

Industry	Pharmaceuticals
Bloomberg	ARBP IN
BSE CODE	524804

Growth across geographies, acquisitions to drive growth going forward.

RATING	ACCUMULATE
CMP	596
Price Target	721
Potential Upside	21%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	838/537
Mkt Capital (Rs Cr)	35093
Free float (%)	48%
Avg. Vol 1M (,000)	3029
No. of Shares (Cr)	59
Promoters Pledged %	4%

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1QFY20 Result update.

- ❑ The overall sales grew by 28% to Rs.5445 crs. The growth was across geography mainly driven by US and Europe sales.
- ❑ US revenue grew by 37% YoY to US\$ 387 mn on back of spectrum consolidation and 15 launches this quarter.
- ❑ Aurobindo USA, the company marketing the oral products in the US witnessed a growth of 32% YoY in Q1FY20. Auromedics (Injectables) witnessed a growth of 86% YoY to US\$ 67 million.
- ❑ EU formulations revenue in Q1FY20 grew by 18.5% YoY in Euro terms, Apotex has contributed around US\$ 25-30 mn in this quarter.
- ❑ Gross margin and EBITDA margin grew by 266 bps and 272 bps YoY to 57.8% and 21% respectively on account of better product mix.

View and Valuation

The overall sales grew by 28% to Rs.5445 crs. The growth was across geography mainly driven by US and Europe sales. US revenue grew by 37% YoY to US\$ 387 mn on back of spectrum consolidation and 15 launches this quarter. Auromedics (injectables) witnessed the growth of 86% YoY to US\$ 67 mn. Europe grew by 16% to Rs. 1392 crs based on the Apotex acquisition. The company was able to reduce net debt by US\$ 131 mn this quarter.

Going forward, we believe the Sandoz and spectrum acquisition to be key growth driver for the US business. These acquisitions will help the company to expand its footprint in the branded segments such as Dermatology, Oncology. Also, the 40 expected launches in the US would add positively towards the revenues. As per the management commentary, Europe sales are expected to grow in the range of 8-9% and the company expects to reduce the debt by US\$ 50-70 mn for the full year. On the regulatory front, the company has received OAI status at two of its facilities and a warning letter at a third facility, which makes us a little cautious. We believe the higher remediation cost and higher R&D spends in the coming quarters would put pressures on the margins. Therefore, we value the stock at 13x FY21e EPS to arrive at a target price of Rs.721 and recommend ACCUMULATE.

Key Risks to our rating and target

- ❑ OAI status in two of its facilities and a warning letter for one.
- ❑ R&D expenditure.
- ❑ ANDA filings and approvals.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	15090	16500	19564	25660	28624
EBITDA	3434	3772	3892	5144	5725
EBIT	3007	3214	3224	4247	4467
PAT	2302	2423	2365	3069	3250
EPS (Rs)	39	41	40	52	55
EPS growth (%)	14%	5%	-2%	30%	6%
ROE (%)	25%	21%	17%	18%	16%
ROCE (%)	31%	26%	23%	25%	22%
BV	160	199	237	287	339
P/B (X)	4.2	2.8	3.3	2.1	1.8
P/E (x)	17.2	13.5	19.5	11.4	10.7

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1QFY20 Results

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Net Sales	4,250	4,751	5,270	5,292	5,445	28.1%	2.9%	16,500	19,564	18.6%
Other Income	44	26	64	32	16	-63.9%	-51.1%	102	116	13.4%
COGS	1,907	2,043	2,390	2,373	2,299	20.5%	-3.1%	6,753	8,713	29.0%
Gross Margin	55%	57%	55%	55%	58%	2.7%	2.6%	59%	55%	-3.6%
Employee Cost	596	625	650	713	780	30.8%	9.3%	2,131	2,585	21.3%
Other Expen.	968	1,057	1,144	1,149	1,220	26.1%	6.2%	3,845	4,374	13.8%
EBITDA	779	1,026	1,086	1,057	1,146	47.1%	8.4%	3,772	3,892	3.2%
EBITDA Mar.	18%	22%	21%	20%	21%	2.7%	1.1%	23%	20%	-3.0%
Depreciation	155	164	163	187	241	55.9%	29.1%	558	668	19.7%
EBIT	625	862	923	871	906	45%	4.0%	3,214	3,224	0.3%
Interest	30	35	48	50	50	69%	-0.4%	78	163	109.3%
PBT	639	853	939	853	871	36.4%	2.2%	3,238	3,177	-2%
Exceptional	-	27	25	36	13					
Tax	116	175	205	231	228	97.1%	-1.5%	818	727	-11%
PAT	456	611	712	585	636	39.5%	9%	2,423	2,365	-2%
PAT Margin	11%	13%	14%	11%	12%	1.0%	1%	15%	12%	-3%

Growth across geographies

US revenue for the quarter has grown by 37% to US\$ 387 mn on account of spectrum integration and new launches. Aurobindo USA, the company marketing the oral products in the US witnessed a growth of 32% YoY in Q1FY20. Auromedics (Injectables) witnessed a growth of 86% YoY to US\$ 67 million. During the quarter, the company launched 15 products including 4 injectables in the US market. EU formulations revenue in Q1FY20 grew by 18.5% YoY in Euro terms, Apotex has contributed around US\$ 25-30 mn in this quarter.

Going forward, we believe the Sandoz and spectrum acquisition to be key growth driver for the US business. These acquisitions will help the company to expand its footprint in the branded segments such as Dermatology, Oncology. Europe is expected to grow by 8-9% for the full year.

USFDA regulatory issues to slower the pace of approvals.

The has received OAI status for two of its facilities namely Unit I and Unit XI, warning letter for its API manufacturing facility in Srikakulam and 10 483s for Unit III (Bachupally).

The management expects the remediation efforts and other formalities to be completed by C19 and then expects a re-inspection for these facilities.

Concall Highlights

- US oral solids business has seen growth on account of volume increase in the existing business and increase in Sartan business in Q1FY20.
- The company has filed 12 ANDAs with USFDA including 3 injectables in Q1FY20, and received final approval for 9 ANDAs including 6 injectables in Q1FY20.
- The company has launched 15 products including 4 injectables during the quarter.
- The Net debt of the company has reduced by US\$ 131 mn in this quarter, from US\$ 724 mn in Q4FY18 to US\$ 593 mn in Q1FY20.
- The company have commissioned Eugia's manufacturing facility in Q1FY20 and launched 5 Oncology & Hormonal products in the US market.
- For Unit I and IX, the company expects USFDA re-inspection by the end of this calendar year. For Unit III, the company has submitted the detailed response.
- The company has filed CB-30 for Telmesartan and Valsartan, and is awaiting approvals.
- The net cash profit generated this quarter was US\$ 140 mn.
- Net organic capex for the quarter is at US\$ 47 mn compared to US\$ 70 mn in Q1FY19.
- R&D spend is at Rs. 243 crs(4.5% of sales) this quarter v/s Rs. 169 crs in Q1FY19 (4% of sales).
- Earlier, the management has guided for the net debt reduction to be in the range of US\$ 150-200 mn for FY20. US\$ 131 mn has already been reduced in Q1FY20; the remaining balance is expected to be reduced in the balance of the year.
- The management is optimistic about Auromedics (Injectables) beyond Q2FY20. Q2FY20 is expected to be in the similar levels as Q1FY20.
- The company expects to launch 40 products in the next 9 months.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 28% YoY to Rs.5445 crores (vs our expectation of Rs.6249 crores)

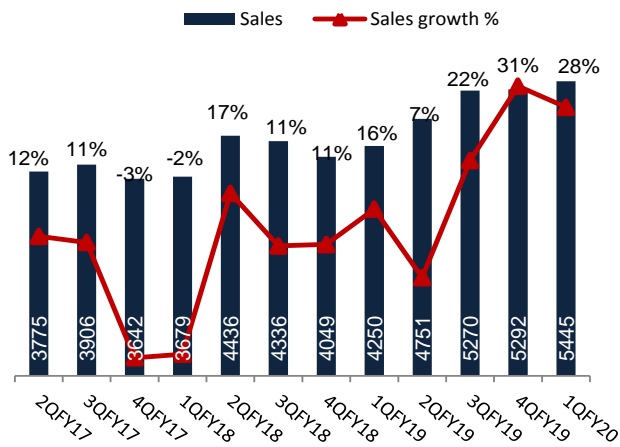


Exhibit: Gross and EBITDA margin

Gross margin and EBITDA margin grew by 266 bps and 272 bps YoY to 57.8% and 21% respectively.

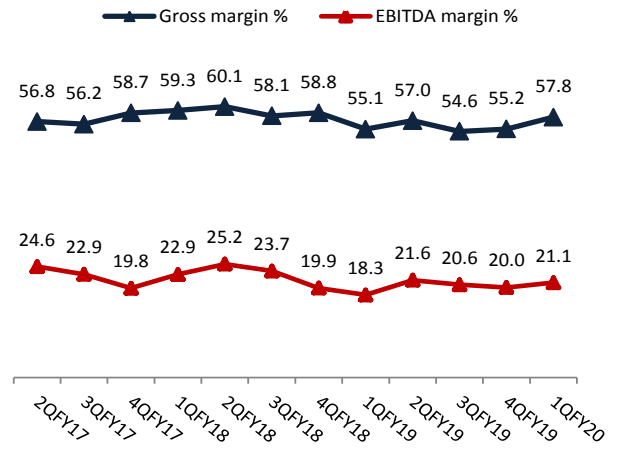


Exhibit: US sales and YoY growth

US sales for the quarter was US\$ 387 million on account of spectrum consolidation and 15 launches this quarter.

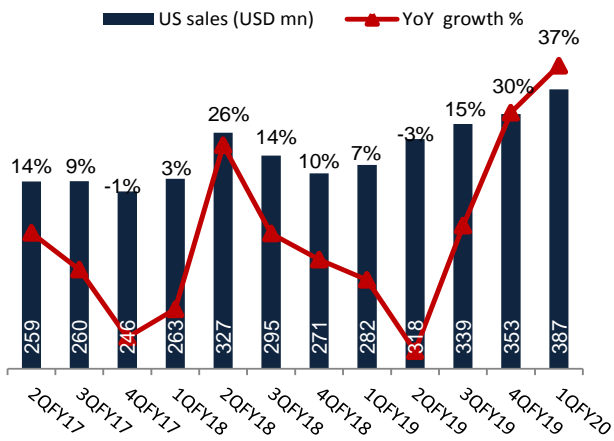


Exhibit: R&D cost and R&D as a % of sales

R&D spend is at Rs. 243 crs(4.5% of sales) this quarter v/s Rs. 169 crs in Q1FY19 (4% of sales).

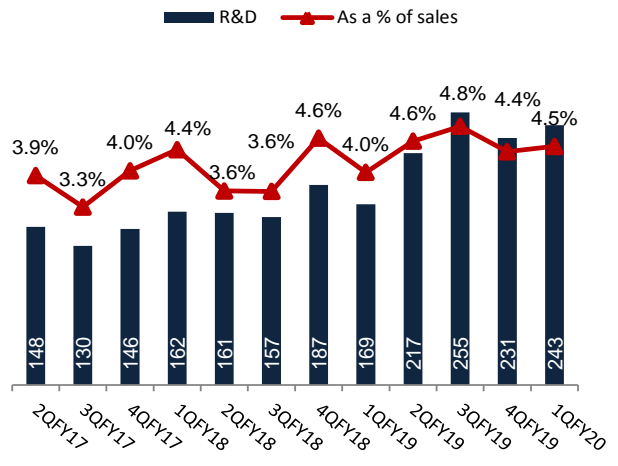


Exhibit: COGS and Other expenses

As a percentage of sales, COGS reduced by 270 bps and other expenses was almost flat.

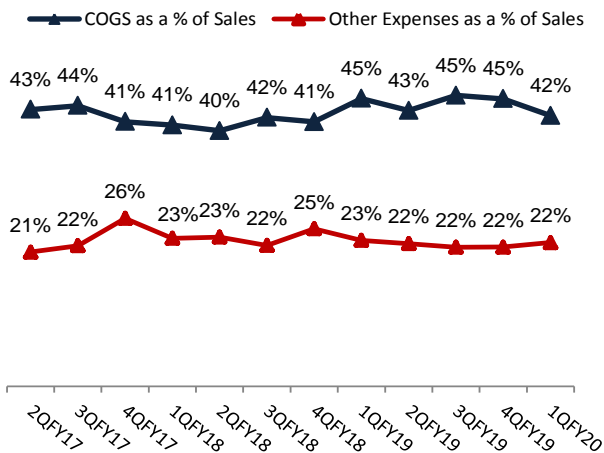
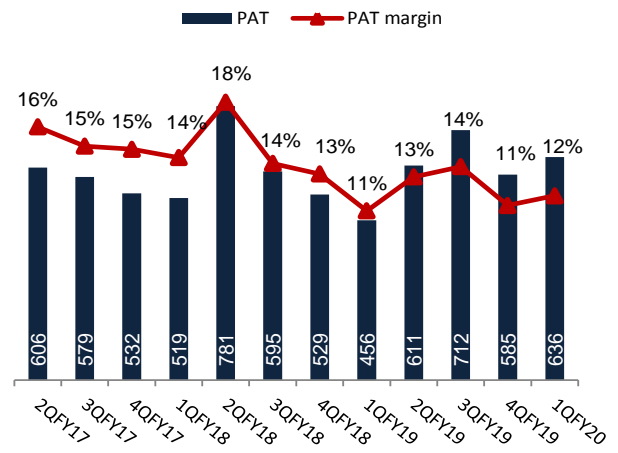


Exhibit: PAT and PAT margin

PAT for the quarter grew by 40% YoY to Rs.636 crs



Operational Details

Fig in Rs Cr

Geography	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
USA	1695	2099	1910	1739	1890	2227	2433	2481	2688
Europe	918	1114	1172	1152	1199	1157	1293	1312	1392
Growth Markets	194	243	250	210	257	308	341	289	313
ARV	245	208	239	149	156	244	281	292	319
API:									
Betalactum	409	514	537	533	492	513	558	583	431
Non-Betalactum	216	258	229	267	256	303	364	334	301

Revenue gr. %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
USA	-1%	21%	9%	6%	11%	6%	27%	43%	42%
Europe	10%	37%	37%	48%	31%	4%	10%	14%	16%
Growth Markets	0%	38%	33%	6%	32%	26%	36%	38%	22%
ARV	-19%	-25%	-30%	-43%	-36%	18%	18%	96%	105%
API:									
Betalactum	-17%	1%	2%	4%	20%	0%	4%	9%	-12%
Non-Betalactum	-10%	0%	-9%	6%	19%	18%	59%	25%	18%

Revenue mix%	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
USA	46%	47%	44%	43%	44%	47%	46%	47%	49%
Europe	25%	25%	27%	28%	28%	24%	25%	25%	26%
Growth Markets	5%	5%	6%	5%	6%	6%	6%	5%	6%
ARV	7%	5%	6%	4%	4%	5%	5%	6%	6%
API:									
Betalactum	11%	12%	12%	13%	12%	11%	11%	11%	8%
Non-Betalactum	6%	6%	5%	7%	6%	6%	7%	6%	6%

ANDA pipeline	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
ANDA filings	13	21	2	11	7	25	10	22	12
ANDA approvals	17	2	20	10	13	13	14	8	9

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	29	29	59	59	59	59	59	59
Reserves	3,721	5,127	7,229	9,313	11,622	13,832	16,739	19,827
Networth	3,750	5,156	7,287	9,372	11,680	13,891	16,798	19,886
Debt	3,634	3,864	4,415	3,084	4,483	6,753	5,713	5,713
Other Non Current Liab	215	235	47	88	291	339	365	370
Total Capital Employed	7,384	9,019	11,703	12,456	16,163	20,644	22,511	25,599
Net Fixed Assets (incl CWIP)	3,031	4,125	5,028	6,292	8,104	10,143	12,116	12,735
Non Current Investments	20	0	123	246	312	360	360	360
Other Non Current Assets	807	490	475	506	502	586	729	746
Non Current Assets	3,859	4,616	5,626	7,043	8,917	11,090	13,205	13,841
Inventory	2,368	3,611	4,056	4,331	5,858	7,246	9,139	10,195
Debtors	2,637	3,539	4,607	2,765	3,084	3,414	4,218	5,097
Cash & Bank	179	469	800	513	1,262	1,957	610	1,940
Other Current Assets	448	679	831	1,597	1,983	2,748	2,691	2,476
Current Assets	5,631	8,299	10,294	9,206	12,188	15,365	16,659	19,708
Creditors	1,351	2,051	2,457	2,155	2,627	2,677	3,867	4,313
Provisions	127	218	51	235	201	181	233	243
Other Current Liabilities	388	1,365	1,660	1,313	1,821	2,612	2,887	3,021
Curr Liabilities	1,865	3,634	4,168	3,703	4,649	5,470	6,987	7,578
Net Current Assets	3,766	4,664	6,127	5,503	7,539	9,895	9,672	12,130
Total Assets	9,490	12,914	15,920	16,249	21,105	26,454	29,864	33,549

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	8,100	12,121	13,955	15,090	16,500	19,564	25,660	28,624
Change (%)	38%	50%	15%	8%	9%	19%	31%	12%
EBITDA	2132	2564	3188	3434	3772	3892	5144	5725
Change (%)	148%	20%	24%	8%	10%	3%	32%	11%
Margin (%)	26.3%	21.2%	22.8%	22.8%	22.9%	19.9%	20.0%	20.0%
Depr & Amor.	313	333	392	428	558	668	897	1258
EBIT	1819	2231	2796	3007	3214	3224	4247	4467
Int. & other fin. Cost	310	160	257	67	78	163	189	189
Other Income	23	97	204	116	102	116	107	122
EBT	1,533	2,168	2,743	3,056	3,238	3,177	4,166	4,401
Exp Item	-	-	-	-	-	88	13	-
Tax	363	597	721	760	818	727	1,089	1,150
Minority Int & P/L share of Ass.	4	5	3	5	3	3	5	-
Reported PAT	1,173	1,576	2,025	2,302	2,423	2,365	3,069	3,250
Adjusted PAT	1,173	1,576	2,025	2,302	2,423	2,297	3,060	3,250
Change (%)	299%	34%	29%	14%	5%	-2%	30%	6%
Margin(%)	14.5%	13.0%	14.5%	15.3%	14.7%	12.1%	12.0%	11.4%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	31%	31%	28%	25%	21%	17%	18%	16%
ROCE	36%	34%	35%	31%	26%	23%	25%	22%
Asset Turnover	0.85	0.94	0.88	0.93	0.78	0.74	0.86	0.85
Debtor Days	119	107	120	67	68	64	60	65
Inv Days	107	109	106	105	130	135	130	130
Payable Days	61	62	64	52	58	50	55	55
Int Coverage	6	14	11	45	41	20	23	24
P/E	12.7	11.3	21.5	17.2	13.5	19.5	11.4	10.7
Price / Book Value	4.0	3.5	6.0	4.2	2.8	3.3	2.1	1.8
EV/EBITDA	8	7	14	11	8	11	7	6
FCF per Share	9	16	(0)	27	7	3	1	29
Div Yield	0.0%	0.7%	0.3%	0.3%	0.7%	0.3%	0.4%	0.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,533	2,168	2,744	3,061	3,241	3,091	4,170	4,401
(inc)/Dec in Working Capital	(1,057)	(842)	(1,079)	583	(1,069)	(1,510)	(1,241)	(1,141)
Non Cash Op Exp	313	333	392	428	558	668	897	1,258
Int Paid (+)	94	71	79	55	63	#REF!	189	189
Tax Paid	(344)	(496)	(733)	(774)	(752)	(770)	(1,089)	(1,150)
others	109	3	16	(73)	(86)	(8)	(13)	-
CF from Op. Activities	646	1,237	1,420	3,279	1,955	1,622	2,914	3,556
(inc)/Dec in FA & CWIP	(390)	(768)	(1,447)	(1,694)	(1,530)	(1,426)	(2,870)	(1,876)
Free Cashflow	256	469	(28)	1,584	425	196	44	1,680
(Pur)/Sale of Inv	(408)	45	(149)	(108)	(68)	(46)	-	-
others	(21)	(675)	152	15	(359)	26	-	-
CF from Inv. Activities	(819)	(1,398)	(1,445)	(1,787)	(1,957)	(2,877)	(2,870)	(1,876)
inc/(dec) in NW	3	7	7	7	0	0	-	-
inc/(dec) in Debt	267	341	603	(1,728)	1,202	2,230	(1,040)	-
Int. Paid	(94)	(74)	(84)	(57)	(74)	(152)	(189)	(189)
Div Paid (inc tax)	(60)	(180)	(162)	(137)	(264)	(160)	(162)	(162)
others								
CF from Fin. Activities	118	93	365	(1,915)	864	1,919	(1,390)	(351)
Inc(Dec) in Cash	(55)	(68)	340	(424)	862	664	(1,347)	1,329
Add: Opening Balance	203	529	404	743	350	1,211	1,957	610
Closing Balance	148	461	744	320	1,212	1,876	611	1,940

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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