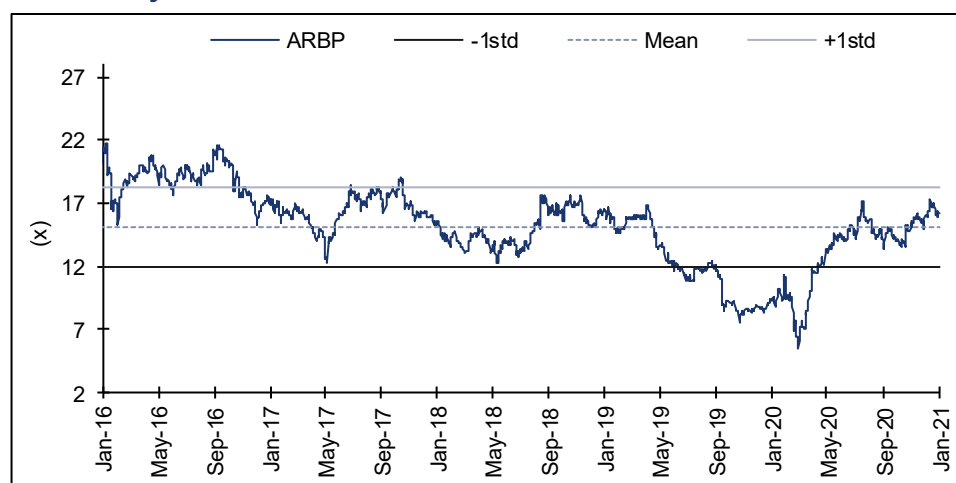
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## Valuations & risks

We expect earnings to grow at a CAGR of 8.9% for Aurobindo over FY20-FY23E. The stock currently trades at attractive valuations of 16.0x FY22E and 14.5x FY23E earnings and EV/EBITDA multiples of 9.7x FY22E and 8.5x FY23E. We raise target P/E(x) to 18x from 16x considering material upside to earnings from FY24E and achievement of net cash status post recent divestment of Natrol business in US. We upgrade the stock to **BUY** from *Add* with a revised target price of Rs1,091/share based on 18x Sep'22E earnings (earlier: Rs970/share based on 16x Sep'22E).

Key downside risks: regulatory hurdles, currency volatility and delay in US launches.

**Chart 1: 1-year forward P/E**



Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 1: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Formulations</b>	<b>200,119</b>	<b>216,409</b>	<b>221,525</b>	<b>235,266</b>
US	114,835	123,455	120,797	128,301
EU	59,218	60,316	64,709	67,945
EM	13,551	15,217	17,042	18,747
ARVs	12,515	17,421	18,976	20,274
<b>APIs</b>	<b>30,834</b>	<b>32,664</b>	<b>34,297</b>	<b>36,012</b>
Betalactum	19,989	21,175	22,234	23,346
Non-Betalactum	10,845	11,489	12,063	12,666
Dossier Lic. income	32	32	32	32
<b>Total Gross Sales</b>	<b>230,985</b>	<b>249,105</b>	<b>255,854</b>	<b>271,310</b>
<b>Excise duty</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Revenue</b>	<b>230,985</b>	<b>249,105</b>	<b>255,854</b>	<b>271,310</b>
YoY Growth%	18.1	7.8	2.7	6.0
<b>Total Op. Exp.</b>	<b>182,342</b>	<b>196,194</b>	<b>201,592</b>	<b>212,120</b>
<b>EBITDA</b>	<b>48,643</b>	<b>52,912</b>	<b>54,261</b>	<b>59,190</b>
Margins %	21.1	21.2	21.2	21.8
YoY Growth%	23.1	8.8	2.6	9.1
Depreciation	9,667	10,239	10,606	11,489
<b>EBIT</b>	<b>38,976</b>	<b>42,673</b>	<b>43,656</b>	<b>47,701</b>
Other Income	710	1,095	1,262	1,502
Interest	1,598	627	440	202
EO Items	(658)	0	0	0
<b>PBT</b>	<b>37,430</b>	<b>43,141</b>	<b>44,478</b>	<b>49,001</b>
Tax	9,135	11,648	10,675	11,760
Tax Rate (%)	24.4	27.0	24.0	24.0
Minority Interest	(15)	0	0	0
<b>Reported PAT</b>	<b>28,310</b>	<b>31,493</b>	<b>33,803</b>	<b>37,240</b>
<b>Adj. PAT</b>	<b>28,807</b>	<b>31,493</b>	<b>33,803</b>	<b>37,240</b>
Net Margins (%)	12.5	12.6	13.2	13.7

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	586	586	586	586
Reserves & Surplus	167,518	195,574	225,688	258,864
<b>Total Equity</b>	<b>168,104</b>	<b>196,160</b>	<b>226,274</b>	<b>259,450</b>
Minority Interest	1	1	1	1
<b>Total Debt</b>	<b>58,264</b>	<b>31,362</b>	<b>12,612</b>	<b>7,612</b>
Deferred Liabilities	1,393	1,393	1,393	1,393
<b>Capital Employed</b>	<b>227,762</b>	<b>228,916</b>	<b>240,280</b>	<b>268,457</b>
Current Liabilities	59,870	61,354	62,366	64,550
<b>Total Liabilities</b>	<b>287,631</b>	<b>290,270</b>	<b>302,646</b>	<b>333,007</b>
<b>Net Fixed Assets</b>	<b>113,824</b>	<b>108,450</b>	<b>114,719</b>	<b>120,105</b>
Investments	5,547	5,982	6,144	6,515
Inventory	76,999	82,848	85,128	89,573
Debtors	43,152	46,537	47,797	50,685
Other Current Assets	19,689	21,163	21,712	22,970
Cash and Equivalents	28,422	25,290	27,145	43,158
<b>Total Cur. Assets</b>	<b>173,807</b>	<b>181,820</b>	<b>187,927</b>	<b>212,902</b>
<b>Total Assets</b>	<b>287,631</b>	<b>290,270</b>	<b>302,646</b>	<b>333,007</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	37,430	43,141	44,478	49,001
Depreciation	9,667	10,239	10,606	11,489
Net Chg in WC	(9,183)	(8,634)	(2,858)	(5,903)
Taxes	(7,298)	(11,648)	(10,675)	(11,760)
Others	11,599	(590)	(220)	(504)
<b>CFO</b>	<b>42,215</b>	<b>32,506</b>	<b>41,331</b>	<b>42,323</b>
Capex	(14,017)	(4,864)	(16,875)	(16,875)
Net Investments made	(1,791)	(435)	(162)	(371)
Others	132	-	-	-
<b>CFI</b>	<b>(15,677)</b>	<b>(5,299)</b>	<b>(17,037)</b>	<b>(17,246)</b>
Change in Share capital	2	-	-	-
Change in Debts	(16,324)	(26,902)	(18,750)	(5,000)
Div. & Div Tax	(1,884)	(3,437)	(3,689)	(4,064)
Others	517	-	-	-
<b>CFF</b>	<b>(17,689)</b>	<b>(30,338)</b>	<b>(22,439)</b>	<b>(9,064)</b>
<b>Total Cash Generated</b>	<b>8,850</b>	<b>(3,131)</b>	<b>1,855</b>	<b>16,013</b>
<b>Cash Opening Balance</b>	<b>19,572</b>	<b>28,422</b>	<b>25,290</b>	<b>27,145</b>
<b>Cash Closing Balance</b>	<b>28,422</b>	<b>25,290</b>	<b>27,145</b>	<b>43,158</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj. EPS	49.1	53.7	57.7	63.5
YoY Growth%	16.3	9.3	7.3	10.2
Cash EPS	64.8	71.2	75.8	83.2
EBITDA - Core (%)	21.1	21.2	21.2	21.8
NPM (%)	12.5	12.6	13.2	13.7
Net Debt to Equity (x)	0.2	0.0	(0.1)	(0.1)
P/E (x)	18.8	17.2	16.0	14.5
EV/EBITDA Core (x)	11.7	10.3	9.7	8.5
P/BV (x)	3.2	2.8	2.4	2.1
EV/Sales (x)	2.5	2.2	2.1	1.9
RoCE (%)	13.7	13.9	14.4	14.6
RoE (%)	18.8	17.3	16.0	15.3
RoIC (%)	15.2	15.6	16.1	16.8
Book Value (Rs)	287	335	386	443
DPS (Rs)	4.4	4.9	5.2	5.8
Dividend Payout (%)	8.9	9.1	9.1	9.1
Div Yield (%)	0.5	0.5	0.6	0.6
Asset Turnover Ratio	0.8	0.9	0.9	0.9
Avg Collection days	61	66	67	66
Avg Inventory days	150	149	152	150

Source: Company data, I-Sec research

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