

Industry Pharmaceuticals  
Bloomberg ARBP IN  
BSE CODE 524804

## Growth across geographies; regulatory issues continues to be an overhang.

RATING	NEUTRAL
CMP	511
Price Target	492
Potential Upside	-4%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	838/390
Mkt Capital (Rs Cr)	31688
Free float (%)	48%
Avg. Vol 1M (,000)	2990
No. of Shares (Crs)	59
Promoters Pledged %	5%

### 3QFY20 Result update

- Overall revenue grew by 12% YoY to Rs. 5895 crs (vs our estimate of Rs.5824 crs) driven by growth across markets partly offset by de-growth in the API sales.
- US sales grew by 23.5% YoY to US\$ 418 mn led by the new launches and improved volume for the existing products. Aurobindo USA, the company marketing the oral products in the US grew by 16% YoY. Auromedics (Injectables) witnessed a growth of 24% YoY to US\$76 mn this quarter.
- Europe, growth market and ARV business revenue grew by 14%, 2% and 11% YoY to Rs. 1476 crs, Rs.346 crs and Rs. 313 crs respectively while the API business de-grew by 14% to Rs. 790 crs.
- Gross margin improved by 184 bps YoY to 56.5% while EBITDA margin stayed muted at 20.5%. PAT for the quarter remained flat at Rs. 705 crs and PAT margin stood at 12%.

### View and Valuation

AUROPHARMA results were largely in line with our estimates. The quarter saw growth across geographies partly offset by de-growth in the API sales. The company is progressing well on the integration of acquisitions done, and expects to receive FTC approval in this quarter. The company has made decent progress in the reduction of the net debt and expects to be debt-free in the next 3 years excluding Sandoz. However the USFDA regulatory issues continues to be an overhang on the stock as currently 3 of its units namely Unit 1, 7 & 9 are under OAI and unit 11 under warning letter. For Unit 4, the company has responded to the observations by the USFDA and expects to submit CAPA by April- May 2020.

We have largely maintained our estimates for FY21; going forward as things unfold, we will update our estimates accordingly. Therefore, considering the headwinds we remain NEUTRAL on the stock and maintain a target price of Rs. 492 (10x FY21E EPS).

### Key Risks to our rating and target

- OAI status in 3 of its facilities and a warning letter for 1.
- 14 483s for Unit IV (31% of the pending approvals).

### RESEARCH ANALYST

**J MADHAVI**

j.madhavi@narnolia.com

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	15090	16500	19564	22715	24352
EBITDA	3434	3772	3892	4695	4992
EBIT	3007	3214	3224	3731	3927
PAT	2302	2423	2365	2680	2885
EPS (Rs)	39	41	40	46	49
EPS growth (%)	14%	5%	-2%	13%	8%
ROE (%)	24.6%	20.7%	17.0%	16.3%	15.1%
ROCE (%)	31.5%	26.5%	22.9%	22.5%	20.3%
BV	160	199	237	280	327
P/B (X)	4.2	2.8	3.3	1.8	1.6
P/E (x)	17.2	13.5	19.5	11.2	10.4

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## 3QFY20 Results

Fig in Rs Cr

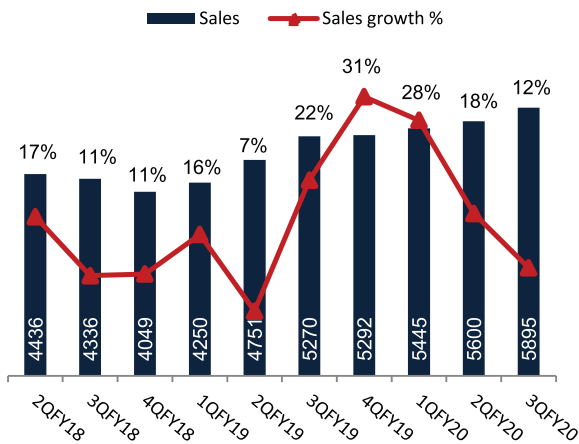
FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	5,270	5,292	5,445	5,600	5,895	11.9%	5.3%	16,500	19,564	18.6%
Other Income	64	32	16	(7)	31	-51.6%	-570%	102	116	13.4%
COGS	2,390	2,373	2,299	2,368	2,565	7.3%	8.3%	6,753	8,713	29.0%
Gross Margin	55%	55%	58%	58%	56.5%	1.8%	-1.2%	59%	55%	-3.6%
Employee Cost	650	713	780	777	798	22.8%	2.7%	2,131	2,585	21.3%
Other Expen.	1,144	1,149	1,220	1,288	1,324	15.8%	2.8%	3,845	4,374	13.8%
EBITDA	1,086	1,057	1,146	1,167	1,208	11.2%	3.5%	3,772	3,892	3.2%
EBITDA Mar.	21%	20%	21%	21%	20.5%	-0.1%	-0.4%	23%	20%	-3.0%
Depreciation	163	187	241	243	250	53.3%	2.8%	558	668	19.7%
EBIT	923	871	906	924	958	4%	3.7%	3,214	3,224	0.3%
Interest	48	50	50	41	37	-22%	-9.4%	78	163	109.3%
PBT	939	853	871	877	952	1.3%	8.6%	3,238	3,177	-2%
Exceptional Item	25	36	13	13	13	-48.4%	1.3%			
Tax	205	231	228	224	233	13.7%	3.8%	818	727	-11%
PAT	712	585	636	640	705	-1.0%	10%	2,423	2,365	-2%
PAT Margin	14%	11%	12%	11%	12.0%	-1.6%	1%	15%	12%	-3%

## Concall Highlights

- US sales grew by 23.5% YoY to US\$ 418 mn led by the new launches and improved volume for the existing products. Aurobindo USA, the company marketing the oral products in the US grew by 16% YoY. Auromedics (Injectables) witnessed a growth of 24% YoY to US\$76 mn this quarter.
- Europe, growth market and ARV business revenue grew by 14%, 2% and 11% YoY to Rs. 1476 crs, Rs.346 crs and Rs. 313 crs respectively while the API business de-grew by 14% to Rs. 790 crs.
- The company filed 6 ANDAs with USFDA including 4 injectables and received final approval for 4 ANDAs including 2 injectables in Q3FY20. The company launched 5 products during the quarter.
- The total ANDAs under review stands at 154, of which 132 non-injectables and 49 injectables awaiting final approvals. The total tentative approvals stands at 27 including 8 ANDAs approved under PEPFAR.
- The Sandoz acquisition in US is expected to close probably this quarter, the FTC approval is expected in Feb 2020.
- The Apotex business turnaround may take some time, the company expects to make considerable progress in making these losses to Neutral in H2FY21.
- On the Biosimilars front, the company has started the clinical trial for 1 product and expects to file in Q2FY23; apart from this the company expects to start clinical trials for 2 more products in the next 6 months.
- Biosimilars: There is another product for which the phase-3 would start in early next year, apart from this there are 2 more products which would go for extended phase-1 and is expected to be filed in Q1FY21 and Q3FY210.
- Since the company is moving towards more biosimilars, Vaccines and Depo's; the company expects the R&D cost to be 5-6% of sales on the expanded base (including Sandoz) in Fy21.
- On the Regulatory front, Unit 4- the company has submitted the comprehensive response to the USFDA and is awaiting response from the agency. There are 15 decent approvals expected in the next 1 yr from this facility.
- There are certain CAPAs in Unit 4 which is expected to be concluded by April and May 2020.
- In unit 11(warning letter) – the company's has sent a note to USFDA and the company is awaiting inspection anytime soon.
- Unit 7 (OAI) - The company is working closely with the USFDA for the resolution.
- The company is on track for setting up another facility in the unit 4 (Injectables & Ophthalmics) which will be a low volume, high volume set up, expected to come online in the next 12 months.
- The net debt declined sequentially by US\$ 77 mn, therefore the net debt as on Dec 2019 stands at US\$ 446 mn.
- The company expects to be zero debt in the next 3 years except Sandoz, excluding Spectrum and Apotex acquisition it's expected to achieve even sooner.

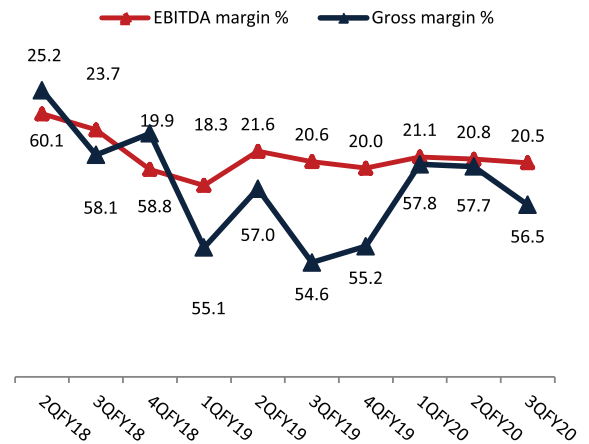
## Exhibit: Sales and Sales Growth

Sales for the quarter grew by 12% YoY to Rs.5895 crs (vs our expectation of Rs.5824 crs)



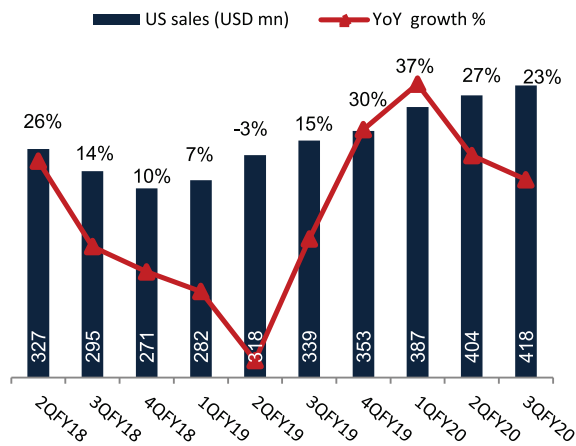
## Exhibit: Gross and EBITDA margin

Gross margin improved by 184 bps YoY to 56.5% while EBITDA margin stayed muted at 20.5%.



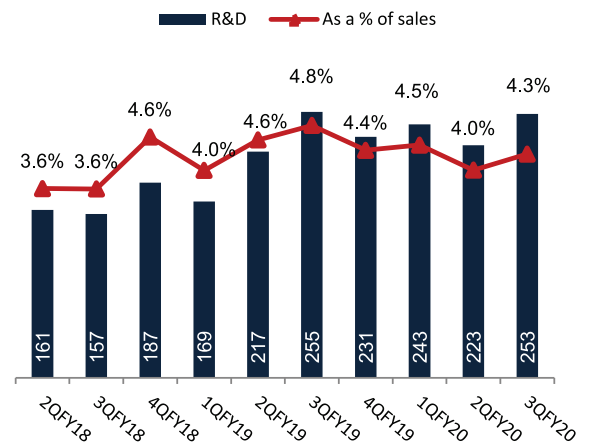
## Exhibit: US sales and YoY growth

US sales grew by 23% YoY to US\$ 418 mn led by the new launches and improved volume for the existing products.



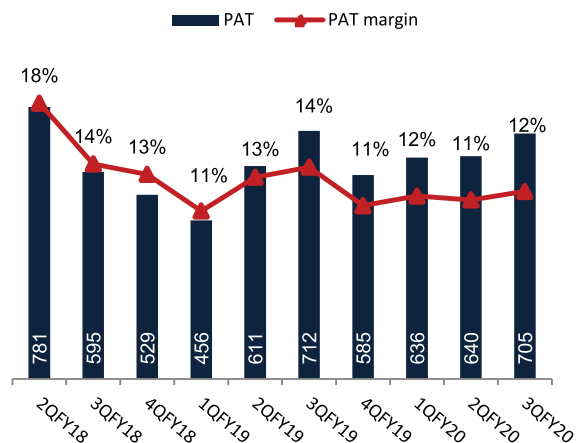
## Exhibit: R&D cost and R&D as a % of sales

R&D spend is at Rs. 253 crs(4% of sales) this quarter v/s Rs. 255 crs in Q3FY19 (4.8% of sales).



## Exhibit: PAT and PAT margin

The PAT remained flat at Rs. 705 crs (vs our estimate of Rs. 729 crs). PAT margin stood at 12%.



## Operational Details

Fig in Rs Cr

GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USA	1910	1739	1890	2227	2433	2481	2688	2835	2969
Europe	1172	1152	1199	1157	1293	1312	1392	1401	1476
Growth Markets	250	210	257	308	341	289	313	319	346
ARV	239	149	156	244	281	292	319	238	313
API	766	800	748	817	922	917	732	806	790

REVENUE GR. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USA	9%	6%	11%	6%	27%	43%	42%	27%	22%
Europe	37%	48%	31%	4%	10%	14%	16%	21%	14%
Growth Markets	33%	6%	32%	26%	36%	38%	22%	4%	2%
ARV	-30%	-43%	-36%	18%	18%	96%	105%	-2%	11%
API	-1%	5%	20%	6%	20%	15%	-2%	-1%	-14%

REVENUE MIX%	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USA	44%	43%	44%	47%	46%	47%	49%	51%	50%
Europe	27%	28%	28%	24%	25%	25%	26%	25%	25%
Growth Markets	6%	5%	6%	6%	6%	5%	6%	6%	6%
ARV	6%	4%	4%	5%	5%	6%	6%	4%	5%
API	18%	20%	18%	17%	17%	17%	13%	14%	13%

ANDA PIPELINE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
ANDA filings	2	11	7	25	10	22	12	20	6
ANDA approvals	20	10	13	13	14	8	9	3	4

## 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	16,350	19,073
<b>Networth</b>	<b>3,750</b>	<b>5,156</b>	<b>7,287</b>	<b>9,372</b>	<b>11,680</b>	<b>13,891</b>	<b>16,409</b>	<b>19,132</b>
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	412	421
<b>Total Capital Employed</b>	<b>7,384</b>	<b>9,019</b>	<b>11,703</b>	<b>12,456</b>	<b>16,163</b>	<b>20,644</b>	<b>22,122</b>	<b>24,845</b>
Net Fixed Assets (incl CWIP)	3,031	4,125	5,028	6,292	8,104	10,143	11,068	12,386
Non Current Investments	20	0	123	246	312	360	360	360
Other Non Current Assets	807	490	475	506	502	586	705	705
<b>Non Current Assets</b>	<b>3,859</b>	<b>4,616</b>	<b>5,626</b>	<b>7,043</b>	<b>8,917</b>	<b>11,090</b>	<b>12,133</b>	<b>13,452</b>
Inventory	2,368	3,611	4,056	4,331	5,858	7,246	8,090	8,673
Debtors	2,637	3,539	4,607	2,765	3,084	3,414	4,045	4,337
Cash & Bank	179	469	800	513	1,262	1,957	1,562	2,302
Other Current Assets	448	679	831	1,597	1,983	2,748	1,635	1,749
<b>Current Assets</b>	<b>5,631</b>	<b>8,299</b>	<b>10,294</b>	<b>9,206</b>	<b>12,188</b>	<b>15,365</b>	<b>15,333</b>	<b>17,061</b>
Creditors	1,351	2,051	2,457	2,155	2,627	2,677	3,112	3,336
Provisions	127	218	51	235	201	181	206	222
Other Current Liabilities	388	1,365	1,660	1,313	1,821	2,612	1,613	1,687
<b>Curr Liabilities</b>	<b>1,865</b>	<b>3,634</b>	<b>4,168</b>	<b>3,703</b>	<b>4,649</b>	<b>5,470</b>	<b>4,930</b>	<b>5,245</b>
<b>Net Current Assets</b>	<b>3,766</b>	<b>4,664</b>	<b>6,127</b>	<b>5,503</b>	<b>7,539</b>	<b>9,895</b>	<b>10,403</b>	<b>11,816</b>
<b>Total Assets</b>	<b>9,490</b>	<b>12,914</b>	<b>15,920</b>	<b>16,249</b>	<b>21,105</b>	<b>26,454</b>	<b>27,466</b>	<b>30,513</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>8,100</b>	<b>12,121</b>	<b>13,955</b>	<b>15,090</b>	<b>16,500</b>	<b>19,564</b>	<b>22,715</b>	<b>24,352</b>
Change (%)	38%	50%	15%	8%	9%	19%	16%	7%
<b>EBITDA</b>	<b>2132</b>	<b>2564</b>	<b>3188</b>	<b>3434</b>	<b>3772</b>	<b>3892</b>	<b>4695</b>	<b>4992</b>
Change (%)	148%	20%	24%	8%	10%	3%	21%	6%
Margin (%)	26%	21%	23%	23%	23%	20%	20.7%	20.5%
Depr & Amor.	313	333	392	428	558	668	964	1065
<b>EBIT</b>	<b>1819</b>	<b>2231</b>	<b>2796</b>	<b>3007</b>	<b>3214</b>	<b>3224</b>	<b>3731</b>	<b>3927</b>
Int. & other fin. Cost	310	160	257	67	78	163	171	171
Other Income	23	97	204	116	102	116	80	122
<b>EBT</b>	<b>1533</b>	<b>2168</b>	<b>2743</b>	<b>3056</b>	<b>3238</b>	<b>3177</b>	<b>3640</b>	<b>3878</b>
Exp Item	-	-	-	-	-	88	38	0
Tax	363	597	721	760	818	727	926	992
Minority Int & P/L share of Ass.	4	5	3	5	3	3	4	-
<b>Reported PAT</b>	<b>1,173</b>	<b>1,576</b>	<b>2,025</b>	<b>2,302</b>	<b>2,423</b>	<b>2,365</b>	<b>2,680</b>	<b>2,885</b>
<b>Adjusted PAT</b>	<b>1,173</b>	<b>1,576</b>	<b>2,025</b>	<b>2,302</b>	<b>2,423</b>	<b>2,297</b>	<b>2,652</b>	<b>2,885</b>
Change (%)	299%	34%	29%	14%	5%	-2%	13%	8%
Margin(%)	14.5%	13.0%	14.5%	15.3%	14.7%	12.1%	11.8%	11.8%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	31.3%	30.6%	27.8%	24.6%	20.7%	17.0%	16.3%	15.1%
ROCE	36.2%	34.2%	34.8%	31.5%	26.5%	22.9%	22.5%	20.3%
Asset Turnover	0.9	0.9	0.9	0.9	0.8	0.7	0.8	0.8
Debtor Days	119	107	120	67	68	64	65	65
Inv Days	107	109	107	105	130	135	130	130
Payable Days	61	62	64	52	58	50	50	50
Int Coverage	6	14	11	45	41	20	22	23
P/E	12.7	11.3	21.5	17.2	13.5	19.5	11.2	10.4
Price / Book Value	4.0	3.5	6.0	4.2	2.8	3.3	1.8	1.6
EV/EBITDA	8	7	14	11	8	11	6	6
FCF per Share	9	16	(0)	27	7	3	17	18
Div Yield	0.0%	0.7%	0.3%	0.3%	0.7%	0.3%	0.5%	0.5%

### 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	3,606	3,878
(inc)/Dec in Working Capital	(1,057)	(842)	(1,079)	583	(1,069)	(1,510)	(948)	(666)
Non Cash Op Exp	313	333	392	428	558	668	964	1,065
Int Paid (+)	94	71	79	55	63	151	171	171
Tax Paid	(344)	(496)	(733)	(774)	(752)	(770)	(926)	(992)
others	109	3	16	(73)	(86)	(8)	-	-
<b>CF from Op. Activities</b>	<b>646</b>	<b>1,237</b>	<b>1,420</b>	<b>3,279</b>	<b>1,955</b>	<b>1,622</b>	<b>2,867</b>	<b>3,456</b>
(inc)/Dec in FA & CWIP	(390)	(768)	(1,447)	(1,694)	(1,530)	(1,426)	(1,889)	(2,383)
Free Cashflow	256	469	(28)	1,584	425	196	979	1,073
(Pur)/Sale of Inv	(408)	45	(149)	(108)	(68)	(46)	-	-
others	(21)	(675)	152	15	(359)	26	-	-
<b>CF from Inv. Activities</b>	<b>(819)</b>	<b>(1,398)</b>	<b>(1,445)</b>	<b>(1,787)</b>	<b>(1,957)</b>	<b>(2,877)</b>	<b>(1,889)</b>	<b>(2,383)</b>
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)	(171)	(171)
Div Paid (inc tax)	(60)	(180)	(162)	(137)	(264)	(160)	(162)	(162)
others							-	-
<b>CF from Fin. Activities</b>	<b>118</b>	<b>93</b>	<b>365</b>	<b>(1,915)</b>	<b>864</b>	<b>1,919</b>	<b>(1,373)</b>	<b>(333)</b>
Inc(Dec) in Cash	(55)	(68)	340	(424)	862	664	(394)	739
<b>Add: Opening Balance</b>	<b>203</b>	<b>529</b>	<b>404</b>	<b>743</b>	<b>350</b>	<b>1,211</b>	<b>1,957</b>	<b>1,562</b>
Closing Balance	148	461	744	320	1,212	1,876	1,563	2,302

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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