

# Aurobindo Pharma

BUY

CMP Rs998

Target Rs1,100

Upside 10%

## Result Highlights

- ✓ Ex-Natrol US sales up 5.3% yoy while down 4.5% yoy on reported basis due to Natrol divestment
- ✓ R&D increased to RS4.6bn, 7.6% of revenues, a significant jump on Rs2.4bn last year and Rs3.9bn in Q3
- ✓ QoQ declines across Europe, growth markets and US while ARV sales up 11% qoq; YoY decline in Europe due to stocking up last year
- ✓ Growth markets impacted by low patient flow to hospitals and pharmacies in certain markets.

**Our view:** Aurobindo US injectables sales declined in FY21 offset by 8.5% growth in oral solids business. We expect a strong jump in FY22-23 US injectables as rebound sets in. Reckon injectables restructuring (Eugia being consolidated and likely plans lined up for Unit IV) as the next trigger given the strong growth expected in injectables. Vizag unit for Europe would drive growth in FY23 and improve European margins further from current double digit. Ramp up in Unit IV and Eugia along with monetization of Eugia and standalone injectable pipeline would be another driver of growth. Expect margin to gradually inch up as gains from injectables are offset by R&D at ~5.5-6% of sales in FY22/23. We cut FY23 estimate by ~3% on lower ARV sales (now expected to stay flat) but retain BUY with largely unchanged TP Rs1,100.

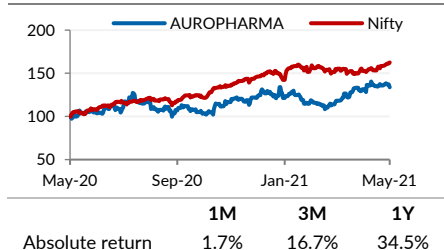
## Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	60,015	63,649	(5.7)	61,584	(2.5)
RM + inventory changes	(19,148)	(20,253)	(5.5)	(19,901)	(3.8)
Purchase of goods	(4,923)	(5,470)	(10.0)	(5,132)	(4.1)
Staff	(8,544)	(8,807)	(3.0)	(8,643)	(1.1)
Other expenses	(14,653)	(15,433)	(5.1)	(14,745)	(0.6)
<b>Operating profit</b>	<b>12,747</b>	<b>13,686</b>	<b>(6.9)</b>	<b>13,162</b>	<b>(3.2)</b>
<b>OPM (%)</b>	<b>21.2</b>	<b>21.5</b>	<b>-26 bps</b>	<b>21.4</b>	<b>-13 bps</b>
Depreciation	(2,660)	(2,765)	(3.8)	(2,324)	14.5
Interest	(182)	(195)	(6.6)	(318)	(42.8)
Other income	781	1,334	(41.5)	326	139.6
<b>PBT</b>	<b>10,686</b>	<b>12,060</b>	<b>(11.4)</b>	<b>10,846</b>	<b>(1.5)</b>
Tax	(2,597)	(10,591)	(75.5)	(2,144)	21.2
<b>Effective tax rate (%)</b>	<b>24.5</b>	<b>88.9</b>	<b>-6439 bps</b>	<b>20.1</b>	<b>437 bps</b>
<b>PAT</b>	<b>8,089</b>	<b>1,469</b>	<b>450.6</b>	<b>8,702</b>	<b>(7.1)</b>
<b>PAT margin (%)</b>	<b>13.5</b>	<b>2.3</b>	<b>1117 bps</b>	<b>14.1</b>	<b>-65 bps</b>
Minority/Associate	(84)	(145)		(193)	(56.7)
Exceptional	7	28,139		123	(94.4)
<b>PAT</b>	<b>8,012</b>	<b>29,463</b>	<b>(72.8)</b>	<b>8,632</b>	<b>(7.2)</b>

## Stock data (as on May 31, 2021)

Nifty:	15,583
52 Week h/l (Rs)	1064 /722
Market cap (Rs/USD mn)	584737/8053
Outstanding Shares	586
6m Avg t/o (Rs mn):	2,603
Div yield (%):	0.6
Bloomberg code:	ARBP IN
NSE code:	AUROPHARMA

## Stock performance



## Shareholding pattern (As of Mar'21 end)

Promoter	51.9%
FII+DII	37.6%
Others	10.5%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,100	1,080

## Δ in earnings estimates

	FY22e	FY23e
EPS (New)	58.6	68.6
EPS (Old)	61.6	70.7
% change	-5%	-3%

## Financial Summary

	FY21	FY22e	FY23e
Net Revenue	247,746	268,675	298,361
YoY Growth	7.3	8.4	11.0
EBIDTA	53,334	60,086	68,811
YoY Growth	10.5	12.7	14.5
PAT	53,338	34,268	40,124
YoY Growth	87.6	(35.8)	17.1
ROE	13.3	14.9	15.1
EPS	91.1	58.6	68.6
P/E	10.9	17.0	14.6
BV	374.7	428.1	491.9
P/BV	2.7	2.3	2.0

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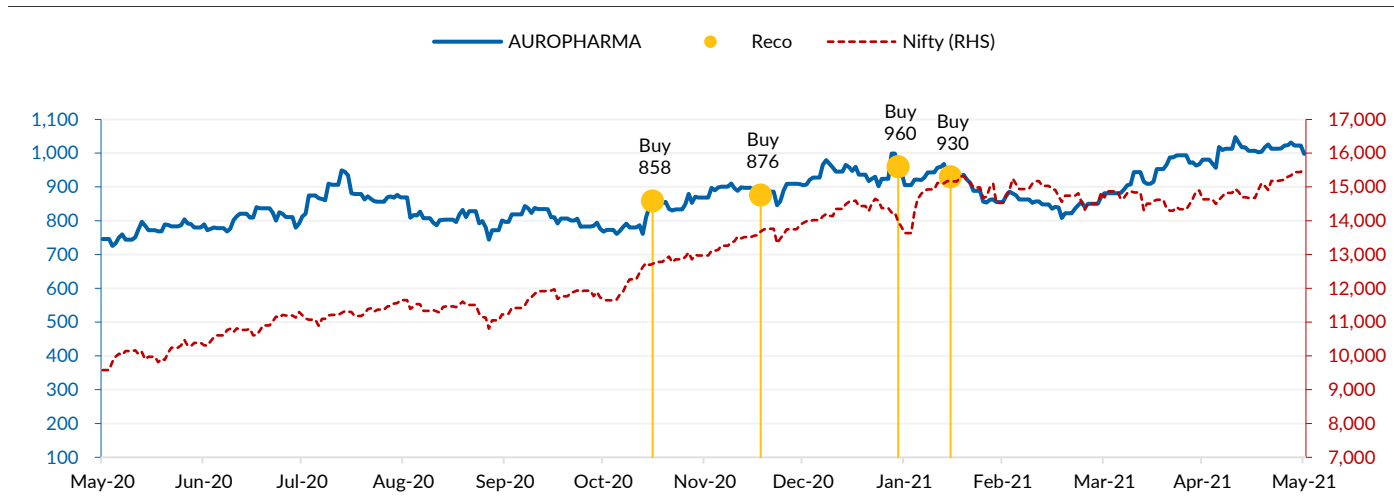
## CON-CALL HIGHLIGHTS

- ✓ Vaccine facility – Equipment installation would be completed by June end; validation batches would start subsequently in July
- ✓ Vaxxinity (formerly Covaxx) vaccine candidate UB 612 can be manufactured in bacterial facility or even injectable one. Trials underway in Taiwan and Vaxxinity in talks for ~25mn doses for UB 612; looking at other markets too post Taiwanese approval
- ✓ UB 612 – Filed for Phase 2/3 with DCGI; expect SEC approval and post that would start trial in India
- ✓ Vizag injectable facility for EU – to be ready 12-14 months
- ✓ Margin – Happy with the current margin in the interim as pursue and launch frequently discussed opportunities – peptides, biosimilars
- ✓ Biosimilars – first 2 products to be filed in EU and later on another 2 for global markets including US
- ✓ Depot injections – working on 4 products; would file 1<sup>st</sup> depot in FY22; overall 15 complex generics under development
- ✓ ARV - Most of the growth has come from Dolutegravir and expect ARV sales to stay flat
- ✓ Mid-single digit erosion in US business
- ✓ Injectables - merged Unit XVI into Eugia; board to decide on Unit IV
- ✓ US and EU footfalls have not reached pre-COVID level; anti-biotic sales have not improved but would know better in next 3 months about status for winter procurement
- ✓ Crossed 50% of volumes sourced from India for Europe; double digit margin in Europe after digesting Apotex which was loss making
- ✓ ROW – Lockdown like in Brazil and Canada, but vaccination should cover up these markets
- ✓ Raw material prices - some price hike in few product's raw materials on the non anti-biotic side.

## Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	195,636	230,985	247,746	268,675	298,361
yoy growth (%)	18.6	18.1	7.3	8.4	11.0
Operating profit	39,519	48,246	53,334	60,086	68,811
OPM (%)	20.2	20.9	21.5	22.4	23.1
Reported PAT	23,647	28,437	53,338	34,268	40,124
yoy growth (%)	(2.4)	20.3	87.6	(35.8)	17.1
EPS (Rs)	40.4	48.6	91.1	58.6	68.6
P/E (x)	24.7	20.5	10.9	17.0	14.6
Price/Book (x)	4.2	3.5	2.7	2.3	2.0
EV/EBITDA (x)	14.3	11.6	10.0	8.4	6.9
Debt/Equity (x)	0.5	0.3	0.3	0.2	0.2
RoE (%)	19.6	18.8	13.3	14.9	15.1
RoCE (%)	24.8	24.2	21.6	20.3	20.5

## Recommendation Tracker



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