



HDFC securities

Click. Invest. Grow.

20
YEARS

Re-Initiating Coverage Aurobindo Pharma Ltd.

23-April-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 988	Buy at LTP and add more on dips to Rs 876	Rs 1104	Rs 1168	2 quarters

HDFC Scrip Code	AURPHAEQNR
BSE Code	524804
NSE Code	AUROPHARMA
Bloomberg	ARBP: IN
CMP Apr 23, 2021	988
Equity Capital (Rs cr)	58.6
Face Value (Rs)	1
Equity Share O/S (cr)	58.6
Market Cap (Rs cr)	58274
Book Value (Rs)	374
Avg. 52 Wk Volumes	5263852
52 Week High	1023
52 Week Low	511

Share holding Pattern % (Mar, 2021)	
Promoters	51.9
Institutions	37.6
Non Institutions	10.5
Total	100.0

Fundamental Research Analyst

Kushal Rughani

kushal.rughani@hdfcsec.com

Our Take:

Aurobindo Pharma is on track with its endeavor to increase the number of complex/differentiated products. It is developing various products like complex injectables, inhalers, transdermal patches, and biosimilars, which would aid growth in the US business, and create margin expansion opportunities. Being a backward-integrated manufacturer, the company is well-placed to sustain superior profitability. For 9MFY21, revenue grew ~11% yoy to Rs 18,773cr, mainly led by strong growth from US formulations and ARV business. EBITDA margin improved 80bps yoy to 21.6%, led by better gross margin. The company reported 129% yoy surge in net profit due to an exceptional gain of Rs 2,814cr in the quarter. Aurobindo Pharma has a strong pipeline with 146 ANDAs pending for approval, 54 of which are injectables. 87 injectables are already approved; the company plans to file 12-15 injectable ANDAs in the US each year. Furthermore, it has ~300 products under various stages of development. The launch momentum remained healthy in 9MFY21 with 34 products (including 11 injectables). The company has been constantly focusing on deleveraging its balance sheet and, post the sellout of Natrol for US\$ 550mn or Rs 4,000cr, the company has become net cash positive in Q3FY21 with net D/E at -0.04x and net cash of US\$ 117mn.

In addition to the PLI scheme investments of Rs 3,000cr, Aurobindo plans to augment its capacities in APIs (to invest Rs 800cr over 2-2.5 years) and expects to double its revenues in the next 4-5 years. The progress on complex/vaccine pipeline remains on track and we remain positive on the company's capabilities to monetize this pipeline over the next few years. The growth outlook for EU, ARVs and RoW markets remains strong with 8-10% revenue CAGR estimated over FY21-23E. The balance sheet is strengthened as it turned net debt free in Dec-20.

Indian Pharma is expected to perform well, led by a robust exports opportunity, supply chain de-risking by global pharma from China, PLI schemes, enhanced specialty drug efforts, and recovery of global pharma demand post COVID. Also, the COVID-led opportunities could be a catalyst in the near term.

On Sep-28 2020, we had initiated coverage on Aurobindo Pharma for the base case target of Rs 861 and bull case target of Rs 921 and our bull case target was achieved in Dec 07, 2020.

(https://www.hdfcsec.com/hsl.research.pdf/Auro%20Pharma%20-Initiating%20Coverage%20-28%20Sep_2020.pdf).



Given strong growth outlook for pharmaceutical sector and healthy numbers for 9MFY21, we have increased target prices for the stock. The company is progressing well on (i) the vaccine opportunity, (ii) expanding the Injectables portfolio, and (iii) building the biologics portfolio.

With a dedicated focus on me-too generics, the company has already emerged as the second-largest US-generic company in terms of Rx dispensing (with US\$ 1.6bn US sales in FY20, i.e., 50% of its total sales) and the seventh-largest generic company globally.

View & Valuation:

Strong growth outlook for the US business is driven by improving traction from the generic Injectables space (with comparatively low competition), a healthy product pipeline, and expected traction in recently launched products. European business is also on the path to recovery with demand normalizing. In the long term, Aurobindo is looking to build a presence in the specialty segment, including biosimilars, oncology inhalers, and transdermal patches, which are likely to drive growth. It has a strong advantage of being a low-cost producer with one of the largest product portfolios. Over the years, its dependence on API has consistently reduced with ~90% of its revenue currently coming from formulations. We estimate 6% revenue CAGR, led by both US and EU business, while API and ARV segments would register steady growth over FY20-23E. Operating margin may expand 110bps yoy to 22.2% in the same period. We expect 10% CAGR in net profit, led by steady margin and lower finance costs. We remain positive on Aurobindo on the back of (a) strong complex injectables (manufacturing capabilities/capacity), (b) healthy business of API over three years, (c) improving profitability of the European business, (d) catering the vaccine opportunity over the medium term, and (e) reduced financial leverage.

While regulatory compliance remains an overhang for Aurobindo's US base business (5 facilities under OAI classification), its diversified US FDA-approved manufacturing network (of 8 API and 11 formulations facilities) and pipeline of oral solids and injectables should support approvals and growth in the near-term. Margin improvement at acquired Apotex business in EU and Covid vaccine supplies in India/EMs could drive earnings in the medium term. Its investments and progress in complex segments provide significant comfort on growth beyond FY22/FY23 with estimated revenue contribution (across geographies) of US\$ 350-400mn in FY24, ramping up to US\$ 550-600mn in FY25.

Possible (though no official announcement so far) demerger of Injectables business could hasten the value unlocking process. We believe that investors can buy the stock at LTP and add more on dips to Rs 876 for base case fair value of Rs 1,104 (17x FY23E EPS) and bull case fair value of Rs 1,168 (18x FY23E EPS) over the next two quarters.



Financial Summary

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	6365	5895	8.0	6483	-1.8	19,564	23,099	25,111	25,998	27,863
EBITDA	1369	1208	13.3	1433	-4.5	3952	4864	5460	5632	6175
Depreciation	277	250	10.6	257	7.5	668	967	1069	1145	1261
Other Income	73	31	134.8	47	54.2	116	192	271	261	272
Interest Cost	20	37	-47.3	16	24.2	263	305	75	76	49
Tax	1059	233	354.5	387	173.6	727	914	2036	1168	1284
RPAT	2947	706	318	806	266	2290	2831	5332	3456	3805
APAT	837	715	17	802	4.4	2376	2849	3342	3456	3805
EPS (Rs)						40.5	48.3	57.0	59.0	64.9
RoE (%)						18.6	18.6	17.3	14.5	14.0
P/E (x)						24.5	20.5	17.4	16.8	15.3
EV/EBITDA (x)						14.6	11.4	9.6	8.8	7.5

(Source: Company, HDFC sec)

Q3FY21 Result Update

Aurobindo reported 8%/17% yoy growth in revenue/PAT. Barring the weakness in API (-14% yoy), most markets grew at healthy pace. In contrast to peers, Aurobindo's US business (ex-Natrol) performed well, accounting for 49.8% of consolidated revenue, and growing 4/7.5% qoq/yoy, driven by volume gains and improvement in injectable revenue. Europe revenue in Q3FY21 increased by 13.2% yoy to Rs 1,671 crore, accounting for 26.3% of consolidated revenue.

The company reported 310bps expansion in gross margin at 59.6% on better product mix. Higher R&D (6.1% of overall revenues) and other expenditure curtailed operating margin expansion. For 9MFY21, revenue/EBITDA/adj. PAT recorded 11%/17%/18% yoy growth.

The annual capex plan stands at ~US\$ 200mn. Spend on account of the PLI Scheme would be above the planned capex. The PLI Scheme capex would take place over the next 30 months. The company aims to double its API revenues over the next 4-5 years. Currently, 40-45% of APIs produced are consumed internally.



Europe sales grew 5.6% yoy to Rs 4,508cr for 9MFY21, with strong 13% yoy growth in Q3FY21. Aurobindo is on track to (a) expand to newer geographies, such as Eastern Europe, and (b) expand product offerings, including injectables and the Eugia Onco product portfolio. Margins in Europe have already improved to 15% and would continue to improve with a higher number of injectable launches – supported by a new facility catering to the European market.

On the vaccine front, the license agreement with COVAXX allows Aurobindo to utilize the facility for contract manufacturing for COVAXX. It is looking at both private and government businesses in India for the COVID vaccine. The company has completed CAPAs on unit I, IX, XI, and VII, and expects an inspection in the medium term due to shortages and vaccine approvals.

Focus on injectables to drive US sales

Aurobindo has a sizeable presence in the US pharma market. It has strong overall product pipeline in the US, which would unfold, going ahead, and provide the impetus for growth. The company is on track to achieve its guidance of launching 50 new products in the US in FY21 and expects the new launch momentum to continue in FY22E. Its focus on the injectable business should further drive growth momentum in the next three years. Aurobindo is amongst top-4 in >60% of commercial injectable portfolio in terms of market share in the US. The company has a strong product portfolio in the Injectables space, which comprises almost 70 assets under development, 50 filed and under review and 80 approved products, thus pointing at a sturdy product pipeline. Aurobindo is targeting revenues of around US\$ 650 to \$700mn over the next three years from injectables from around US\$ 400mn (as of now). It had registered global injectable sales worth US\$ 109mn in the third quarter while, in 9MFY21, sales for the segment stood at US\$ 283mn.

Vaccine and biosimilar business

Aurobindo's vaccines pipeline consists of bacterial and viral vaccines. The company is developing PCV vaccine through a JV with Tergene Biotech. It is developing viral vaccines in Hyderabad and through its wholly owned step-down subsidiary Auro Vaccines in the US. The Pneumococcal Conjugate Vaccine (PCV) has a global market size of US\$ 6.2bn. The company has successfully completed phase I and phase II studies while phase III studies are expected to be initiated in Mar-2021. It has guided that it would file the product with regulatory authority in Q4FY22.

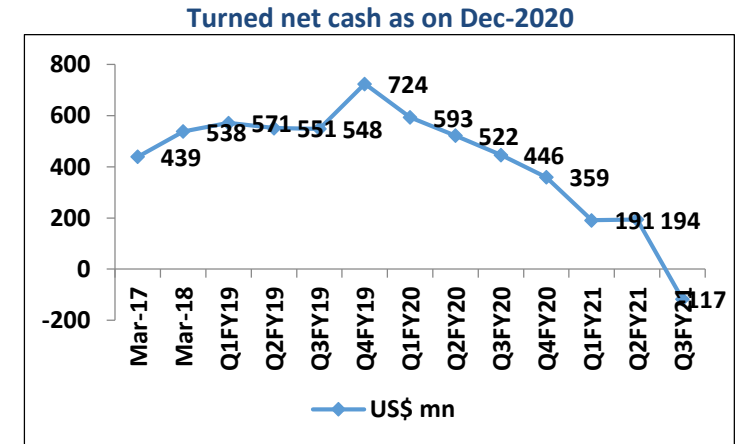
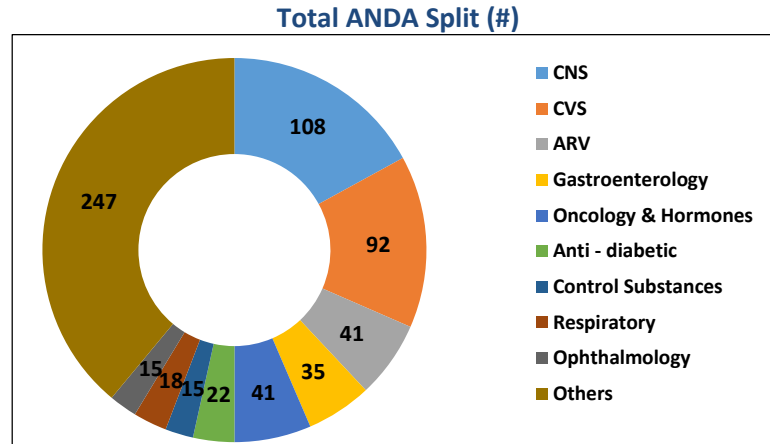
Auro Vaccines is developing four viral vaccines, including one for COVID-19. It has entered into an exclusive license agreement with COVAXX, a US-based company, to develop, manufacture and commercialize UB-612, the first Multitope Peptide-based vaccine for COVID-

19, in the Indian market as well as to the United Nations Children's Fund (UNICEF). The company is doubling its capacity from 220 million doses in multi-dose segment to 480 million doses by June 2021. In-house vaccine: SARS COV-2 vaccine candidate is based on the company's proprietary, replication, competent, attenuated, recombinant vesicular stomatitis (VSV, VesiculoVax) vaccine delivery platform. Aurobindo has collaborated with Council of Scientific and Industrial Research (CSIR) to develop multiple vaccines for COVID-19.

The expected commissioning of a 450mn dose vaccine capacity by end of June 2021 provides a new growth avenue for Aurobindo. The company is building a diverse and robust portfolio of specialty products in the biologics segment. The company is mainly focusing on four therapeutic areas - Oncology, Immunology, Ophthalmology and Respiratory. It is developing 13 biosimilars in two phases.

Key risks

- Delay in approval for key products from regulatory authority.
- Any negative outcome of key manufacturing facility by the US FDA (Unit I, IX, XI, VII, AuroLife), which could affect the company's growth prospects.
- Slower improvement in the EU business.
- Higher price erosion in the US.
- Promoter holding of 22.8% is pledged (as on March 2021) despite constant deleveraging and a net debt free balance sheet.



Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	19564	23099	25111	25998	27863
Growth (%)	18.6	18.1	8.7	3.5	7.2
Operating Expenses	15612	18235	19651	20366	21688
EBITDA	3952	4864	5460	5632	6175
Growth (%)	4.3	23.1	12.3	3.2	9.6
EBITDA Margin (%)	20.2	21.1	21.7	21.7	22.2
Depreciation	668	967	1069	1145	1261
EBIT	3284	3897	4392	4487	4914
Other Income	116	192	271	261	272
Exceptional Items	-123	-26	2843	0	0
Interest expenses	263	305	75	76	49
PBT	3014	3758	7431	4672	5137
Tax	727	914	2036	1168	1284
RPAT	2290	2831	5332	3456	3805
Growth (%)	-5.5	23.6	88.4	-35.2	10.1
APAT	2376	2849	3342	3456	3805
EPS	40.5	48.3	57	59	64.9

Balance Sheet

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	58.6	58.6	58.6	58.6	58.6
Reserves & Surplus	13832	16752	21873	25118	28713
Shareholders' Equity	13891	16811	21932	25177	28772
Long Term Loans	180	0	0	0	0
Short Term Loans	6786	5562	4437	3125	1812
Total Loans	6966	5562	4437	3125	1812
Deferred tax liabilities (net)	281	303	303	303	303
Total Equity & Liabilities	21140	22675	26671	28603	30885
Application of Funds					
Net Block	8475	9397	9828	10163	10382
CWIP	1669	1986	1986	1986	1986
Current Assets	15539	16626	21027	23425	26124
Inventories	7246	7700	9288	9616	10536
Debtors	3414	4315	4816	4843	5344
Cash & Bank Balance	1957	2842	5133	7153	8405
Loans & Advances	2922	1769	1790	1814	1839
Current Liabilities	5315	6251	7088	7889	8526
Creditors	2677	2897	3440	3917	4199
Provisions	2637	3355	3648	3971	4327
Net Current Assets	10224	10375	13938	15536	17598
Total Assets	21140	22675	26671	28603	30885

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
PBT	3091	3743	7431	4672	5137
Depreciation and Amortisation	668	967	1069	1145	1261
Other Non-Cash Items	146	124	12	28	1
Cash Flow before W/C Changes	3905	4834	8511	5845	6399
Change in W/C	-1485	251	-1273	422	-810
Taxes Paid	-770	-730	-2036	-1168	-1284
Cash Flow from Operations	1651	4355	5202	5099	4305
Net Capex	-1537	-1412	-1500	-1480	-1480
Others	-1366	-156	0	0	0
Investing Cash Flows	-2903	-1568	-1500	-1500	-1500
Equity Capital issuance	0	0	0	0	0
Borrowings	2230	-1530	-1125	-1313	-1313
Interest paid	-152	-127	-75	-76	-49
Dividend Paid	-160	-188	-211	-211	-211
Financing Cash Flow	1919	-1947	-1411	-1599	-1573
Net change in cash & equivalents	667	841	2291	2020	1253
Free Cash Flow	296	1266	3633	5673	6925

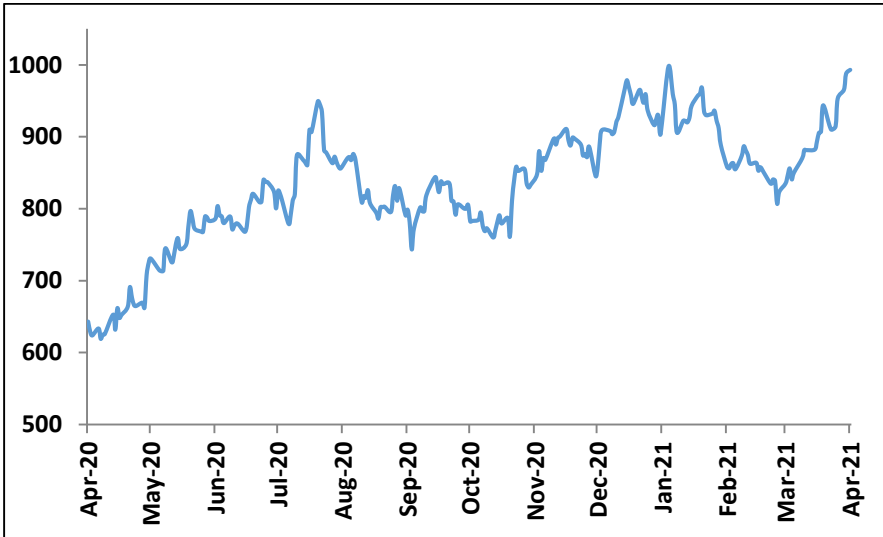
Key Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Gross Margin	55.5	57.9	59.9	60	60
EBITDA Margin	20.2	21.1	21.7	21.7	22.2
EBIT Margin	16.8	16.9	17.5	17.3	17.6
APAT Margin	12.1	12.3	13.3	13.2	13.5
RoE	18.6	18.6	17.3	14.5	14
RoCE	13.8	14.3	13.9	12.9	13.1
Solvency Ratio					
Net Debt/EBITDA (x)	1.3	0.6	-0.1	-0.7	-1.1
Interest Coverage	13	13	59	59	99
Net D/E	0.4	0.2	0	-0.2	-0.2
PER SHARE DATA					
EPS	40.5	48.3	57	59	64.9
CEPS	28.2	74.3	88.8	87	73.5
BV	237	287	374	429	490
Dividend	3	3	3	3	3
Turnover Ratios (days)					
Debtor days	68	69	70	68	70
Inventory days	130	122	135	135	138
Creditors days	50	40	50	55	55
VALUATION					
P/E	24.5	20.5	17.4	16.8	15.3
P/BV	4	3.3	2.5	2.2	1.9
EV/EBITDA	14.6	11.4	9.6	8.8	7.5
EV / Revenues	2.9	2.4	2	1.8	1.6

Source: Company, HDFC sec Research

35	(-60.01)	(-55.00)	(-0.21)	10.00	203.00	118.00	118.00
598.71	685.65	685.65	(-7.74)	(-1.00)	203.00	118.00	118.00
(+2.11)	(-14.00)	(-7.74)	(-1.00)	(-1.00)	(-11.00)	(-11.00)	(-11.00)
142.09	167.20	154.12	393.13	-62.95	-107.58	-42.88	
(-35.00)	(-17.00)	(-7.88)	(-7.00)	(-115.00)	(-71.00)	(-115.00)	

One Year Price Chart





Disclosure:

I, Kushal Rughani, MBA author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock - No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) | NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | IN-DP-372-2018 (CDSL, NSDL) | CDSL DP ID: 12086700 | NSDL DP ID: IN304279 | AMFI RegNo.ARN -13549 | PFRDA Reg. No - POP 11092018 | IRDA Corporate Agent Licence No.CA0062 | Research Analyst Reg. No. INH000002475 | Investment Adviser: INA000011538 | CIN-U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.