

**BUY**  
 TP: Rs 680 | ▲ 28%

**AUROBINDO PHARMA** | Pharmaceuticals

31 May 2022

**Launch momentum to gather pace; valuations attractive**

- Q4 EBITDA margin stable QoQ at 16.8% but down 450bps YoY with 335bps YoY contraction in gross margin
- Management confident of double-digit growth annually in specialty business to reach revenue of US\$ 650mn-700mn by FY24
- TP revised to Rs 680 (vs. Rs 850) as we cut FY23-FY24 EBITDA 8-15% and pare our target EV/EBITDA multiple to 7x; maintain BUY

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**Strong sequential growth in ARVs offset by decline in other businesses:** ARBP reported Q4FY22 revenue/EBITDA of Rs 58.1bn/Rs 9.7bn, below consensus by 2%/5% and down 3%/4% QoQ (-3%/-24% YoY). Strong growth in ARVs (+52% QoQ) was negated by a decline in Europe (-9%) and API businesses (-10%). APIs, however, grew YoY by 15% on account of improved demand for some key products. ARBP was able to pass on 60-70% of the increased costs for APIs sold externally (55% of segment revenue), but absorbed higher costs for those used in-house.

**US prices yet to stabilise:** US revenue for the quarter at US\$ 363mn fell 1% QoQ CC on account of continued price erosion in the generic portfolio – this nullified new launch benefits as well as the 11% QoQ growth in injectables. Price erosion stood at 11% in Q4 (9% in FY22), and management expects these high levels to continue until excess inventory is rationalised.

**Launch momentum to increase from FY23:** ARBP’s global specialty portfolio, mainly Eugia oncology/immunology and hormonal injectables, clocked revenue of US\$ 438mn in FY22 with 11 new launches. Management has guided for 15 launches in FY23 and annual launches of 20 products from the specialty portfolio from FY24 onwards. It expects to reach US\$ 650-700mn in revenue by FY24.

**Maintain BUY:** We reduce our FY22/FY23 EBITDA estimates by 8%/15% to factor in the FY22 performance, US price erosion and a new base for the API business – retain BUY with a revised TP of Rs 680 (Rs 850 earlier), set at a lower 7.0x FY24E EV/EBITDA multiple (7.5x earlier), implying a P/E of 12x. Our target multiple reflects a continued 55% discount to other frontline stocks (SUNP, CIPLA, DRRD) due to ARBP’s low branded sales and high US exposure. The stock is trading at attractive valuations of 6.3x/5.7x FY23E/FY24E EV/EBITDA – we maintain BUY rating as we see limited downside from here and are optimistic of traction in specialty sales and increased launch momentum in coming years.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ARBP IN/Rs 531
Market cap	US\$ 4.0bn
Free float	48%
3M ADV	US\$ 18.3mn
52wk high/low	Rs 1,018/Rs 514
Promoter/FPI/DII	52%/22%/16%

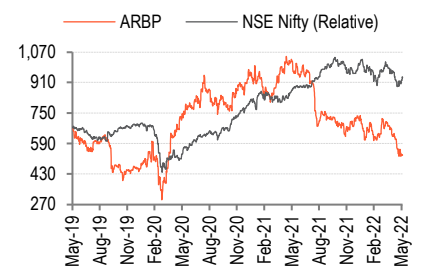
Source: NSE | Price as of 31 May 2022

**Key financials**

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,34,555	2,49,104	2,63,993
EBITDA (Rs mn)	43,868	50,174	53,865
Adj. net profit (Rs mn)	27,062	29,941	32,976
Adj. EPS (Rs)	46.2	51.1	56.3
Consensus EPS (Rs)	46.2	54.3	62.4
Adj. ROAE (%)	11.6	11.5	11.4
Adj. P/E (x)	11.5	10.4	9.4
EV/EBITDA (x)	7.4	6.0	5.2
Adj. EPS growth (%)	12.0	10.6	10.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Sales</b>	<b>58,094</b>	<b>60,015</b>	<b>(3.2)</b>	<b>60,022</b>	<b>(3.2)</b>	<b>2,34,555</b>	<b>2,47,746</b>	<b>(5.3)</b>
<b>EBITDA</b>	<b>9,744</b>	<b>12,747</b>	<b>(23.6)</b>	<b>10,163</b>	<b>(4.1)</b>	<b>43,868</b>	<b>53,335</b>	<b>(17.8)</b>
Depreciation	2,536	2,660	-	2,991	-	11,265	10,554	-
EBIT	7,208	10,087	(28.5)	7,172	0.5	32,603	42,781	(23.8)
Interest	92	182	-	161	-	486	745	-
Other Income	292	639	-	452	-	2,504	2,773	-
PBT	7,408	10,543	(29.7)	7,463	(0.7)	34,620	44,809	(22.7)
Less: Taxation	175	2,597	-	1,895	-	7,256	20,041	-
Less: Minority Interest	38	80	-	67	-	302	543	-
<b>Recurring PAT</b>	<b>7,195</b>	<b>7,867</b>	<b>(8.5)</b>	<b>5,502</b>	<b>30.8</b>	<b>27,062</b>	<b>24,224</b>	<b>11.7</b>
Exceptional items	(1,430)	149	-	546	-	(580)	29,182	-
<b>Reported PAT</b>	<b>5,765</b>	<b>8,016</b>	<b>(28.1)</b>	<b>6,047</b>	<b>(4.7)</b>	<b>26,482</b>	<b>53,406</b>	<b>(50.4)</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross Margin	56.5	59.9	(334)	54.3	227	56.8	60.0	(326)
EBITDA Margin	16.8	21.2	(447)	16.9	(16)	18.7	21.5	(283)
Tax / PBT	2.4	24.6	-	25.4	-	21.0	44.7	-
NPM	12.4	13.1	-	9.2	-	11.5	9.8	-
EPS (Rs)	12.3	13.4	-	9.4	-	46.2	41.3	-

Source: Company, BOBCAPS Research

**Fig 2 – Revenue mix**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Formulations</b>	<b>48,960</b>	<b>52,111</b>	<b>(6.0)</b>	<b>49,922</b>	<b>(1.9)</b>	<b>1,99,393</b>	<b>2,05,921</b>	<b>(3.2)</b>
US	27,281	28,616	(4.7)	27,452	(0.6)	1,11,221	1,12,306	(1.0)
Europe	15,407	15,526	(0.8)	16,943	(9.1)	64,803	60,608	6.9
EM	3,913	3,057	28.0	3,970	(1.4)	15,039	14,379	4.6
ARV	2,359	4,912	(52.0)	1,557	51.5	8,330	18,628	(55.3)
<b>APIs</b>	<b>9,129</b>	<b>7,943</b>	<b>14.9</b>	<b>10,100</b>	<b>(9.6)</b>	<b>35,156</b>	<b>30,859</b>	<b>13.9</b>
<b>Dossier income</b>	<b>4</b>	<b>18</b>	<b>(77.8)</b>	<b>0</b>	<b>-</b>	<b>6</b>	<b>28</b>	<b>(78.6)</b>
<b>Net Sales</b>	<b>58,093</b>	<b>60,072</b>	<b>(3.3)</b>	<b>60,022</b>	<b>(3.2)</b>	<b>2,34,555</b>	<b>2,36,808</b>	<b>(1.0)</b>
USDINR	75	73	3.0	75	0.4	74.5	74.1	0.5
US revenue (US\$ mn)	363	393	(7.5)	367	(1.0)	1,494	1,516	(1.5)

Source: Company, BOBCAPS Research

## Earnings call takeaways

- **US generics:** ARBP's US generics business remains flatish due to intense price erosion headwinds in both orals and injectables. US revenue stood at US\$ 363mn (-1% QoQ) for Q4FY22 and US\$ 1.5bn (-2% YoY) for FY22. US injectable revenue (Auro Medics) was at US\$ 70mn in Q4 (+11% QoQ), while total injectable revenue (mainly US and partially EU) contributed 27% of the consolidated topline. Price erosion was at 11% in Q4 (9% in FY22), and management expects these high levels to continue until excess inventory is rationalised. ARBP has guided for double-digit growth in US generics in FY23.
- **US pipeline:** ARBP is now the largest generics company in the US by prescriptions dispensed (Jan-Mar'22, IQVIA). It filed 14 ANDAs (including 3 injectables) in Q4, received approval for 2 ANDAs (including 1 injectable) and launched 4 products (including 1 injectable). The depo-injectable product has been facing technical issues, but the company expects exhibit batches in FY23 and USFDA filings in FY24.
- **Global specialty/injectables:** The company's global specialty portfolio, mainly Eugia oncology/immunology and hormonal injectables, clocked revenue of US\$ 438mn in FY22 with 11 new launches. Management has guided for 15 launches in FY23 and annual launches of 20 products from the specialty portfolio from FY24 onwards. It expects to reach US\$ 640mn in revenue by FY25.
- **ARVs:** The ARV business witnessed pressure on volumes from inventory build-up with channel partners of the tender business. Revenue thus declined by 52% and 55% YoY in Q4 and FY22 respectively. Management expects to maintain current revenue flows in FY23.
- **Biosimilars and vaccines:** Currently, phase-3 clinical trials are ongoing for three biosimilars, of which two are in oncology and one is in the immunology therapeutic area. The company will file one oncology biosimilar with the USFDA for active review in FY23 and another in FY24. Management has guided for new clinical trials for one bacteria-led vaccine in Q3/Q4 of FY23.
- **R&D expense:** R&D expense was at 7.4% of sales in Q4 and 6.7% in FY22. This is guided at 6% for FY23.
- **Capex:** Management is not planning any major capex or acquisitions in the next 2-3 years (i.e. FY23-FY25). The company is scheduled to commence operations at its US dermatology/oral plant in Q4FY23, at the US injectable plant in FY24 and at the EU injectable plant in Vizag in FY25. Normalised capex is pegged at US\$ 100mn-150mn in FY23, with additional capex of US\$ 200mn-250mn for the PLI scheme (subsidised by the government) over FY23-FY25.

## Valuation methodology

We reduce our FY22/FY23 EBITDA estimates by 8%/15% to factor in the FY22 performance, US price erosion and a new base for the API business. We also pare our target FY24E EV/EBITDA multiple to 7.0x (7.5x earlier), implying a P/E of 12x, which leads to a revised TP of Rs 680 (Rs 850 earlier). Our target multiple reflects a continued 55% discount to other frontline stocks (SUNP, CIPLA, DRRD) due to ARBP's low branded sales and high US exposure. The stock is trading at attractive valuations of 6.3x/5.7x FY23E/FY24E EV/EBITDA – we maintain BUY rating as we see limited downside from here and are optimistic of traction in specialty sales and increased launch momentum in coming years.

**Fig 3 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	249.1	264.0	260.7	289.1	(4.5)	(8.7)
EBITDA	50.2	53.9	54.5	63.7	(7.9)	(15.4)
EBITDA Margin (%)	20.1	20.4	20.9	22.0	(76bps)	(162bps)
EPS (Rs)	51.10	56.28	57.23	68.38	(10.7)	(17.7)

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Revenue (Rs bn)	FY22	FY23E	FY24E
US	111.2	117.9	123.8
Europe	64.8	68.0	71.4
EM	15.0	16.1	17.7
ARV	8.3	8.8	9.4
API	35.2	38.2	41.6
Dossier Income	0.0	0.0	0.0

Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (x)		ROE (%)		Target EV/EBITDA (x)
					FY22E	FY23E	FY22E	FY23E	
Cipla	CIPLA IN	BUY	1,100	8.8	15.8	14.0	12.9	13.6	16.0
Dr. Reddy's	DRRD IN	HOLD	4,450	9.0	13.6	12.2	16.5	16.3	12.5
Sun Pharma	SUNP IN	BUY	1,100	15.9	16.7	14.9	17.1	17.4	18.5
Aurobindo Pharma	ARBP IN	BUY	860	0.3	5.9	5.5	11.5	11.4	7.0

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **Price erosion in the US:** ARBP is facing price erosion in the US market which is affecting margins. Any further increase in competitive intensity will ratchet up margin pressure.
- **US approval delays:** Delays in key approvals and execution hurdles are risk factors.

- **Regulatory risk:** ARBP supplies to the US from multiple plants. Its key facilities are Unit 3, Unit 7, Unit 10, Eugia and Unit 4. Any adverse action by the USFDA at these facilities can impact our earnings estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	1.9	1,713	2,050	BUY
Alembic Pharma	ALPM IN	1.9	732	770	HOLD
Alkem Labs	ALKEM IN	4.8	3,149	3,400	BUY
Aurobindo Pharma	ARBP IN	4.0	531	680	BUY
Cipla	CIPLA IN	10.3	993	1,100	BUY
Divi's Labs	DIVI IN	12.3	3,591	4,250	HOLD
Dr Reddy's Labs	DRRD IN	9.3	4,370	4,450	HOLD
Eris Lifesciences	ERIS IN	1.2	668	970	BUY
Laurus Labs	LAURUS IN	3.9	567	645	HOLD
Lupin	LPC IN	3.6	619	600	SELL
Sun Pharma	SUNP IN	26.6	861	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 31 May 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>2,30,986</b>	<b>2,47,749</b>	<b>2,34,555</b>	<b>2,49,104</b>	<b>2,63,993</b>
EBITDA	48,247	53,337	43,868	50,174	53,865
Depreciation	9,667	10,554	11,265	12,377	13,531
EBIT	38,580	42,783	32,603	37,797	40,334
Net interest inc./(exp.)	(1,598)	(745)	(486)	(389)	(340)
Other inc./(exp.)	862	2,773	2,504	2,514	3,975
Exceptional items	0	0	0	0	0
EBT	37,844	44,811	34,620	39,922	43,968
Income taxes	8,994	20,098	7,256	9,980	10,992
Extraordinary items	(261)	29,182	(580)	0	0
Min. int./Inc. from assoc.	137	543	302	0	0
<b>Reported net profit</b>	<b>28,452</b>	<b>53,351</b>	<b>26,482</b>	<b>29,941</b>	<b>32,976</b>
Adjustments	261	(29,182)	580	0	0
<b>Adjusted net profit</b>	<b>28,714</b>	<b>24,170</b>	<b>27,062</b>	<b>29,941</b>	<b>32,976</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	25,450	27,947	27,030	30,711	32,547
Other current liabilities	30,745	29,831	30,400	29,892	31,679
Provisions	4,914	3,291	3,424	3,636	3,853
Debt funds	56,867	52,373	28,513	22,810	19,959
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	1,68,912	2,19,923	2,46,378	2,73,409	3,03,456
Shareholders' fund	1,69,498	2,20,509	2,46,964	2,73,995	3,04,042
<b>Total liab. and equities</b>	<b>2,87,473</b>	<b>3,33,950</b>	<b>3,36,331</b>	<b>3,61,045</b>	<b>3,92,080</b>
Cash and cash eq.	28,421	54,680	41,900	66,247	91,285
Accounts receivables	43,552	35,033	40,123	40,949	43,396
Inventories	76,999	90,266	75,539	78,485	79,559
Other current assets	19,130	23,711	26,006	20,177	21,383
Investments	5,547	5,910	9,972	9,972	9,972
Net fixed assets	64,948	68,866	77,284	79,708	80,977
CWIP	19,859	30,615	37,472	37,472	37,472
Intangible assets	29,017	24,870	28,036	28,036	28,036
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>2,87,474</b>	<b>3,33,950</b>	<b>3,36,331</b>	<b>3,61,045</b>	<b>3,92,080</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>45,455</b>	<b>55,282</b>	<b>45,361</b>	<b>48,149</b>	<b>45,959</b>
Capital expenditures	(17,500)	(14,000)	(14,800)	(14,800)	(14,800)
Change in investments	(1,945)	(363)	(4,061)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(19,445)</b>	<b>(14,363)</b>	<b>(18,861)</b>	<b>(14,800)</b>	<b>(14,800)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12,800)	(4,494)	(23,860)	(5,703)	(2,851)
Interest expenses	(1,598)	(745)	(486)	(389)	(340)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	144	(6,492)	(12,003)	19	0
<b>Cash flow from financing</b>	<b>(17,184)</b>	<b>(14,660)</b>	<b>(39,279)</b>	<b>(9,002)</b>	<b>(6,121)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>8,827</b>	<b>26,258</b>	<b>(12,780)</b>	<b>24,347</b>	<b>25,038</b>
<b>Closing cash &amp; cash eq.</b>	<b>28,421</b>	<b>54,680</b>	<b>41,900</b>	<b>66,247</b>	<b>91,285</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	48.6	91.1	45.2	51.1	56.3
Adjusted EPS	49.0	41.3	46.2	51.1	56.3
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	289.6	376.8	422.0	468.2	519.6

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	1.5	1.4	1.4	1.2	1.1
EV/EBITDA	7.3	6.6	7.4	6.0	5.2
Adjusted P/E	10.8	12.9	11.5	10.4	9.4
P/BV	1.8	1.4	1.3	1.1	1.0

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	75.9	53.9	78.2	75.0	75.0
Interest burden (PBT/EBIT)	98.1	104.7	106.2	105.6	109.0
EBIT margin (EBIT/Revenue)	16.7	17.3	13.9	15.2	15.3
Asset turnover (Rev./Avg TA)	26.5	24.8	21.4	21.8	21.3
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.2	1.1	1.1
Adjusted ROAE	18.6	12.4	11.6	11.5	11.4

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	18.1	7.3	(5.3)	6.2	6.0
EBITDA	22.1	10.5	(17.8)	14.4	7.4
Adjusted EPS	19.0	(15.8)	12.0	10.6	10.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.9	21.5	18.7	20.1	20.4
EBIT margin	16.7	17.3	13.9	15.2	15.3
Adjusted profit margin	12.4	9.8	11.5	12.0	12.5
Adjusted ROAE	18.6	12.4	11.6	11.5	11.4
ROCE	18.1	18.2	12.8	14.1	14.3
<b>Working capital days (days)</b>					
Receivables	69	52	62	60	60
Inventory	122	133	118	115	110
Payables	40	41	42	45	45
<b>Ratios (x)</b>					
Gross asset turnover	1.9	1.8	1.6	1.5	1.5
Current ratio	2.8	3.3	3.0	3.2	3.5
Net interest coverage ratio	24.1	57.4	67.0	97.1	118.5
Adjusted debt/equity	0.2	0.0	(0.1)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

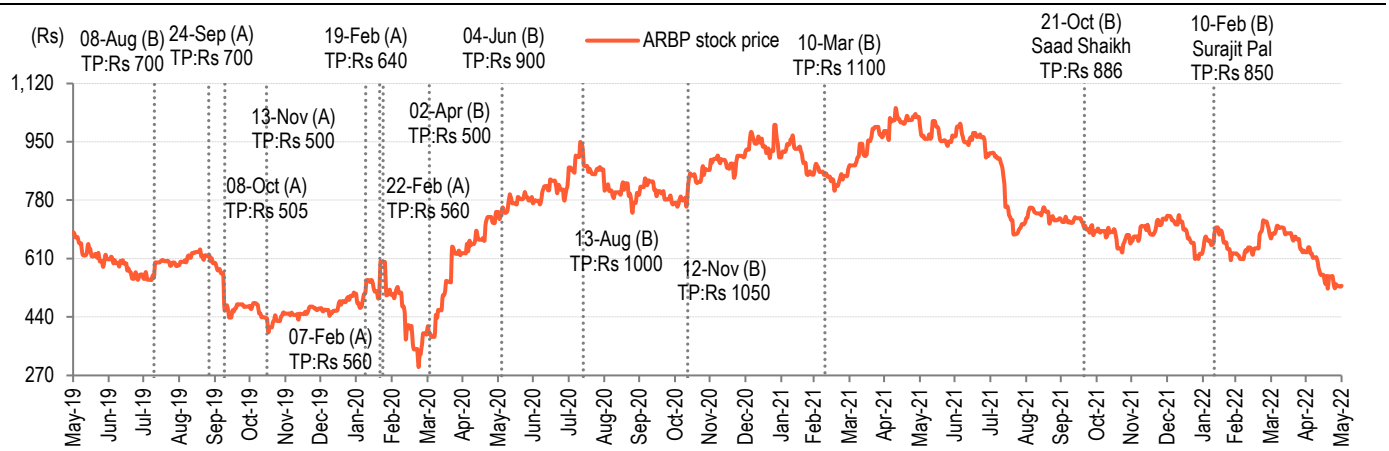
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): AUROBINDO PHARMA (ARBP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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