

Retail Equity Research

Aurobindo Pharma Limited

Pharmaceuticals

BSE CODE: 524804

NSE CODE: AUROPHARMA

Bloomberg CODE: ARBP:IN

SENSEX: 55,792

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 731 TARGET Rs. 892 RETURN 22% ↑
(Closing: 17-08-21)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Decent performance YoY; Outlook Intact

Aurobindo Pharma Ltd (ARBP) is a leading pharmaceutical company which is vertically integrated with business units comprising of formulations, custom synthesis, peptides, aurozymes, R&D and API.

- Q1FY22 revenue rose 2.9% YoY to Rs. 5,702cr, supported by double digit sales growth in the Europe Formulations business.
- EBITDA margin expanded 60bps YoY to 21.2% despite lack of export incentive benefit as well as continued ramp-up in R&D spend during the quarter. As a result, Adj. PAT reported at Rs. 770cr (+8.9% YoY).
- The company filed 8 ANDAs with USFDA, received final approval for 4 ANDAs and launched 5 products in Q1FY22.
- With strong pipeline including injectable products, growth in Brazil and South African business and higher R&D expenses, we remain positive on the stock and reiterate our BUY rating on the stock with a revised target price of Rs. 892 based on 14x FY23E adj. EPS.

Europe Formulation aids topline

Company recorded revenue rose 2.9%YoY to Rs. 5,702cr (excluding Natrol business), supported by strong growth in Europe Formulation business (+19.7% YoY to Rs. 1,583cr; ~27.7% of total revenue). Besides, regions like Brazil and South Africa supported for better growth in revenue. On a negative note, ARVs Formulation revenue fell 30.5% YoY to Rs. 296cr. As a result, total formulation business shown muted growth of 2.7% YoY to Rs. 4,889cr in Q1FY22 (~85.8% of total revenue). US market declined 1.5% YoY to Rs. 2,681cr (+1.0% YoY on CC basis) due to drop in sales of oral products (-9.0% YoY). However, injectable business increased 22.0% YoY. Revenue from APIs business also grew 4.1% YoY to Rs. 812cr.

Margins improve despite R&D provisioning

EBITDA increased 5.5% YoY to Rs. 1,209cr with margin expanding 60bps YoY to 21.2% despite lack of export incentive benefit as well as continued ramp-up in R&D spend (Rs. 358cr ~6.3% of revenue) during the quarter. Net organic capex during the quarter was USD 64mn. Net cash including investments at the end of June 21 was USD 1.5mn. Average finance cost reduced to 1.1% from ~2.0% in Q1FY21 mainly due to availing multiple currency loans.

Key concall highlights

- The company filed 1 DMF with the USFDA during the quarter.
- Aurobindo acquired 51% stake in Cronus Pharma, a veterinary pharma company in the US, for Rs. 4.2bn. Cronus has 67 products (40 injectables) in the pipeline, of which 22 have been filed and 6 approved by FDA.
- Management expects the gross margin to be maintained at 58-60%.

Valuation

Given robust performance in the Europe formulation business and strong pipeline in injectable products post recent acquisition, we remain positive on company's long-term outlook and estimate PAT to grow at 21.7% FY21-23E CAGR and EBITDA margin to improve to 21.8% by FY23E. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 892 based on 14x FY23E adj. EPS.

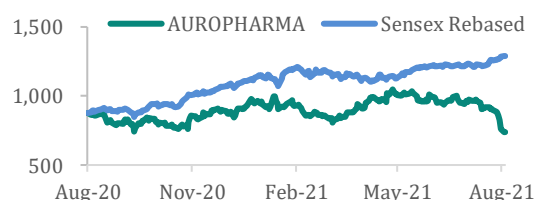
Company Data

Market Cap (cr)	Rs. 42,867
Enterprise Value (cr)	Rs. 42,131
Outstanding Shares (cr)	58.6
Free Float	48.0%
Dividend Yield	0.5%
52 week high	Rs. 1,064
52 week low	Rs. 716
6m average volume (lacs)	1.3
Beta	0.9
Face value	Rs. 1

Shareholding %	Q3FY21	Q4FY21	Q1FY22
Promoters	51.9	51.9	51.8
FII's	25.0	24.4	23.7
MFs/Insti	12.6	13.2	14.7
Public	8.8	8.7	8.6
Others	1.7	1.7	1.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-27.0%	-20.7%	-15.3%
Absolute Sensex	12.5%	7.9%	46.6%
Relative Return*	-39.5%	-28.6%	-61.9%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	24,775	26,238	28,122
Growth (%)	7.3	5.9	7.2
EBITDA	5,333	5,618	6,127
EBITDA Margin (%)	21.5	21.4	21.8
Adj. PAT	2,520	3,441	3,735
Growth (%)	(11.8)	36.5	8.5
Adj. EPS	43.0	58.7	63.7
Growth (%)	(11.8)	36.5	8.5
P/E	20.5	12.5	11.5
P/B	2.4	1.7	1.5
EV/EBITDA	9.6	7.5	6.5
ROE (%)	24.3	13.7	13.0
D/E	0.2	0.2	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY22	Q1FY21 (excl. Natrol)	YoY Growth %	Q4FY21	QoQ Growth %
Revenue	5,702	5,540	2.9	6,007	(5.0)
EBITDA	1,209	1,146	5.5	1,275	(5.1)
EBITDA margins	21.2	20.6	60bps	21.2	0bps
Depreciation	280	256	9.4	266	5.1
EBIT	930	890	4.5	1,009	(7.8)
Interest	13	21	(38.1)	18	(29.3)
Other Income	110	116	(5.2)	79	39.5
Exceptional Items	-	-	-	-	-
PBT	1,018	973	4.6	1,061	(4.1)
Tax	248	266	(6.8)	260	(4.6)
Share of profit from Associate	(9)	(12)	(25.0)	(8)	(7.5)
Minority Interest	0	0	-	(0)	125.0
Reported PAT	770	707	8.9	802	(3.9)
Adjustments	-	-	-	-	-
Adj. PAT	770	707	8.9	802	(3.9)
No. of shares	58.6	58.6	-	58.6	-
Adj. EPS (Rs.)	13.1	12.1	8.3	13.6	(3.7)

Segment revenue

	Q1FY22	Q1FY21	YoY Growth %	Q4FY21	QoQ Growth %
US	2,681	2,722	(1.5)	2,858	(6.2)
Europe	1,583	1,322	19.7	1,553	1.9
RoW	329	290	13.4	306	7.5
ARVs	296	426	(30.5)	491	(39.7)
Total Formulations	4,889	4,760	2.7	5,208	(6.1)
APIs	812	780	4.1	794	2.3
Total Sales	5,702	5,540	2.9	6,002	(5.0)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	27,165	28,523	26,238	28,122	(3.4)	(1.4)
EBITDA	5,875	6,328	5,618	6,127	(4.4)	(3.2)
Margins (%)	21.6	22.2	21.4	21.8	(20bps)	(40bps)
Adj. PAT	3,563	3,809	3,441	3,735	(3.4)	(1.9)
Adj. EPS	60.8	65.0	58.7	63.7	(3.4)	(1.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	19,564	23,099	24,775	26,238	28,122
% change	18.6	18.1	7.3	5.9	7.2
EBITDA	3,952	4,864	5,333	5,618	6,127
% change	4.3	23.1	9.6	5.3	9.1
Depreciation	668	967	1,055	1,141	1,250
EBIT	3,284	3,898	4,278	4,478	4,877
Interest	163	160	74	68	72
Other Income	(85)	(41)	2,759	(55)	(55)
PBT	3,091	3,743	7,344	4,631	5,027
% change	(4.6)	21.1	96.2	(36.9)	8.5
Tax	727	914	2,010	1,190	1,292
Tax Rate (%)	23.5	24.4	27.4	25.7	25.7
Reported PAT	2,365	2,831	5,335	3,441	3,735
Adj*	88	26	(2,815)	-	-
Adj PAT	2,453	2,857	2,520	3,441	3,735
% change	1.2	16.5	(11.8)	36.5	8.5
No. of shares (cr)	58.6	58.6	58.6	58.6	58.6
Adj EPS (Rs.)	41.9	48.7	43.0	58.7	63.7
% change	1.2	16.4	(11.8)	36.5	8.5
DPS (Rs.)	2.5	3.0	4.0	4.0	4.0
CEPS (Rs.)	53.3	65.2	61.0	78.2	85.1

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	3,033	3,798	6,390	4,582	4,985
Non-cash adj.	(133)	1,502	(2,310)	331	118
Changes in W.C	(1,278)	(918)	(751)	(1,940)	(190)
C.F. Operation	1,622	4,381	3,329	2,973	4,913
Capital exp.	(1,537)	(1,364)	(1,826)	(2,230)	(2,390)
Change in inv.	(1,366)	(169)	2,432	(115)	(122)
Other invest.CF	26	(35)	(8)	-	-
C.F - Investment	(2,877)	(1,568)	599	(2,346)	(2,512)
Issue of equity	1	0	-	-	-
Issue/repay debt	2,230	(1,632)	(1,082)	(500)	-
Dividends paid	(160)	(188)	(234)	(234)	(234)
Other finance.CF	(152)	(127)	(48)	(68)	(72)
C.F - Finance	1,920	(1,947)	(1,365)	(803)	(306)
Chg. in cash	665	866	2,563	(175)	2,095
Closing cash	1,886	2,764	5,373	5,199	7,293

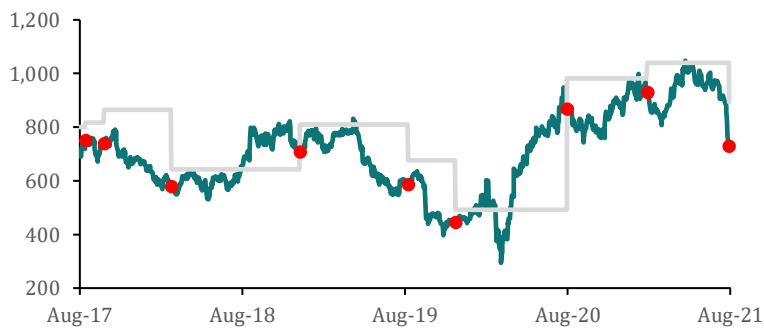
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	1,886	2,764	5,373	5,199	7,293
Accounts Receivable	3,414	4,315	3,503	4,644	5,118
Inventories	7,246	7,700	9,027	9,648	9,585
Other Cur. Assets	2,819	1,634	1,920	1,891	1,899
Investments	360	145	337	389	441
Gross Fixed Assets	7,428	7,285	9,254	11,484	13,875
Net Fixed Assets	5,694	6,495	6,887	7,692	8,535
CWIP	1,342	1,622	2,429	2,713	3,010
Intangible Assets	3,108	3,675	3,120	3,183	3,252
Def. Tax (Net)	183	163	453	268	291
Other Assets	403	414	807	821	837
Total Assets	26,454	28,926	33,854	36,447	40,261
Current Liabilities	5,470	5,964	5,862	5,863	6,137
Provisions	47	75	157	157	157
Debt Funds	6,753	5,422	4,971	4,471	4,471
Other Liabilities	293	654	934	820	860
Equity Capital	59	59	59	59	59
Reserves & Surplus	13,832	16,752	21,871	25,078	28,579
Shareholder's Fund	13,891	16,810	21,930	25,137	28,637
Minority Interest	2	0	(1)	(1)	(1)
Total Liabilities	26,454	28,926	33,854	36,447	40,261
BVPS (Rs.)	237	287	374	429	489

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	20.2	21.1	21.5	21.4	21.8
EBIT margin (%)	16.8	16.9	17.3	17.1	17.3
Net profit mgn.(%)	12.1	12.3	21.5	13.1	13.3
ROE (%)	17.0	16.8	24.3	13.7	13.0
ROCE (%)	15.9	17.5	15.9	15.1	14.7
W.C & Liquidity					
Receivables (days)	63.7	68.2	51.6	64.6	66.4
Inventory (days)	303.5	288.7	332.7	317.6	290.9
Payables (days)	112.2	95.4	103.0	86.1	86.1
Current ratio (x)	1.3	1.4	1.9	2.1	2.3
Quick ratio (x)	0.4	0.6	0.9	1.0	1.2
Turnover & Leverage					
Gross asset T.O (x)	3.6	3.5	3.4	3.2	2.7
Total asset T.O (x)	0.8	0.8	0.8	0.7	0.7
Int. coverage ratio (x)	20.2	24.4	57.4	65.5	67.9
Adj. debt/equity (x)	0.5	0.3	0.2	0.2	0.2
Valuation					
EV/Sales (x)	2.6	1.2	2.1	1.6	1.4
EV/EBITDA (x)	12.6	5.5	9.6	7.5	6.5
P/E (x)	18.4	8.5	20.5	12.5	11.5
P/BV (x)	3.2	1.4	2.4	1.7	1.5

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
13-Oct-17	BUY	865
13-Mar-18	BUY	644
27-Dec-18	BUY	811
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

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			

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: The analyst has no investment opinion on the stock.

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen G, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose

his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Sheen G, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas 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, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226