

# Aurobindo Pharma Limited

Industry Pharmaceuticals  
Bloomberg ARBP IN  
BSE CODE 524804

## Growth across geographies, rupee depreciation & product mix led to margin expansion.

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>759</b>
<b>Price Target</b>	<b>771</b>
<b>Potential Upside</b>	<b>2%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	791/281
Mkt Capital (Rs Cr)	44482
Free float (%)	48%
Avg. Vol 1M (,000)	8922
No. of Shares (Cr)	59
Promoters Pledged %	6%

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### 4QFY20 Result update.

- Overall revenues grew by 17% YoY to Rs. 6158 crs (vs our estimate of Rs. 5880 crs) in 4QFY20 on account of growth across geographies on its base business as well as Covid related stocking up.
- US sales grew by 17% YoY to US\$ 413 mn. Aurobindo, USA grew by 10% YoY and Auromedics (Injectables) declined by 9% YoY to US\$ 59 mn due to 80% drop in the elective surgeries & pricing pressures in one of the products.
- In the constant currency, Europe grew by 26% YoY, Growth market grew by 27% YoY, ARV segment grew 27% YoY & API de-grew by 18% YoY.
- The gross margin improved by 420 bps YoY to 59.4% across all geographies on account of product mix & rupee depreciation while EBITDA margin grew by 140 bps YoY to 21.4%. PAT grew by 45% YoY to Rs.850 crs.

### View and Valuation

AUROPHARMA posted a revenue growth of 17% YoY this quarter on account of growth across geographies on its base business as well as Covid related stocking up. The gross margin expanded by 420 bps to 59.4% on account of product mix & rupee depreciation. Q1FY21 is expected to be soft as April & May 2020 has been weak compared to March 2020 with revival expected from July 2020. The balance sheet of the company looks strong, as debt has been reduced quite significantly and the company has guided to become debt free by FY22 (earlier guidance of FY23).

Going forward, we believe FY21 will see decent growth across geographies, with the US being one of the important growth drivers with 50-60 product launches as per the company. The future pipeline of the company for the US market looks very attractive with differentiated products in Inhalation, Nasals, Tropical, Trans-dermal patches & biosimilars at various stages of development. Therefore, we believe the company will perform fundamentally well going ahead. The regulatory overhang on few major facilities continues to be a key concern area though there has been some relief with unit 4 (51 products under review) getting its EIR in April 2020. Therefore, we maintain our NEUTRAL stance with a target price of Rs. 771.

### Key Risks to our rating and target

- OAI status in Unit 1, 7 & 9 and warning letter for Unit 11.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	15090	16500	19564	23099	25112
EBITDA	3434	3772	3892	4825	5115
EBIT	3007	3214	3224	3858	4030
PAT	2302	2423	2365	2830	3012
EPS (Rs)	39	41	40	48	51
EPS growth (%)	14%	5%	-2%	20%	6%
ROE (%)	24.6%	20.7%	17.0%	16.8%	15.3%
ROCE (%)	31.5%	26.5%	22.9%	22.9%	20.5%
BV	160	199	237	287	336
P/B (X)	4.2	2.8	3.3	1.6	2.3
P/E (x)	17.2	13.5	19.5	9.5	14.8

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## 4QFY20 Results

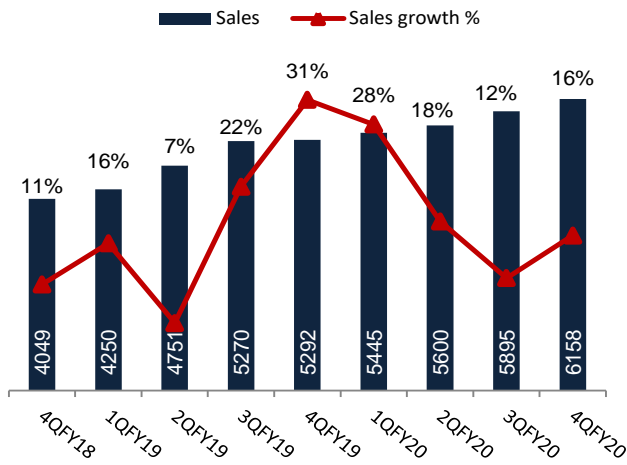
Financials	Fig in Rs Cr										
	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %	
Net Sales	5,292	5,445	5,600	5,895	6,158	16.4%	4.5%	19,564	23,099	18.1%	
Other Income	32	16	(7)	31	33	1.0%	5%	116	86	-25.5%	
COGS	2,373	2,299	2,368	2,565	2,503	5.5%	-2.4%	8,713	9,735	11.7%	
Gross Margin	55.2%	57.8%	57.7%	56.5%	59.4%	4.2%	2.9%	55.5%	57.9%	2.4%	
Employee Cost	713	780	777	798	864	21.1%	8.3%	2,585	3,219	24.5%	
Other Expen.	1,149	1,220	1,288	1,324	1,475	28.4%	11.4%	4,374	5,319	21.6%	
EBITDA	1,057	1,146	1,167	1,208	1,316	24.5%	9.0%	3,892	4,825	24.0%	
EBITDA Mar.	20.0%	21.1%	20.8%	20.5%	21.4%	1.4%	0.9%	19.9%	20.9%	1.0%	
Depreciation	187	241	243	250	232	24.5%	-7.1%	668	967	44.7%	
EBIT	871	906	924	958	1,084	24%	13.1%	3,224	3,858	19.7%	
Interest	50	50	41	37	32	-36%	-14.2%	163	160	-1.8%	
PBT	853	871	877	952	1,085	27.1%	14.0%	3,177	3,784	19%	
Exceptional	36	13	13	13	(12)	NA	NA	88	26	-70%	
Tax	231	228	224	233	229	-1.1%	-1.9%	727	914	26%	
PAT	585	636	640	705	849	45.0%	20%	2,365	2,830	20%	
PAT Margin	11.1%	11.7%	11.4%	12.0%	13.8%	2.7%	2%	12.1%	12.2%	0%	

### Concall Highlights

- US sales have grown by 17% to US\$ 413 mn. Aurobindo USA, grew by 10% YoY and Auromedics(Injectables) declined by 9% YoY to US\$ 59 mn due to 80% drop in the elective surgery & pricing pressures in one of the products.
- In the US business, the company has seen uptick in the oral solids in March 2020 due to Covid related stocking up and also monetized the opportunities coming from other products due to supply issues faced by other companies.
- For the US market, March was an extraordinary month; April & May volumes were down compared to March 2020, though the market share stays intact.
- Spectrum portfolio reported sales of US\$ 100 mn in FY20. Q1FY21 is expected to be down by 15-20%, though for the full year, decent growth is expected as one branded products will be added in the mid of the year.
- For the US Market- the company expects to launch 52-60 products irrespective of facility status, of which the company has received approvals for products. And it expects to file 50-60 products in FY21.
- For the US market- the Company is working on 8 Inhalers (6 MDI & 2 DPI), 2 Nasals filed this quarter, 37 Tropical products at various stages of development, 5 Biosimilars and expects to file first Depo-injectables in 3QFY21.
- In the constant currency, Europe grew by 26% YoY, Growth market grew by 27% YoY, ARV segment grew 27% YoY & API de-grew by 18% YoY.
- For Europe, Apotex business is expected to breakeven in H2FY21. Currently, EBITDA margin for Europe stands at 9-10%, soon the company expects to reach 11-12% with Apotex breaking even.
- In china- the company is currently filing from India. The Oral formulation facility is under construction in China and Exhibit batches are expected to be taken in H2FY21.
- On the Biosimilar Front, the company expects to file 2 products in end of FY21 or early FY22 in Europe. The company is currently working in 5 biosimilars (with 14 products in the overall portfolio).
- The gross margin improved across all geographies on account of product mix & rupee depreciation. The gross margin & EBITDA is improved by 30-40crs for every rupee depreciation. The company believes that 58% is the sustainable gross margin going ahead.
- R&D for FY21 is expected to be at 5.5% of sales as the clinical trials for Biosimilars & differentiated products starts.
- The company has guided to become Debt-free by FY22 (earlier guided FY23).
- On the facilities front- For Unit 7 (OAI), the company has completed CAPA & submitted the final response recently.
- For Unit 1(OAI),Unit 9 (OAI) &Unit 11 (Warning letter)- the company has completed all actions by Nov 2019 and has submitted the documents to USFDA. The inspection for these facilities got delayed due to Covid situation, the company has submitted for desktop review.

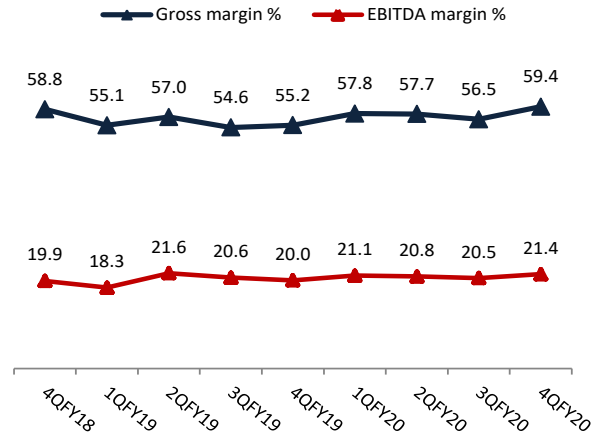
## Exhibit: Sales and Sales Growth

Sales for the quarter grew by 17% YoY to Rs.6158 crs (vs our expectation of Rs.5880 crs)



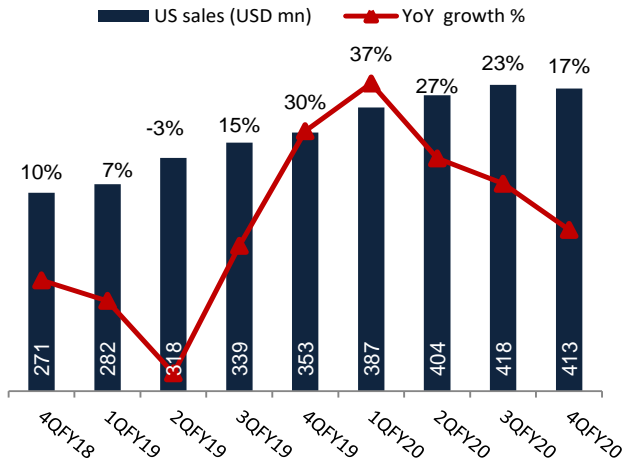
## Exhibit: Gross and EBITDA margin

Gross margin improved by 420 bps YoY to 59.4% while EBITDA margin grew by 140 bps YoY to 21.4%.



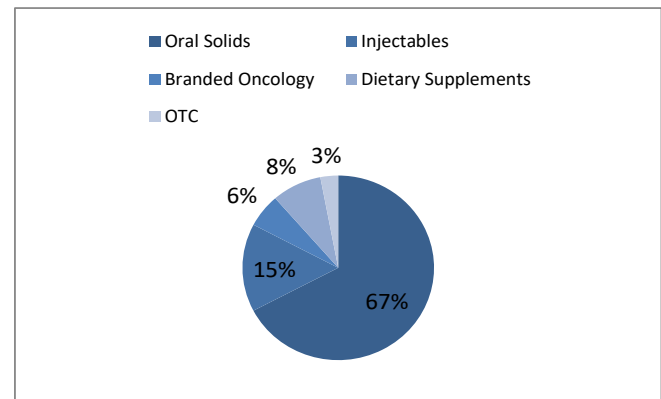
## Exhibit: US sales and YoY growth

US sales grew by 17% YoY to US\$ 413 m due to Covid related stocking up in oral solids.



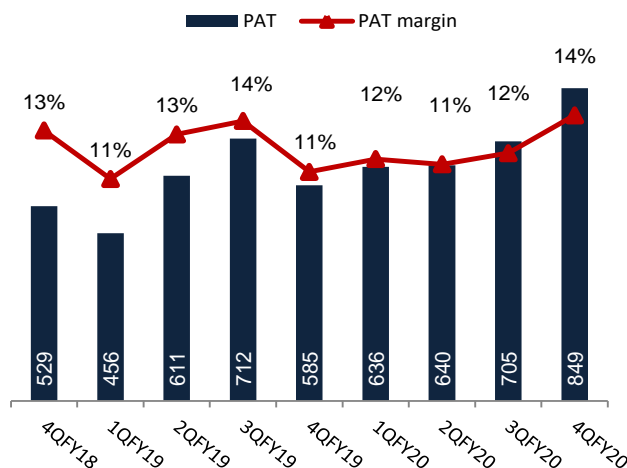
## Exhibit: Revenue mix of US sales

R&D for FY21 is expected to be at 5.5% of sales as the clinical trials for Biosimilars & complex products starts.



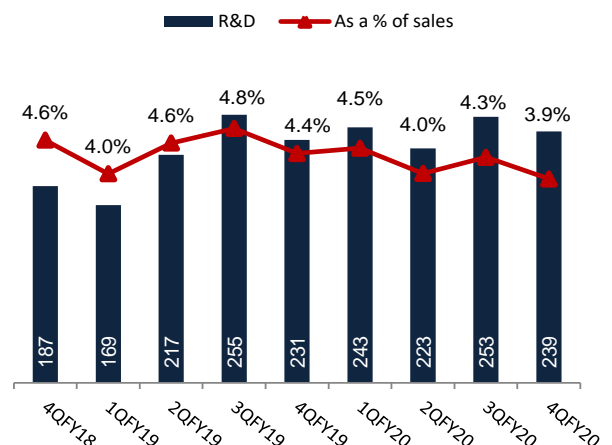
## Exhibit: PAT and PAT margin

PAT grew by 45% YoY to Rs. 849 crs (vs our estimate of Rs. 737 crs). PAT margin stood at 14%.



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

R&D for FY21 is expected to be at 5.5% of sales as the clinical trials for Biosimilars & complex products starts.



## Operational Details

Fig in Rs Cr

<b>Geography</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>
USA	1739	1890	2227	2433	2481	2688	2835	2969	2990
Europe	1152	1199	1157	1293	1312	1392	1401	1476	1653
Growth Markets	210	257	308	341	289	313	319	346	377
ARV	149	156	244	281	292	319	238	313	382
API	800	748	817	922	917	732	806	790	756

<b>Revenue gr. %</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>
USA	6%	11%	6%	27%	43%	42%	27%	22%	21%
Europe	48%	31%	4%	10%	14%	16%	21%	14%	26%
Growth	6%	32%	26%	36%	38%	22%	4%	2%	30%
ARV	-43%	-36%	18%	18%	96%	105%	-2%	11%	31%
API	5%	20%	6%	20%	15%	-2%	-1%	-14%	-18%

<b>Revenue mix%</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>
USA	43%	44%	47%	46%	47%	49%	51%	50%	49%
Europe	28%	28%	24%	25%	25%	26%	25%	25%	27%
Growth	5%	6%	6%	6%	5%	6%	6%	6%	6%
ARV	4%	4%	5%	5%	6%	6%	4%	5%	6%
API	20%	18%	17%	17%	17%	13%	14%	13%	12%

<b>ANDA pipeline</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>	<b>3QFY20</b>	<b>4QFY20</b>
ANDA filings	11	7	25	10	22	12	20	6	6
ANDA approvals	10	13	13	14	8	9	3	4	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	16,752	19,601
<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>16,810</b>	<b>19,660</b>
Debt	3,634	3,864	4,415	3,084	4,483	6,753	5,422	5,422
Other Non Current Liab	215	235	47	88	291	339	729	732
<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>22,233</b>	<b>25,082</b>
Net Fixed Assets (incl CWIP)	3,031	4,125	5,028	6,292	8,104	10,143	11,382	12,609
Non Current Investments	20	0	123	246	312	360	145	145
Other Non Current Assets	807	490	475	506	502	586	577	704
<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>12,514</b>	<b>13,458</b>
Inventory	2,368	3,611	4,056	4,331	5,858	7,246	7,700	8,944
Debtors	2,637	3,539	4,607	2,765	3,084	3,414	4,315	4,691
Cash & Bank	179	469	800	513	1,262	1,957	2,842	2,987
Other Current Assets	448	679	831	1,597	1,983	2,748	1,555	1,762
<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>16,413</b>	<b>18,384</b>
Creditors	1,351	2,051	2,457	2,155	2,627	2,677	2,545	2,767
Provisions	127	218	51	235	201	181	417	222
Other Current Liabilities	388	1,365	1,660	1,313	1,821	2,612	3,003	3,039
<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>5,964</b>	<b>6,028</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>10,448</b>	<b>12,356</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>28,926</b>	<b>31,843</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	8,100	12,121	13,955	15,090	16,500	19,564	23,099	25,112
Change (%)	38%	50%	15%	8%	9%	19%	18%	9%
<b>EBITDA</b>	<b>2132</b>	<b>2564</b>	<b>3188</b>	<b>3434</b>	<b>3772</b>	<b>3892</b>	<b>4825</b>	<b>5115</b>
Change (%)	148%	20%	24%	8%	10%	3%	24%	6%
Margin (%)	14.7%	26.3%	21.2%	22.8%	22.8%	22.9%	19.9%	20.9%
Depr & Amor.	313	333	392	428	558	668	967	1085
<b>EBIT</b>	<b>1819</b>	<b>2231</b>	<b>2796</b>	<b>3007</b>	<b>3214</b>	<b>3224</b>	<b>3858</b>	<b>4030</b>
Int. & other fin. Cost	310	160	257	67	78	163	160	163
Other Income	23	97	204	116	102	116	86	122
<b>EBT</b>	<b>1533</b>	<b>2168</b>	<b>2743</b>	<b>3056</b>	<b>3238</b>	<b>3177</b>	<b>3784</b>	<b>3989</b>
Exp Item	0	0	0	0	0	88	26	0
Tax	363	597	721	760	818	727	914	977
Minority Int & P/L share of Ass.	4	5	3	5	3	3	(15)	-
<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>2,830</b>	<b>3,012</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>2,277</b>	<b>2,803</b>	<b>3,012</b>
Change (%)	299%	34%	29%	14%	5%	-6%	23%	7%
Margin(%)	14.5%	13.0%	14.5%	15.3%	14.7%	12.1%	12.2%	12.0%

## 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%	16.8%	15.3%
ROCE	36.2%	34.2%	34.8%	31.5%	26.5%	22.9%	22.9%	20.5%
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	68	68
Inv Days	107	109	106	105	130	135	122	130
Payable Days	61	62	64	52	58	50	40	40
Int Coverage	6	14	11	45	41	20	24	25
P/E	12.7	11.3	21.5	17.2	13.5	19.5	9.5	14.8
Price / Book Value	4.0	3.5	6.0	4.2	2.8	3.3	1.6	2.3
EV/EBITDA	8	7	14	11	8	11	5	8
FCF per Share	9	16	(0)	27	7	3	51	1
Div Yield	0.0%	0.7%	0.3%	0.3%	0.7%	0.3%	0.5%	0.3%

### 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	3,743	3,989
(inc)/Dec in Working Capital	(1,057)	(842)	(1,079)	583	(1,069)	(1,510)	277	(1,888)
Non Cash Op Exp	313	333	392	428	558	668	967	1,085
Int Paid (+)	94	71	79	55	63	151	142	163
Tax Paid	(344)	(496)	(733)	(774)	(752)	(770)	(730)	(977)
others	109	3	16	(73)	(86)	(8)	(17)	-
<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>4,381</b>	<b>2,372</b>
(inc)/Dec in FA & CWIP	(390)	(768)	(1,447)	(1,694)	(1,530)	(1,426)	(1,383)	(2,312)
Free Cashflow	256	469	(28)	1,584	425	196	2,999	60
(Pur)/Sale of Inv	(408)	45	(149)	(108)	(68)	(46)	(188)	410
others	(21)	(675)	152	15	(359)	26	32	-
<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>(1,568)</b>	<b>(1,902)</b>
inc/(dec) in NW	3	7	7	7	0	0	0	-
inc/(dec) in Debt	267	341	603	(1,728)	1,202	2,230	(1,530)	-
Int. Paid	(94)	(74)	(84)	(57)	(74)	(152)	(127)	(163)
Div Paid (inc tax)	(60)	(180)	(162)	(137)	(264)	(160)	(188)	(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>(1,947)</b>	<b>(325)</b>
Inc(Dec) in Cash	(55)	(68)	340	(424)	862	664	866	145
<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>1,880</b>	<b>2,842</b>
Closing Balance	148	461	744	320	1,212	1,876	2,747	2,987

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