

Q4FY20 result review
and earnings revision

Pharmaceuticals

Target price: Rs870

Earnings revision

(%)	FY21E	FY22E
Sales	1.9	2.5
EPS	6.0	5.6

Target price revision

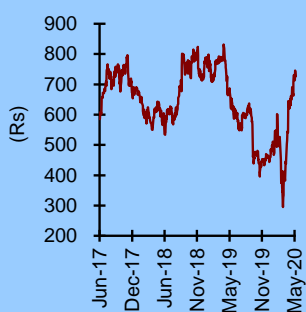
Rs870 from Rs824

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	51.9	51.9	52.0
Institutional investors	35.0	34.6	34.8
MFs and others	12.7	12.8	12.0
Banks/FIs	0.1	0.2	0.1
Insurance co	0.2	0.2	0.4
FII	22.0	21.4	22.3
Others	13.1	13.5	13.2

Source: BSE India

Price chart



Aurobindo Pharma

BUY
Maintained

Strong execution; net debt reduces further

Rs750

Aurobindo Pharma's (Aurobindo) Q4FY20 performance was above our estimates of revenue/EBITDA/adj. PAT by 5.1%/13.1%/21.0% respectively. Revenues grew 16.4% YoY to Rs61.6bn (I-Sec: Rs58.6bn), EBITDA margin improved 180bps YoY to 21.8% (I-Sec: 20.3%) and adjusted net profit grew 40.3% YoY to Rs8.6bn (I-Sec: Rs7.1bn). US revenues declined 1.2% QoQ to US\$413mn but was above our estimate of US\$407mn. Company reduced debt by US\$87mn in Q4FY20, taking cumulative debt reduction of US\$365mn in FY20. We remain positive on Aurobindo's long-term outlook considering its strong US pipeline with potential to launch >30 products every year, significant balance sheet improvement with constant net debt reduction every quarter and increasing revenue contribution from complex generics (injectables, ophthalmics, penems, etc.). Reiterate BUY.

- **Broad-based revenue growth:** Aurobindo's US revenues grew 17.0% YoY but declined 1.2% QoQ to US\$413mn (I-Sec: US\$407mn) led by volume gain in existing products, new launches and integration of Spectrum acquisition. Aurobindo launched four products, in the US during the quarter. Recent clearance of Unit IV injectable facility is an important positive trigger which would help in sustaining growth momentum of US with consistent injectables approvals. Emerging market revenues grew 30.3% and Europe grew 26.0% YoY (22.4% in constant currency). ARV formulations also grew strong 31.0%.
- **Better revenue mix led to margin improvement:** Aurobindo reported an EBITDA margin of 21.8%, a jump of 180bps YoY and 130bps QoQ, primarily driven by better gross margin. Gross margin improved 420 YoY and 190bps QoQ with revenue mix incorporating higher US sales and lower API business. We expect EBITDA margin to remain stable around 21-22% considering higher operating expenses. Adjusted PAT grew 40.3% driven by improved margin, lower interest cost and reduced effective tax rate.
- **Outlook:** We expect Aurobindo to register 9.0% revenue and 12.4% PAT CAGRs over FY20-FY22E with EBITDA margin stable around 21-22%. Positive surprise was debt reduction of US\$87mn in Q4FY20 to US\$359mn from US\$446mn QoQ, taking cumulative net debt reduction to US\$365mn for FY20. As the acquisition of Sandoz has been called-off, we expect net debt reduction to continue and we expect the company to become debt free by FY22E.
- **Valuations and risks:** We raise our earnings estimates by 5-6% to factor in higher revenue in US & emerging markets with better gross margin. We maintain **BUY** on the stock with a revised target price of Rs870/share based on 14x FY22E earnings (earlier: Rs824/share). Key downside risks: regulatory hurdles, currency volatility and delay in US launches.

Market Cap	Rs440bn/US\$5.8bn
Reuters/Bloomberg	ARBN.BO/ARBP IN
Shares Outstanding (mn)	585.9
52-week Range (Rs)	750/295
Free Float (%)	48.0
FII (%)	22.3
Daily Volume (USD/'000)	45,723
Absolute Return 3m (%)	46.8
Absolute Return 12m (%)	15.0
Sensex Return 3m (%)	(11.4)
Sensex Return 12m (%)	(14.3)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	195,636	230,953	256,070	274,308
Net Income (Rs mn)	23,648	28,278	33,157	36,358
EPS (Rs)	40.4	48.3	56.6	62.1
% Chg YoY	(2.4)	19.6	17.3	9.7
P/E (x)	17.7	15.3	13.2	12.1
CEPS (Rs)	51.8	64.8	74.0	81.4
EV/E (x)	12.4	9.7	8.3	7.3
Dividend Yield (%)	0.3	0.6	0.7	0.8
RoCE (%)	13.9	13.7	14.4	14.8
RoE (%)	19.4	18.8	18.1	17.0

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Table 1: Q4FY20 performance*(Rs mn, year ending March 31)*

(Rs mn)	Q4FY20	Q4FY19	YoY % Chg.	Q3FY20	QoQ % Chg.
Net Sales	61,584	52,922	16.4	58,950	4.5
EBITDA	13,424	10,603	26.6	12,080	11.1
Other income	133	318	(58.2)	214	(37.8)
PBIDT	13,557	10,921	24.1	12,294	10.3
Depreciation	2,324	1,866	24.5	2,501	(7.1)
Interest	318	501	(36.4)	371	(14.2)
PBT	10,775	8,163	32.0	9,382	14.9
Tax	2,285	2,311	(1.1)	2,329	(1.9)
Minority Interest	(8)	(2)	425.0	(1)	500.0
Adjusted PAT	8,608	6,134	40.3	7,084	21.5
Extra ordinary income/ (exp.)	(139)	(390)	NA	(40)	250.3
Reported PAT	8,498	5,854	45.2	7,055	20.5
EBITDA margins (%)	21.8	20.0	180bps	20.5	130bps

Source: Company data, I-Sec research

Table 2: Sales breakup*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg.	Q3FY20	QoQ % Chg.
Formulations	54,012	43,735	23.5	51,050	5.8
US	29,903	24,811	20.5	29,694	0.7
EU	16,525	13,118	26.0	14,763	11.9
EM	3,766	2,891	30.3	3,459	8.9
ARVs	3,818	2,915	31.0	3,134	21.8
APIs	7,556	9,167	(17.6)	7,898	(4.3)
Betalactam	5,392	5,830	(7.5)	5,111	5.5
Non-Betalactam	2,164	3,337	(35.2)	2,787	(22.4)
Dossier Licensing income	17	19	(10.5)	3	466.7
Net Sales	61,585	52,921	16.4	58,951	4.5

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY20-FY22E, we forecast net sales and earnings to increase at CAGRs of 9.0% and 12.4% respectively. We marginally raise our revenue estimates to factor in the higher growth in US and emerging Markets. We raise earnings estimates by 5-6% considering better gross margins and lower interest charge.

Table 3: Earnings revision

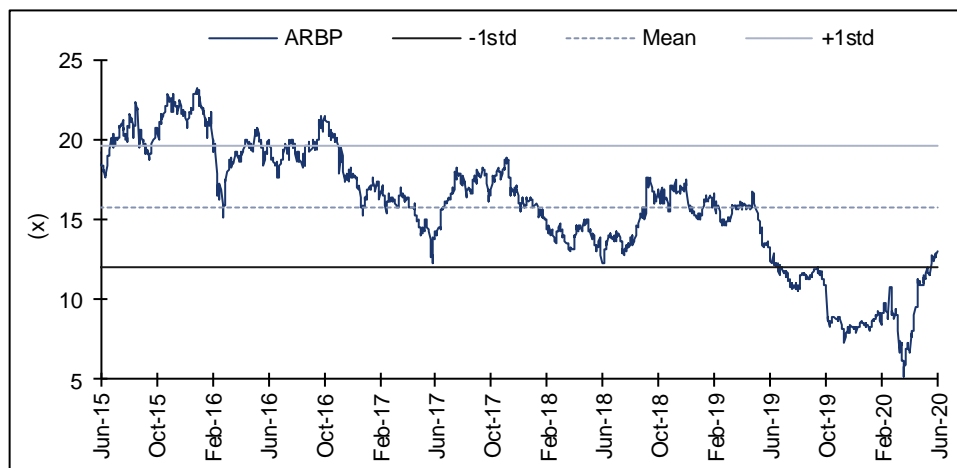
	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	256,102	274,340
Sales – old	251,214	267,544
Change (%)	1.9	2.5
EPS (Rs)		
EPS – new	56.6	62.1
EPS – old	53.4	58.8
Change (%)	6.0	5.6

Source: I-Sec research

Valuations

We expect earnings to grow at a CAGR of 12.4% for Aurobindo over FY20-FY22E. The stock currently trades at attractive valuations of 13.2x FY21E and 12.1x FY22E earnings and EV/EBITDA multiples of 8.3x FY21E and 7.3x FY22E. We believe the current valuation has upside potential with expectation of consistent positive revenue growth in US each year, and strong free cashflow generation over the next two years which would help the company in becoming debt free. We maintain our **BUY** rating on the stock with a revised target price of Rs870/share based on 14x FY22E earnings (earlier: Rs824/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Formulations	161,571	200,119	222,230	238,776
US	90,307	114,835	127,317	137,452
EU	49,602	59,218	64,723	67,959
EM	11,937	13,551	15,863	17,767
ARVs	9,725	12,515	14,327	15,598
APIs	34,030	30,834	33,840	35,532
Betalactam	21,459	19,989	21,938	23,034
Non-Betalactam	12,571	10,845	11,902	12,497
Dossier Lic. income	35			
Total Gross Sales	195,636	230,953	256,070	274,308
Excise duty	-	-	-	-
Total Net Revenue	195,636	230,953	256,070	274,308
YoY Growth%	18.6	18.1	10.9	7.1
Total Op. Exp.	156,116	182,342	201,269	215,149
EBITDA	39,520	48,611	54,801	59,159
Margins %	20.2	21.0	21.4	21.6
YoY Growth%	4.3	23.0	12.7	7.9
Depreciation	6,680	9,667	10,221	11,322
EBIT	32,840	38,944	44,580	47,837
Other Income	1,184	710	948	1,043
Interest	1,627	1,598	1,308	1,031
EO Items	(1,483)	(658)	0	0
PBT	30,914	37,398	44,220	47,850
Tax	7,269	9,135	11,063	11,492
Tax Rate (%)	23.5	24.4	25.0	24.0
Minority Interest	(2)	(15)	0	0
Reported PAT	23,648	28,278	33,157	36,358
Adj. PAT	24,782	28,775	33,157	36,358
Net Margins (%)	12.7	12.5	12.9	13.3

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	586	586	586	586
Reserves & Surplus	138,322	167,518	197,085	229,504
Total Equity	138,908	168,104	197,671	230,090
Minority Interest	16	1	1	1
Total Debt	69,668	59,003	43,602	25,102
Deferred Liabilities	980	1,393	1,393	1,393
Capital Employed	209,572	228,501	242,667	256,585
Current Liabilities	53,139	59,130	63,306	66,208
Total Liabilities	262,711	287,631	305,973	322,793
Net Fixed Assets	101,433	113,824	114,703	118,181
Investments	3,602	5,547	6,150	6,588
Inventory	72,456	76,999	84,991	90,852
Debtors	34,138	43,152	47,844	51,251
Other Current Assets	31,510	19,689	21,733	23,217
Cash and Equivalents	19,572	28,422	30,552	32,704
Total Cur. Assets	161,278	173,807	191,270	204,612
Total Assets	262,711	287,631	305,973	322,793

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	30,914	37,430	44,252	47,882
Depreciation	6,680	9,667	10,221	11,322
Net Chg in WC	(14,029)	(9,183)	(9,735)	(7,257)
Taxes	(7,698)	(7,298)	(11,063)	(11,492)
Others	(982)	11,599	(818)	(594)
CFO	14,883	42,215	32,857	39,861
Capex	(28,568)	(14,017)	(11,100)	(14,800)
Net Investments made	(463)	(1,791)	(603)	(438)
Others	5	132	-	-
CFI	(29,026)	(15,677)	(11,703)	(15,238)
Change in Share capital	1	2	-	-
Change in Debts	22,304	(16,324)	(15,402)	(18,500)
Div. & Div Tax	(1,599)	(1,884)	(3,622)	(3,971)
Others	386	517	-	-
CFF	21,092	(17,689)	(19,023)	(22,471)
Total Cash Generated	6,949	8,850	2,131	2,152
Cash Opening Balance	12,623	19,572	28,422	30,552
Cash Closing Balance	19,572	28,422	30,552	32,704

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj EPS	40.4	48.3	56.6	62.1
YoY Growth%	(2.4)	19.6	17.3	9.7
Cash EPS	51.8	64.8	74.0	81.4
EBITDA - Core (%)	20.2	21.0	21.4	21.6
NPM (%)	12.7	12.5	12.9	13.3
Net Debt to Equity (x)	0.4	0.2	0.1	(0.0)
P/E (x)	17.7	15.3	13.2	12.1
EV/EBITDA Core (x)	12.4	9.7	8.3	7.3
P/BV (x)	3.2	2.6	2.2	1.9
EV/Sales (x)	2.5	2.0	1.8	1.6
RoCE (%)	13.9	13.7	14.4	14.8
RoE (%)	19.4	18.8	18.1	17.0
RoIC (%)	15.1	15.3	16.4	16.9
Book Value (Rs)	237	287	337	393
DPS (Rs)	2.5	4.4	5.1	5.6
Dividend Payout (%)	5.9	8.9	9.1	9.1
Div Yield (%)	0.3	0.6	0.7	0.8
Asset Turnover Ratio	0.8	0.8	0.9	0.9
Avg Collection days	61	61	65	66
Avg Inventory days	153	150	147	149

Source: Company data, I-Sec research

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