

Aurobindo Pharma

BSE SENSEX

30,637

S&P CNX

8,981


Stock info

Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	377.6 / 4.1
52-Week Range (INR)	838 / 281
1, 6, 12 Rel. Per (%)	83/57/4
12M Avg Val (INR M)	2288
Free float (%)	48.1

Financials snapshot (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	227.6	235.9	251.8
EBITDA	47.1	50.2	52.9
Adj. PAT	27.1	29.9	31.2
EBIT Margin (%)	16.4	16.8	16.4
Cons. Adj. EPS (INR)	46.3	51.0	53.2
EPS Gr. (%)	7.3	10.0	4.5
BV/Sh. (INR)	280.2	328.7	378.5

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	17.9	16.7	15.1
RoCE (%)	12.2	11.5	10.9
Payout (%)	5.5	4.9	6.6

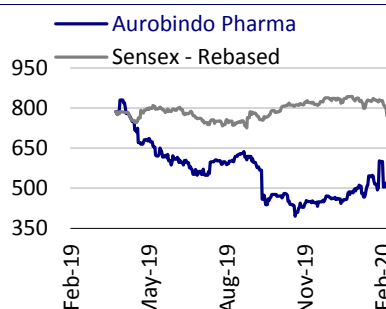
Valuations

P/E (x)	14.0	12.7	12.2
EV/EBITDA (x)	9.3	8.3	7.7
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	-1.2	5.3	4.5
EV/Sales (x)	1.9	1.8	1.6

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	51.9	51.9	51.9
DII	13.2	13.0	14.4
FII	21.4	22.0	20.1
Others	13.5	13.2	13.6

FII Includes depository receipts

Stock performance (1-year)

CMP: INR644 TP: INR745 (+16%)
Buy
Unit 4: Reduced regulatory headwinds with VAI in place

The Voluntary Action Indicated (VAI) status is expected to benefit Aurobindo Pharma (ARBP)'s injectables business. Here are the highlights:

- The USFDA granted the VAI status to ARBP's Unit 4 inspection that was conducted over 4–13th Nov'19.
- This increases the visibility on abbreviated new drug application (ANDA) approvals (47 pending approval) from Unit 4, one of the company's injectables manufacturing sites.
- Accordingly, we have revised our PE multiple to 12x (from 10x earlier) to factor in reduced regulatory headwinds and raised our price target to INR745. We remain positive on ARBP and expect a 7% earnings CAGR over FY19–22, led by a robust ANDA pipeline for US generics, improving profitability in the EU owing to its foray into newer markets, and a shift in product manufacturing to India. Maintain Buy.

Sigh of relief for Unit 4 after USFDA grants VAI status

The USFDA inspected Unit 4 over 4–13th Nov'19, thereafter issuing Form 483 with 14 observations. The observations highlighted deficiencies in assuring aseptic processes in the manufacturing of sterile products. Subsequently on 19th Feb, the USFDA cleared the site by issuing an establishment inspection report (EIR) with the VAI status; however, immediately after, on 21st Feb, the administration revoked the VAI status. This action, by way of rescindment of the 90-day VAI letter, implied the inspection conducted was still open and under review. Unit 4 was finally re-granted the VAI status recently. This clears the site for further ANDA approvals.

Site has maximum ANDA approvals pending

Unit 4 is a sterile plant (of lyophilized and powder injections and prefilled syringes) of ARBP, along with other injectables manufacturing sites, such as Unit 12, Unit 16, Eugia, and Auronext. These accounted for 25% of US sales at the end of 3QFY20. Unit 4 is likely to form 7–8% of USD1.5b worth of US annual sales. ARBP has received 63 ANDA approvals to date in total from the Unit 4 site, while final approval is awaited for 47. This approval clears the plant from regulatory actions and presents the opportunity for pending products to be approved.

Regulatory risk moderated

In the past year, the USFDA has inspected 10 sites. Units 5 and 8 were inspected in Oct'19 and classified as VAI. The revocation of inspection classification at Unit 4 in Feb'20 put regulatory pressure on ARBP. However, the company managed to bounce back from this, with the VAI status being re-granted to Unit 4 after just two months of it being rescinded. Units 1, 11, and 7 have been classified as Official Action Indicated (OAI) and Unit 9 has been issued a warning letter.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Valuation and view

We remain positive on ARBP and expect a 7% earnings CAGR over FY19–22, led by its robust ANDA pipeline and continued momentum in US generics. With the regulatory risk reduced at one of its key sites, we raise our PE multiple for ARBP to 12x (from 10x earlier) and revise our price target to INR745 (from INR595 earlier). Maintain Buy.

Exhibit 1: Inspection history and unit-wise ANDA filings

Site	API/Formulation	FA	TA	UR	Total	Remarks
Unit XII	Penicillin Oral & Injectables	20			20	❖ Inspected in Feb'20; received Form 483 with six observations
Unit IV	Injectables & Ophthalmics	63		47	110	❖ Inspected in Nov'19; inspection classified as VAI in Apr'20
Unit VIII	API					❖ Inspected in Oct'19; EIR in place
Unit V	API					❖ Received Form 483 with four obs. in Oct'19; inspection classified as VAI
Unit VII (SEZ)	Oral Formulations	137	14	18	169	❖ Received Form 483 with seven observations in Sep'19; inspection classified as OAI
Unit III	Oral Formulations	115	10	2	127	❖ Received Form 483 with 10 observations in Jun'19
Unit I	API					❖ Inspected in Feb'19; inspection classified as OAI
Unit IX	API					❖ Inspected in Feb'19; issued warning letter
Unit XI	Intermediate Facility					❖ Inspected in Feb'19; inspection classified as OAI
APL Healthcare	Oral Formulations			12	12	❖ Inspected in Dec'18; EIR in place
AuroLife & AuroLife - I	Oral Formulations	21		12	33	❖ Inspection closed with VAI classification in Jun'18
Eugia	Oral & Injectable Formulations	8	1	19	26	❖ Inspected in Jun'18; EIR in place
Silicon	API					❖ Inspected in Mar'18; EIR in place
AuroNext	Penem Injectables	2			2	❖ Inspected in Feb'18; EIR in place
Unit VIB	Cephalosporins Oral	11		1	12	❖ Inspected in Sep'17; EIR in place
Unit X	Oral Formulations	8	2	42	50	❖ Inspected in Apr'17; zero 483
Auropeptide	API					❖ Inspected in Aug'16; EIR in place
Total		393	27	154	570	

Source: Company, USFDA, MOFSL

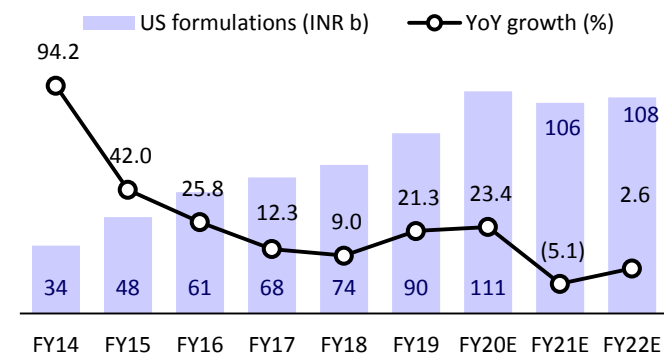
Exhibit 2: Unit 4's inspection history

Plant	Time of inspection	Remarks
Unit IV	Apr-20	➤ VAI classification confirmed
	Feb-20	➤ Inspection open and under review, by way of rescindment of 90-day (VAI letter was issued by on February 18, 2020 stands revoked as of that date)
	Nov-19	➤ Issued form 483 with 14 observations
	Dec-18	➤ Was issued form 483 with 2 observations. Inspection closed with VAI classification
	Feb-18	➤ Was issued form 483 with 9 observations. Inspection closed with VAI classification
	Sep-16	➤ Was issued form 483 with 4 observations. Inspection closed with VAI classification
	Sep-14	➤ Was issued form 483 with 7 observations. Inspection closed with VAI classification
	Sep-12	➤ Was issued form 483 with 7 observations. Inspection closed with NAI classification
Plant	Time of inspection	Remarks
Unit 4	Apr'20	➤ VAI classification confirmed
	Feb'20	➤ Inspection re-open and under review, by way of rescindment of 90-day (VAI letter was issued by USFDA on February 18 and stands revoked)
	Nov'19	➤ Issued Form 483 with 14 observations
	Dec'18	➤ Issued Form 483 with two observations; inspection closed with VAI classification
	Feb'18	➤ Issued Form 483 with nine observations; inspection closed with VAI classification
	Sep'16	➤ Issued Form 483 with four observations; inspection closed with VAI classification
	Sep'14	➤ Issued Form 483 with seven observations; inspection closed with VAI classification
	Sep'12	➤ Issued Form 483 with seven observations; inspection closed with NAI classification

Source: MOFSL, Company, Industry

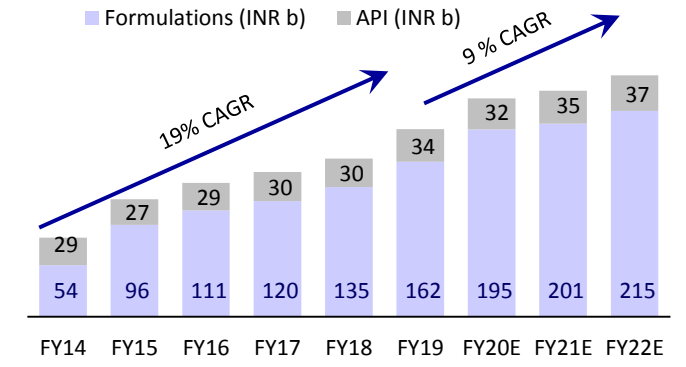
Story in charts

Exhibit 3: US to report revenue CAGR of 6% over FY19–22



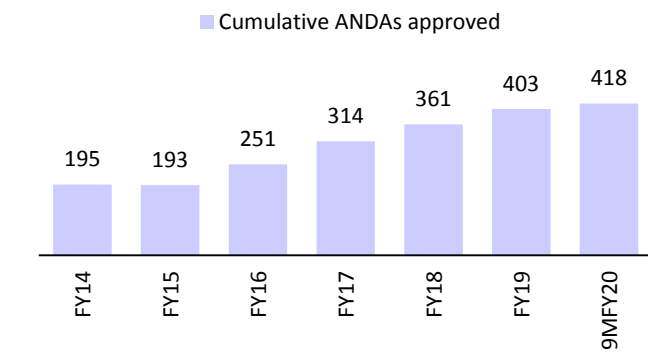
Source: MOFSL, Company

Exhibit 4: Revenue CAGR to be 9% over FY19–22



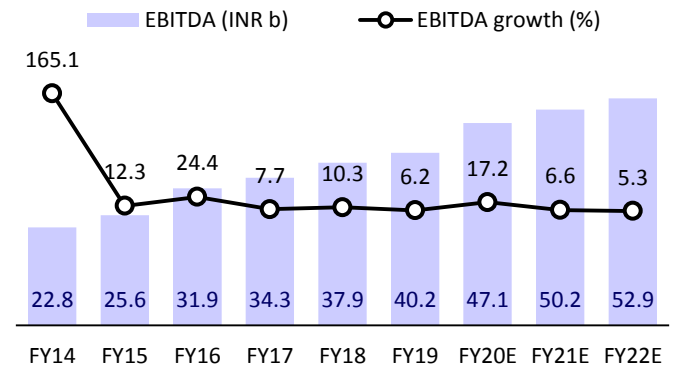
Source: MOFSL, Company

Exhibit 5: Robust pace of ANDA approvals



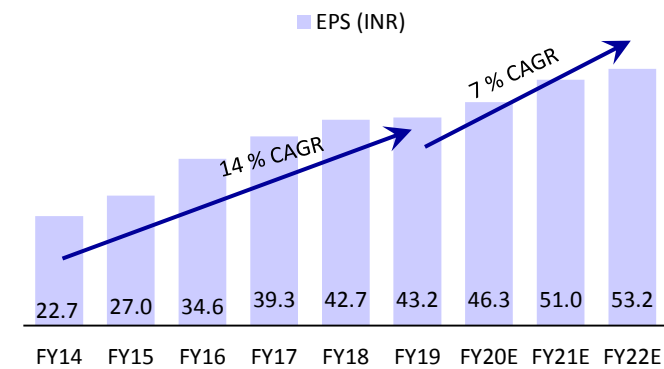
Source: MOFSL, Company

Exhibit 6: EBITDA growth in range of 5–7% over FY21–22



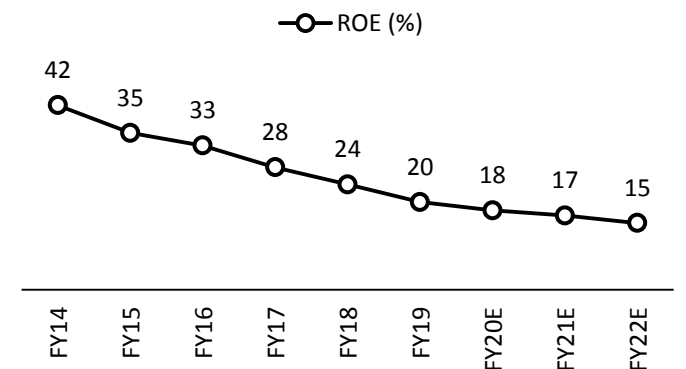
Source: MOFSL, Company

Exhibit 7: Earnings CAGR of 7% expected over FY19–22



Source: MOFSL, Company

Exhibit 8: Intensity of ROE decline to be lower going forward



Source: MOFSL, Company

Financials and valuations

Consolidated – Income statement									(INRm)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total income from Operations	80,998	1,21,205	1,39,553	1,50,897	1,64,998	1,95,636	2,27,640	2,35,876	2,51,840
Change (%)	38.3	49.6	15.1	8.1	9.3	18.6	16.4	3.6	6.8
Total Expenditure	58,170	95,569	1,07,671	1,16,556	1,27,113	1,55,416	1,80,518	1,85,635	1,98,954
EBITDA	22,828	25,636	31,882	34,341	37,885	40,219	47,121	50,242	52,886
Margin (%)	28.2	21.2	22.8	22.8	23.0	20.6	20.7	21.3	21.0
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	9,879	10,574	11,526
EBIT	19,703	22,310	27,958	30,065	32,305	33,540	37,243	39,668	41,360
Int. and Finance Charges	1,079	843	927	667	777	1,627	1,596	1,856	1,822
Other Income	232	808	701	538	1,020	1,157	750	650	640
PBT bef. EO Exp.	18,856	22,275	27,733	29,936	32,548	33,070	36,397	38,462	40,178
EO Items	-2,031	-596	-304	621	-168	-2,183	-519	0	0
PBT after EO Exp.	16,825	21,679	27,429	30,557	32,380	30,887	35,878	38,462	40,178
Current Tax	3,635	5,966	7,207	7,596	8,183	7,269	9,177	8,654	9,040
Deferred Tax	0	0	0	0	0	0	0	0	1
Tax Rate (%)	21.6	27.5	26.3	24.9	25.3	23.5	25.6	22.5	22.5
Less: Minority Interest	-38	-45	-30	-55	-34	-29	-54	-55	-55
Reported PAT	13,228	15,758	20,252	23,015	24,231	23,647	26,755	29,863	31,192
Adjusted PAT	13,228	15,758	20,251	23,015	25,021	25,288	27,141	29,863	31,192
Change (%)	350.1	19.1	28.5	13.6	8.7	1.1	7.3	10.0	4.5
Margin (%)	16.3	13.0	14.5	15.3	15.2	12.9	11.9	12.7	12.4

Consolidated – Balance sheet									(INRm)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	583	584	585	586	586	586	586	586	586
Total Reserves	36,919	50,975	72,288	93,133	1,16,218	1,38,322	1,63,612	1,92,011	2,21,152
Net Worth	37,502	51,559	72,873	93,719	1,16,804	1,38,908	1,64,198	1,92,597	2,21,738
Minority Interest	257	258	26	21	18	16	16	17	17
Deferred Liabilities	2,054	2,058	-1,823	-1,185	765	980	1,000	1,020	1,040
Total Loans	36,339	38,636	44,155	30,841	44,825	67,532	92,049	93,525	88,647
Capital Employed	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,57,263	2,87,158	3,11,442
Gross Block	41,066	53,821	41,312	53,650	70,719	97,987	1,09,987	1,24,987	1,39,987
Less: Accum. Deprn.	14,613	17,405	3,455	7,168	11,843	18,298	28,177	38,751	50,277
Net Fixed Assets	26,453	36,416	37,856	46,482	58,876	79,689	81,810	86,236	89,710
Goodwill on Consolidation	764	640	4,063	4,063	8,165	8,325	8,325	8,325	8,325
Capital WIP	3,097	4,196	8,359	12,374	13,995	13,419	13,419	13,419	13,419
Total Investments	198	198	1,230	2,459	3,115	3,602	3,602	3,602	3,602
Curr. Assets, Loans & Adv.	64,386	87,647	1,05,631	95,439	1,25,312	1,57,676	1,91,925	2,20,609	2,37,549
Inventory	23,675	36,113	40,561	43,305	58,584	72,456	79,113	90,635	96,541
Account Receivables	26,366	35,392	46,067	35,042	38,721	47,336	59,249	58,161	60,718
Cash and Bank Balance	1,786	4,691	8,003	5,135	12,616	19,572	36,364	54,613	63,090
Loans and Advances	12,559	11,451	11,001	11,957	15,390	18,312	17,200	17,200	17,200
Curr. Liability & Prov.	18,747	36,587	41,909	37,420	47,051	55,275	41,819	45,033	41,163
Account Payables	13,512	20,511	24,570	24,883	26,274	26,771	31,194	32,408	28,537
Other Current Liabilities	3,877	13,650	15,776	11,415	18,209	26,230	10,000	12,000	12,000
Provisions	1,358	2,426	1,563	1,123	2,568	2,274	625	625	626
Net Current Assets	45,640	51,060	63,722	58,019	78,260	1,02,400	1,50,107	1,75,576	1,96,386
Appl. of Funds	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,57,263	2,87,158	3,11,442

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
EPS	22.7	27.0	34.6	39.3	42.7	43.2	46.3	51.0	53.2
Cash EPS	28.1	32.7	41.3	46.6	52.2	54.6	63.2	69.0	72.9
BV/Share	64.3	88.3	124.5	160.0	199.4	237.1	280.2	328.7	378.5
DPS	3.0	2.2	2.3	1.9	3.7	2.5	2.5	2.5	3.5
Payout (%)	13.2	9.9	8.0	6.0	10.9	6.8	5.5	4.9	6.6
Valuation (x)									
P/E	28.6	24.1	18.8	16.5	15.2	15.0	14.0	12.7	12.2
Cash P/E	23.1	19.9	15.7	13.9	12.4	11.9	10.3	9.4	8.9
P/BV	10.1	7.4	5.2	4.1	3.3	2.7	2.3	2.0	1.7
EV/Sales	5.1	3.4	3.0	2.7	2.5	2.2	1.9	1.8	1.6
EV/EBITDA	18.2	16.2	13.1	11.8	10.9	10.6	9.3	8.3	7.7
Dividend Yield (%)	0.5	0.3	0.4	0.3	0.6	0.4	0.4	0.4	0.5
FCF per share	-1.4	5.1	-0.5	27.0	-12.3	-20.8	-8.1	34.2	29.3
Return Ratios (%)									
RoE	41.6	35.4	32.5	27.6	23.8	19.8	17.9	16.7	15.1
RoCE	23.3	20.4	20.4	19.0	17.4	14.4	12.2	11.5	10.9
RoIC	24.2	20.9	22.8	22.5	20.4	16.9	14.8	14.7	14.3
Working Capital Ratios									
Debtor (Days)	93	91	107	98	82	80	85	91	86
Creditor (Days)	117	113	134	140	138	112	108	116	104
Working Cap. (Days)	193	177	200	196	219	245	260	284	302
Leverage Ratio (x)									
Current Ratio	3.4	2.4	2.5	2.6	2.7	2.9	4.6	4.9	5.8
Interest Cover Ratio	18	26	30	45	42	21	23	21	23
Debt/Equity	0.9	0.7	0.5	0.3	0.3	0.3	0.3	0.2	0.1

Consolidated – Cash flow statement

(INRm)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	19,703	22,310	27,443	30,608	32,305	33,540	37,243	39,668	41,360
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	9,879	10,574	11,526
Interest / Dividend received	232	808	689	384	1,020	1,157	750	650	640
Direct Taxes Paid	-3,635	-5,966	-7,326	-7,737	-8,183	-7,269	-9,177	-8,654	-9,040
(Inc)/Dec in WC	-13,533	-2,515	-10,794	6,110	-12,760	-17,184	-30,914	-7,220	-12,332
CF from Operations	5,893	17,963	13,936	33,641	17,962	16,923	7,780	35,018	32,154
Others	-2,031	-596	262	-856	-168	-2,183	-519	0	0
CF from Operating incl EO	3,863	17,367	14,198	32,786	17,795	14,740	7,261	35,018	32,154
(inc)/dec in FA	-4,656	-14,389	-14,475	-16,942	-25,011	-26,916	-12,000	-15,000	-15,000
Free Cash Flow	-793	2,978	-277	15,844	-7,217	-12,176	-4,739	20,018	17,154
(Pur)/Sale of Investments	-25	0	23	-929	657	487	0	0	0
CF from Investments	-4,681	-14,388	-14,452	-17,870	-24,355	-26,429	-12,000	-15,000	-15,000
Change in networkth	-35								
Inc/(Dec) in Debt	2,131	2,298	6,033	-17,279	13,982	22,704	24,517	1,477	-4,878
Interest Paid	-1,079	-843	-835	-568	-777	-1,627	-1,596	-1,856	-1,822
Dividend Paid	-1,749	-1,563	-1,616	-1,372	-2,644	-1,603	-1,465	-1,465	-2,051
Others	1,253	-214	-16	1,436	3,481	-829	74	75	75
CF from Fin. Activity	520	-322	3,566	-17,784	14,042	18,645	21,530	-1,769	-8,675
Inc/Dec of Cash	-298	2,656	3,312	-2,868	7,482	6,955	16,792	18,249	8,479
Opening Balance	2,085	1,786	4,691	8,003	5,135	12,616	19,572	36,364	54,613
Closing Balance	1,786	4,442	8,003	5,134	12,616	19,572	36,364	54,613	63,091

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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