

August 14, 2023

Q1FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	900		660	
Sales (Rs. m)	2,79,308	2,99,933	2,72,431	2,91,512
% Chng.	2.5	2.9		
EBITDA (Rs. m)	51,428	57,457	46,638	51,135
% Chng.	10.3	12.4		
EPS (Rs.)	48.3	56.4	44.9	50.4
% Chng.	7.4	12.0		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	2,34,543	2,48,551	2,79,308	2,99,933
EBITDA (Rs. m)	43,856	37,580	51,428	57,457
Margin (%)	18.7	15.1	18.4	19.2
PAT (Rs. m)	26,476	19,273	28,288	33,051
EPS (Rs.)	45.2	32.9	48.3	56.4
Gr. (%)	(50.4)	(27.2)	46.8	16.8
DPS (Rs.)	4.5	5.0	6.0	7.0
Yield (%)	0.5	0.6	0.7	0.8
RoE (%)	11.4	7.5	10.1	10.8
RoCE (%)	12.1	8.6	11.7	12.5
EV/Sales (x)	2.1	2.0	1.8	1.7
EV/EBITDA (x)	11.2	13.3	9.8	8.7
PE (x)	19.3	26.5	18.0	15.4
P/BV (x)	2.1	1.9	1.7	1.6

Key Data

ARB.N.BO | ARBP IN

52-W High / Low	Rs.888 / Rs.397
Sensex / Nifty	65,402 / 19,435
Market Cap	Rs.510bn/ \$ 6,151m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.1482.67m

Shareholding Pattern (%)

Promoter's	51.84
Foreign	24.12
Domestic Institution	15.73
Public & Others	8.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	17.8	84.2	46.7
Relative	19.0	71.9	33.4

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Aurobindo Pharma (ARBP IN)

Rating: ACCUMULATE | CMP: Rs871 | TP: Rs900

Healthy US sales, margins to further improve

Quick Pointers:

- Launch of gRevlimid in US in Oct-23.
- Injectables business to pick up post commencement of supplies from Vizag.

Our FY24/25E EPS est. stands increased by 7-12% to factor in higher margins. Aurobindo Pharma's (ARBP) Q1FY24 EBITDA of Rs11.5bn (up 15% QoQ) with OPM of 16.8% (up 130 bps QoQ) was 8% above our estimate. We expect margin trajectory to further improve. Pick up in US sales hinge on timely niche approvals along with stabilization of pricing pressure in base business. We believe ARBP has multiple growth drivers in place with investments in vaccines, injectables, biosimilars and PLI which are expected to be reflected from FY25. At CMP, stock is trading at 16x FY25E P/E. We value company at 16x FY25E EPS (13x earlier) and assign a TP of Rs900/share (Rs660 earlier). Given a sharp 20% appreciation in stock price in less than one month and limited upside, we cut our rating from BUY to Accumulate.

- Strong revenue growth of 10%YoY aided across US & EU markets:** Formulations business witnessed growth of 9.2% YoY and 6.6% QoQ at Rs58bn. US revenue increased by 11.2% YoY at Rs 33bn (up 8.5% QoQ). On CC it was up 8.4% QoQ at \$402mn (our estimates of \$390mn). EU sales were up 19% YoY, at Rs18.3bn (above our estimate of Rs 17.2bn). RoW business grew 13% YoY which included PLI benefits of Rs400mn vs Rs630mn in Q4FY23. ARV formulations declined by 50% YoY to Rs1.9bn. API sales were up by 14% YoY.
- Healthy margins at 16.8%:** Gross margins came in lower at 53.9% (down 80bps QoQ) mainly on account of change in product mix and lower other operating income. R&D expenses stood at 5.7% of sales at Rs3.9bn; up 25% YoY. EBITDA margins came in at 16.8%, up 130bps QoQ and YoY. EBITDA came at Rs11.5bn (up 15% QoQ), vs our estimates of Rs10.7bn. There was forex gain to the tune of Rs377mn. Resultant PAT came in higher at Rs6.4bn, up 22% YoY vs our estimate of Rs5.5bn.
- Key concall takeaways: US sales:** Company filed for 12 ANDAs including 1 injectable in Q1FY24. Eugia revenue in the US which includes generic injectables & specialty OSD, came in at \$92 mn in Q1 vs \$81mn in Q4. Guided for +\$500mn sales in FY24. Company has decided to reinstate restructuring process of EUGIA wherein moving pending injectable/specialty products from ARBP to Eugia largely from markets like Canada. During the quarter company had shut down its Puerto Rico plant in order to facilitate its restructuring plan of enhancing volumes. As plant commercialize will see 0.5% improvement in margin. Guided for +18% OPM and 20% including gRevlimid (launch on Oct 1,2023) for FY24. Till date invested +Rs20bn on biosimilar, see FY25/26 as an inflection point. Launch products in Indian market and likely to see spate of launches from FY25. Net organic capex for the quarter stood at \$95mn which includes \$34mn investment in PLI. Net cash stands at \$178mn.

Exhibit 1: 1QFY24 Result Overview (Rs m): Strong US revenues, healthy margins

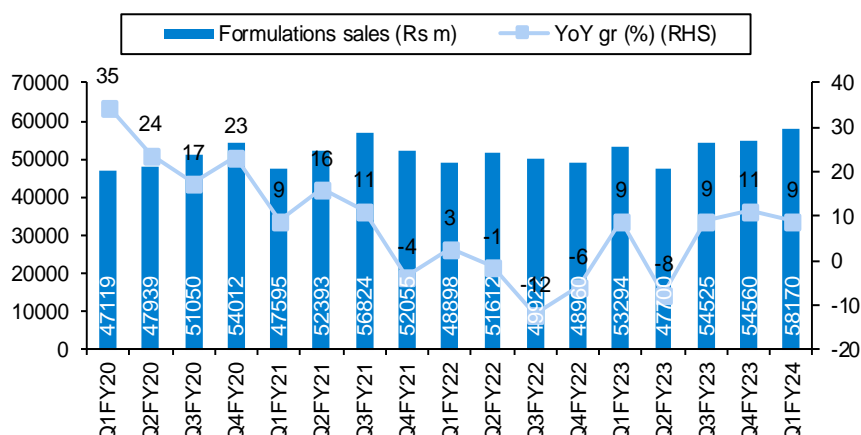
Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	68,505	62,359	9.9	64,730	5.8	2,79,308	2,48,551	12.4
Raw Material	31,547	28,867	9.3	29,310	7.6	1,23,082	1,12,933	9.0
<i>% of Net Sales</i>	<i>46.1</i>	<i>46.3</i>		<i>45.3</i>		<i>44.1</i>	<i>45.4</i>	
Personnel Cost	9,520	8,802	8.2	8,519	11.7	38,040	35,223	8.0
<i>% of Net Sales</i>	<i>13.9</i>	<i>14.1</i>		<i>13.2</i>		<i>13.6</i>	<i>14.2</i>	
Others	15,925	15,043	5.9	16,879	(5.7)	66,757	62,817	6.3
<i>% of Net Sales</i>	<i>23.2</i>	<i>24.1</i>		<i>26.1</i>		<i>23.9</i>	<i>25.3</i>	
Total Expenditure	56,992	52,712	8.1	54,708	4.2	2,27,880	2,10,972	8.0
EBITDA	11,514	9,647	19.3	10,022	14.9	51,428	37,580	36.9
<i>Margin (%)</i>	<i>16.8</i>	<i>15.5</i>		<i>15.5</i>		<i>18.4</i>	<i>15.1</i>	
Depreciation	3,266	2,795	16.8	3,456	(5.5)	13,165	12,446	5.8
EBIT	8,248	6,852	20.4	6,566	25.6	38,263	25,134	52.2
Other Income	1,163	124	841.2	1,349	(13.8)	3,000	2,906	3.2
Forex gain / (loss)	377	(283)	(233.3)	227		377	(396)	
Interest	566	146	286.5	556	1.7	2,200	1,405	56.6
PBT	8,846	6,830	29.5	7,359	20.2	39,063	26,635	46.7
Extra-Ord. Inc./Exps.	698	-		-		-	-	
Total Taxes	2,423	1,586	52.8	2,242	8.1	10,254	6,849	49.7
<i>ETR (%)</i>	<i>27.4</i>	<i>23.2</i>		<i>30.5</i>		<i>26.3</i>	<i>25.7</i>	
Minority interest	(28)	40		59		200	118	
Reported PAT	7,148	5,204	37.4	5,059	41.3	28,609	19,668	45.5

Source: Company, PL

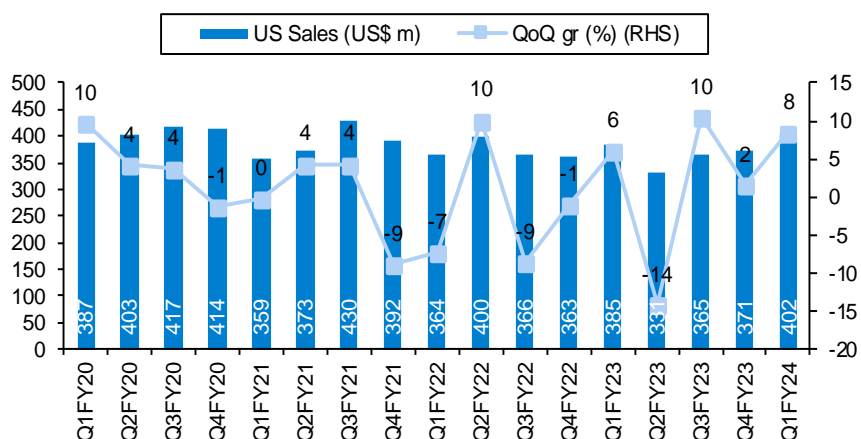
Exhibit 2: US and EU markets in upward trajectory

Major sources of revenues	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Formulations	58,170	53,294	9.1	54,560	6.6	2,31,635	2,05,870	12.5
<i>% of Net Sales</i>	<i>84.9</i>	<i>85.5</i>		<i>84.3</i>		<i>84.7</i>	<i>84.3</i>	
USA	33,040	29,711	11.2	30,450	8.5	1,33,261	1,16,538	14.3
<i>% of Net Sales</i>	<i>48.2</i>	<i>47.6</i>		<i>47.0</i>		<i>48.8</i>	<i>47.7</i>	
Europe & Emerging Markets	23,230	19,787	17.4	22,520	3.2	88,944	79,793	11.5
<i>% of Net Sales</i>	<i>33.9</i>	<i>31.7</i>		<i>34.8</i>		<i>32.5</i>	<i>32.7</i>	
ARV	1,900	3,796	(49.9)	1,590	19.5	9,430	9,540	(1.2)
<i>% of Net Sales</i>	<i>2.8</i>	<i>6.1</i>		<i>2.5</i>		<i>3.5</i>	<i>3.9</i>	
API	10,330	9,065	14.0	10,170	1.6	41,694	38,480	8.4
<i>% of Net Sales</i>	<i>15.1</i>	<i>14.5</i>		<i>15.7</i>		<i>15.3</i>	<i>15.7</i>	
Betalactum	7,190	5,514	30.4	6,370	12.9	26,574	24,480	8.6
<i>% of Net Sales</i>	<i>10.5</i>	<i>8.8</i>		<i>9.8</i>		<i>9.7</i>	<i>10.0</i>	
Non-Betalactum	3,140	3,551	(11.6)	3,800	(17.4)	15,120	14,000	8.0
<i>% of Net Sales</i>	<i>4.6</i>	<i>5.7</i>		<i>5.9</i>		<i>5.5</i>	<i>5.7</i>	

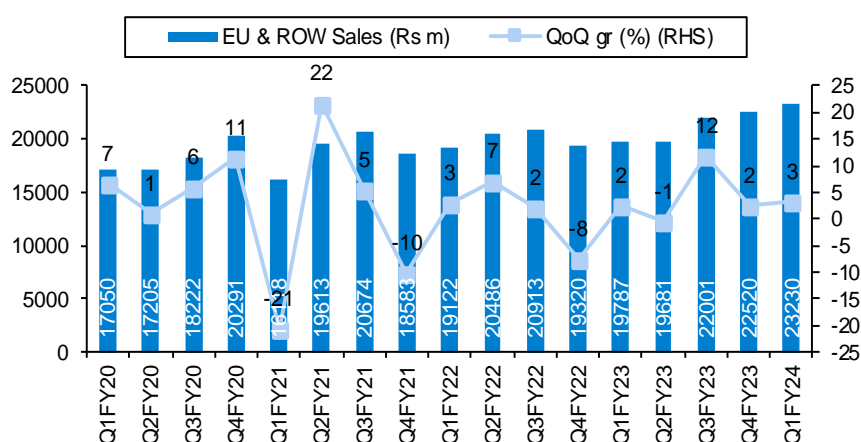
Source: Company, PL

Exhibit 3: Performance driven by US and EU markets


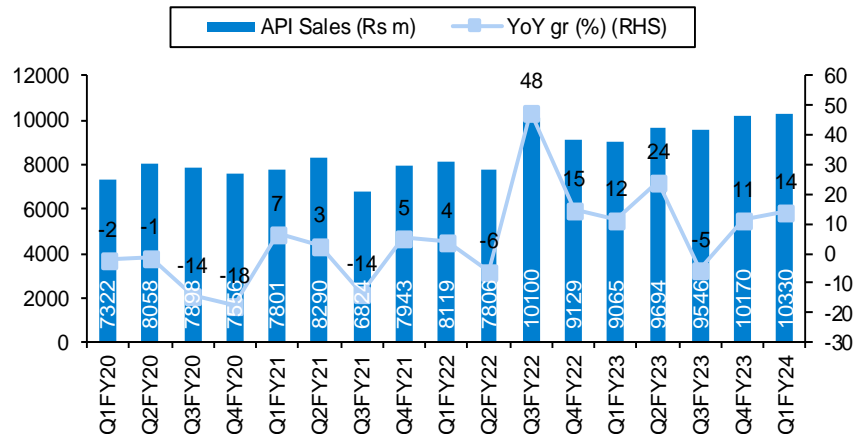
Source: Company, PL

Exhibit 4: Volume led strategy and stable pricing


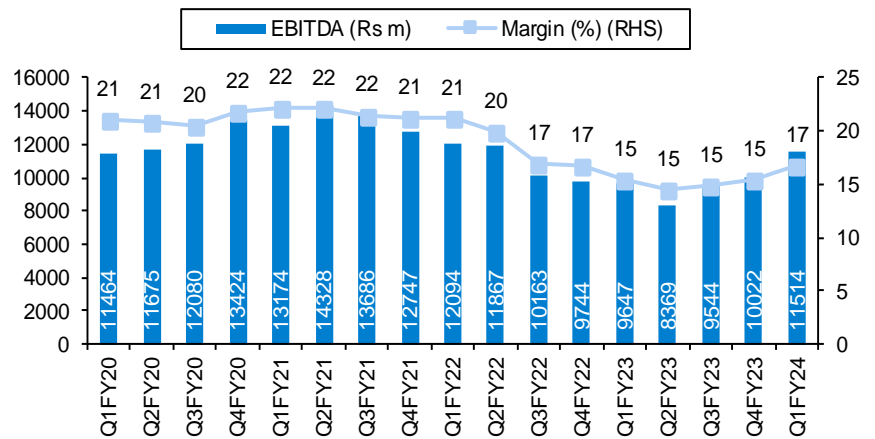
Source: Company, PL

Exhibit 5: Steady sales from EU & ROW markets


Source: Company, PL

Exhibit 6: API growth came in higher at 14% YoY


Source: Company, PL

Exhibit 7: Margins at 17%; on account of improved operational efficiency


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,34,543	2,48,551	2,79,308	2,99,933
YoY gr. (%)	(5.3)	6.0	12.4	7.4
Cost of Goods Sold	1,01,403	1,12,933	1,23,082	1,30,426
Gross Profit	1,33,140	1,35,619	1,56,225	1,69,507
Margin (%)	56.8	54.6	55.9	56.5
Employee Cost	34,509	35,223	38,040	40,703
Other Expenses	54,775	62,817	66,757	71,347
EBITDA	43,856	37,580	51,428	57,457
YoY gr. (%)	(17.7)	(14.3)	36.9	11.7
Margin (%)	18.7	15.1	18.4	19.2
Depreciation and Amortization	11,265	12,446	13,165	13,955
EBIT	32,591	25,134	38,263	43,502
Margin (%)	13.9	10.1	13.7	14.5
Net Interest	486	1,405	2,200	1,900
Other Income	3,210	2,510	3,377	3,400
Profit Before Tax	35,314	26,239	39,440	45,002
Margin (%)	15.1	10.6	14.1	15.0
Total Tax	7,256	6,849	10,254	11,700
Effective tax rate (%)	20.5	26.1	26.0	26.0
Profit after tax	28,057	19,391	29,186	33,301
Minority interest	302	118	200	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	26,476	19,273	28,288	33,051
YoY gr. (%)	(50.4)	(27.2)	46.8	16.8
Margin (%)	11.3	7.8	10.1	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	26,476	19,273	28,288	33,051
YoY gr. (%)	(50.4)	(27.2)	46.8	16.8
Margin (%)	11.3	7.8	10.1	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	26,476	19,273	28,288	33,051
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	45.2	32.9	48.3	56.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	1,65,131	1,83,333	2,11,333	2,39,333
Tangibles	1,65,131	1,83,333	2,11,333	2,39,333
Intangibles	-	-	-	-
Acc: Dep / Amortization	51,714	64,160	77,325	91,280
Tangibles	51,714	64,160	77,325	91,280
Intangibles	-	-	-	-
Net fixed assets	1,13,417	1,19,173	1,34,008	1,48,053
Tangibles	1,13,417	1,19,173	1,34,008	1,48,053
Intangibles	-	-	-	-
Capital Work In Progress	29,376	44,964	44,964	44,964
Goodwill	-	-	-	-
Non-Current Investments	9,972	5,427	5,427	5,427
Net Deferred tax assets	(1,224)	2,879	2,879	2,879
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	75,539	85,112	91,827	98,608
Trade receivables	40,123	44,664	49,740	53,413
Cash & Bank Balance	41,900	60,842	48,437	46,684
Other Current Assets	-	-	-	-
Total Assets	3,35,540	3,91,267	4,08,597	4,34,761
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,45,174	2,67,813	2,92,690	3,20,949
Total Network	2,45,760	2,68,399	2,93,276	3,21,534
Non-Current Liabilities				
Long Term borrowings	21,236	42,426	37,426	32,426
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,492	6,190	6,190	6,190
Trade payables	27,031	38,713	35,966	38,622
Other current liabilities	37,818	38,299	38,299	38,299
Total Equity & Liabilities	3,35,540	3,91,267	4,08,597	4,34,762

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	35,314	26,239	39,440	45,002
Add. Depreciation	11,265	12,446	13,165	13,955
Add. Interest	486	1,405	2,200	1,900
Less Financial Other Income	3,210	2,510	3,377	3,400
Add. Other	103	(5,154)	-	-
Op. profit before WC changes	47,168	34,936	54,805	60,857
Net Changes-WC	15,578	3,178	(17,647)	(11,217)
Direct tax	(12,582)	(7,172)	(10,254)	(11,700)
Net cash from Op. activities	50,165	30,942	26,904	37,939
Capital expenditures	(30,772)	(32,920)	(28,000)	(28,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(30,772)	(32,920)	(28,000)	(28,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(26,367)	20,753	(5,000)	(5,000)
Dividend paid	(2,637)	(4,395)	(4,108)	(4,793)
Interest paid	(486)	(1,405)	(2,200)	(1,900)
Others	(2,745)	5,966	-	-
Net cash from Fin. activities	(32,235)	20,920	(11,308)	(11,693)
Net change in cash	(12,843)	18,941	(12,404)	(1,754)
Free Cash Flow	23,118	3,738	(1,096)	9,939

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	57,394	64,071	64,730	68,505
YoY gr. (%)	(3.4)	6.7	11.4	9.9
Raw Material Expenses	25,680	29,076	29,310	31,547
Gross Profit	31,713	34,996	35,420	36,958
Margin (%)	55.3	54.6	54.7	53.9
EBITDA	8,369	9,544	10,022	11,514
YoY gr. (%)	(29.5)	(6.1)	2.9	19.3
Margin (%)	14.6	14.9	15.5	16.8
Depreciation / Depletion	2,981	3,214	3,456	3,266
EBIT	5,388	6,330	6,566	8,248
Margin (%)	9.4	9.9	10.1	12.0
Net Interest	253	450	556	566
Other Income	111	927	1,349	1,163
Profit before Tax	5,246	6,807	7,359	8,846
Margin (%)	9.1	10.6	11.4	12.9
Total Tax	1,130	1,891	2,242	2,423
Effective tax rate (%)	21.5	27.8	30.5	27.4
Profit after Tax	4,116	4,916	5,118	6,423
Minority interest	12	6	59	(28)
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,104	4,910	5,059	7,148
YoY gr. (%)	(41.1)	(18.7)	(12.2)	37.4
Margin (%)	7.2	7.7	7.8	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,104	4,910	5,059	7,148
YoY gr. (%)	(41.1)	(18.7)	(12.2)	37.4
Margin (%)	7.2	7.7	7.8	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,104	4,910	5,059	7,148
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	7.0	8.4	8.6	9.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	45.2	32.9	48.3	56.4
CEPS	64.4	54.1	70.8	80.2
BVPS	419.5	458.1	500.6	548.8
FCF	39.5	6.4	(1.9)	17.0
DPS	4.5	5.0	6.0	7.0
Return Ratio(%)				
RoCE	12.1	8.6	11.7	12.5
ROIC	11.1	7.6	10.6	11.2
RoE	11.4	7.5	10.1	10.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	138	134	138	138
Valuation(x)				
PER	19.3	26.5	18.0	15.4
P/B	2.1	1.9	1.7	1.6
P/CEPS	13.5	16.1	12.3	10.9
EV/EBITDA	11.2	13.3	9.8	8.7
EV/Sales	2.1	2.0	1.8	1.7
Dividend Yield (%)	0.5	0.6	0.7	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
US Formulations	1,11,221	1,16,538	1,33,261	1,40,137
EU & ROW	79,842	83,990	94,923	1,02,452
ARV formulations	8,330	9,540	9,430	11,480
APIs	35,156	38,480	41,694	45,864

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	660	761
2	29-May-23	BUY	660	611
3	06-Apr-23	BUY	565	522
4	11-Feb-23	BUY	565	469
5	06-Jan-23	Accumulate	550	444
6	16-Nov-22	Accumulate	550	492
7	06-Oct-22	Accumulate	635	535
8	15-Aug-22	Accumulate	635	593

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	4,906
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	910	828
8	Fortis Healthcare	BUY	365	324
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	385	331
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	880	905
13	J.B. Chemicals & Pharmaceuticals	BUY	3,000	2,711
14	Krishna Institute of Medical Sciences	BUY	2,000	1,831
15	Lupin	Hold	1,010	1,064
16	Max Healthcare Institute	BUY	610	560
17	Narayana Hrudayalaya	BUY	1,110	1,010
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	2,250	2,055
20	Zydus Lifesciences	Accumulate	650	651

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

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