

Aurobindo Pharma

BSE SENSEX

35,697

S&P CNX

10,458

CMP: INR450
TP: INR530 (+18%)
Buy

Stock Info

Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	263.6 / 3.7
52-Week Range (INR)	838 / 390
1, 6, 12 Rel. Per (%)	-5/-24/-36
12M Avg Val (INR M)	2084
Free float (%)	48.1

Financials Snapshot (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	233.3	299.8	316.8
EBITDA	48.8	63.9	66.5
Adj. PAT	27.3	37.0	38.2
EBIT Margin (%)	16.5	16.6	16.3
Cons. Adj. EPS (INR)	46.6	63.1	65.1
EPS Gr. (%)	8.0	35.4	3.2
BV/Sh. (INR)	280.6	341.2	402.8

Ratios

Net D:E	0.7	0.6	0.4
RoE (%)	18.0	20.3	17.5
RoCE (%)	12.0	13.3	12.3
Payout (%)	5.4	4.0	5.4

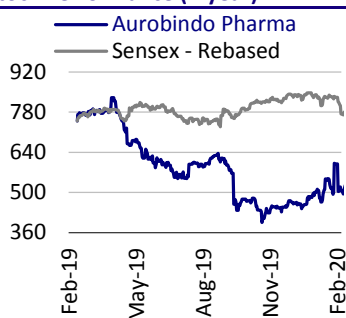
Valuations

P/E (x)	9.6	7.1	6.8
EV/EBITDA (x)	7.6	5.9	5.3
Div. Yield (%)	0.6	0.6	0.8
FCF Yield (%)	-21.9	0.2	10.4
EV/Sales (x)	1.6	1.2	1.1

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)


Observations at Unit 12 resolvable on robust CAPA

Minimal risk on future growth as no ANDAs pending for approval from Unit 12

- The USFDA inspected Aurobindo Pharma's (ARBP) Unit 12 from 10th to 21th Feb'20 and issued form 483 with six observations. The regulator has pointed out microbiological contamination, lack of training, inadequate analysis of out-of-specifications, and deficiency in handling of complaints, among others. We believe that these issues are resolvable on undertaking robust actions for 3-6 months.
- There are no ANDAs pending for approval from this site. Further, most existing products at Unit 12 are also approved to be manufactured in Unit 16. Unit 12 accounts for 3-4% of US sales as a single-source facility, in our view.
- We remain positive on ARBP and expect 15% earnings CAGR over FY19-22, led by its robust ANDA pipeline and addition of the Sandoz business. However, increasing regulatory concerns (primarily after revocation of Unit 4 classification) prompt us to cut our P/E multiple to 8x (prior: 9x) and revise our TP to INR530.

Highlights of Unit 12 form 483

The USFDA inspected ARBP's Unit 12 as part of cGMP compliance and issued form 483 with six observations: (1) Inadequate measures to prevent contamination of environment, equipment and product by personnel or environmental condition, which could potentially affect product quality. Specific remarks were made on flow of materials, qualification of clean rooms and procedure to control operator access to clean rooms. (2) Procedures to prevent microbial contamination not established. (3) Lack of education/training. (4) Inadequate root cause analysis for reported out-of-specifications. (5) Issues with handling of complaints. (6) Non-establishment of sensitivity of test methods. We expect these issues to be resolved within 3-6 months post robust CAPA. Note that this site was last inspected in Mar'18 and classified as VAI.

Unit-12 contributes ~3-4% of US sales as single-source facility

ARBP manufactures penicillin (orals and injectables) at Unit 12. All 20 ANDAs filed from this site are already approved (no pending approvals). Further, most existing products at Unit 12 are also approved to be manufactured at Unit 16. We thus see minimum regulatory risk for ARBP. Unit 12 accounts for 3-4% of US sales as a single-source facility.

Increasing regulatory risk at key sites over past 12-15 months

Over the past one year, nine sites have been inspected by the USFDA. Units 1, 11 and 7 have been classified as Official Action Indicated (OAI) and Unit 9 has been issued a warning letter recently. Units 5 and 8 were inspected in Oct'19 and classified as VAI. Recently, there has been revocation of inspection classification at Unit 4 and thus we await further clarity from a compliance perspective.

Valuation and view

A strong ANDA pipeline (154 pending for approval), potential synergy benefit post closure of Sandoz acquisition, and operating leverage for EU business are reasons for our positive stance on ARBP. However, we reduce our P/E multiple to 8x (from 9x) to factor in the increasing regulatory risk at sites catering to the US market. Accordingly, we revise our TP to INR530 (prior: INR645). Maintain **Buy**.

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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	❖ The company has received form 483 with 14 observations in Nov'19. USFDA recently revoked classification of inspection and indicated inspection to be open and still under review.
Unit VIII	API					❖ The company has received a 'Form 483' with four observations in Oct'19.
Unit V	API					❖ The company has received a 'Form 483' with four observations in Oct'19.
Unit VII (SEZ)	Oral Formulations	137	14	18	169	❖ The company has received a 'Form 483' with seven observations in Sep'19. Inspection classified as OAI.
Unit III	Oral Formulations	115	10	2	127	❖ The company has received a '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	7	1	19	27	❖ 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	7	2	42	51	❖ Inspected in Apr'17. Zero 483.
Auropeptide	API					❖ Inspected in Aug'16. EIR in place.
Total		391	27	154	572	

Source: Company, USFDA, MOFSL

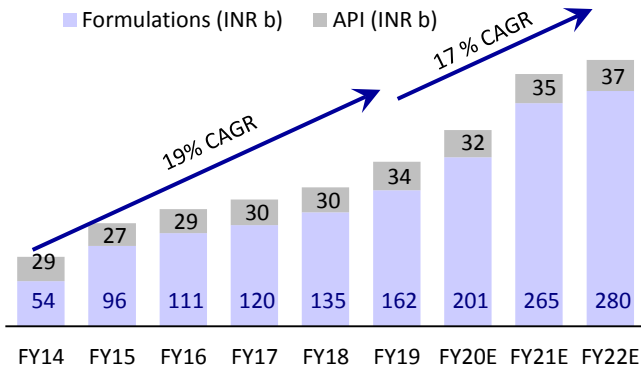
Exhibit 2: Unit-XII inspection history

Plant	Time of inspection	Remarks
Unit XII	Feb-20	❖ Issued form 483 with 6 observations
	Mar - 18	❖ Classified as VAI
	Jun -15	❖ Classified as VAI

Source: MOFSL, Company, Industry

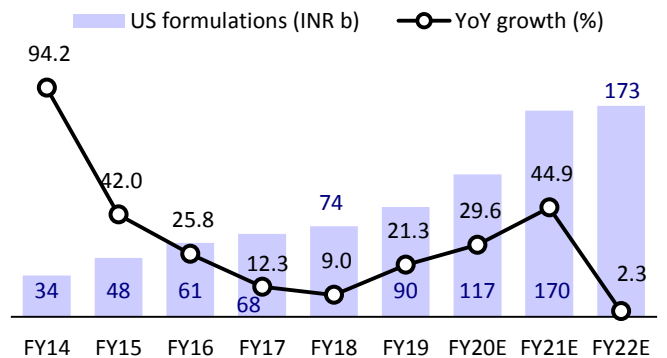
Story in charts

Exhibit 3: Expect sales CAGR of 17% over FY19-22



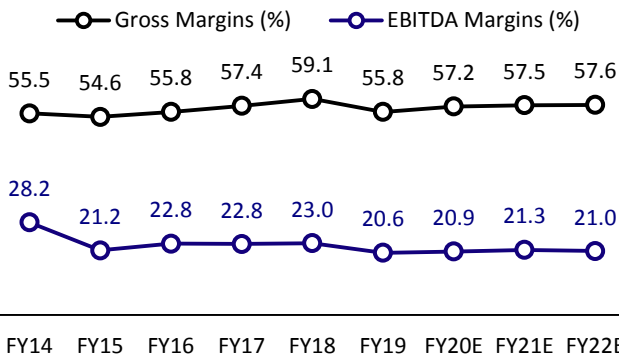
Source: Company, MOFSL

Exhibit 4: Sandoz portfolio to boost US business



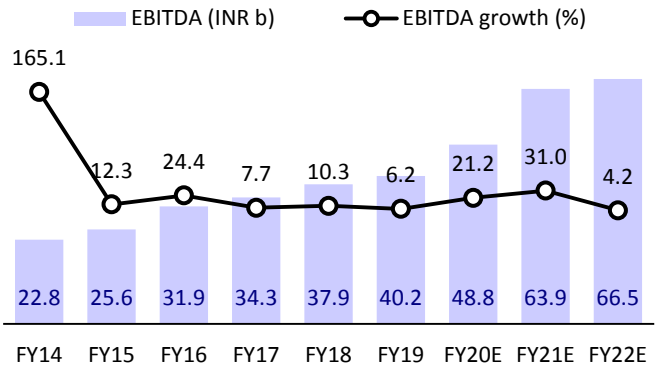
Source: Company, MOFSL

Exhibit 5: Margins to improve gradually



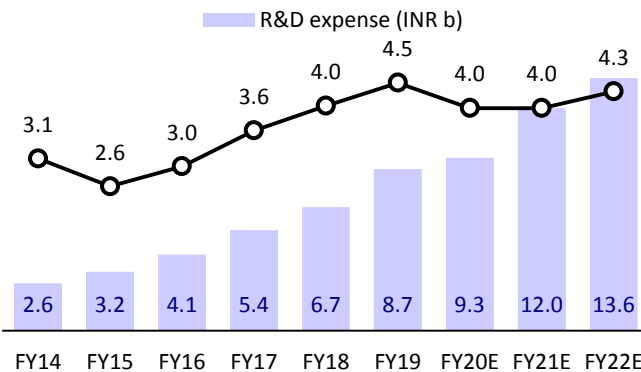
Source: Company, MOFSL

Exhibit 6: Expect EBITDA CAGR of 25% over FY19-21



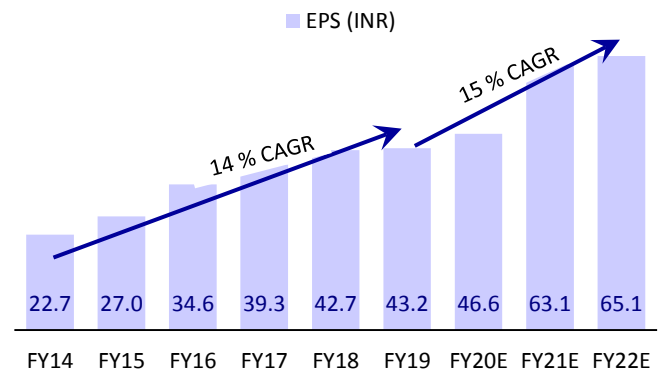
Source: Company, MOFSL

Exhibit 7: R&D expense to remain in similar range



Source: Company, MOFSL

Exhibit 8: Expect EPS CAGR of ~15% over FY19-22



Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement										(INR M)
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	2,33,256	2,99,776	3,16,833	
Change (%)	38.3	49.6	15.1	8.1	9.3	18.6	19.2	28.5	5.7	
Total Expenditure	58,170	95,569	1,07,671	1,16,556	1,27,113	1,55,416	1,84,505	2,35,924	2,50,298	
EBITDA	22,828	25,636	31,882	34,341	37,885	40,219	48,750	63,852	66,535	
Margin (%)	28.2	21.2	22.8	22.8	23.0	20.6	20.9	21.3	21.0	
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	10,326	14,029	14,906	
EBIT	19,703	22,310	27,958	30,065	32,305	33,540	38,424	49,824	51,629	
Int. and Finance Charges	1,079	843	927	667	777	1,627	2,245	2,825	3,107	
Other Income	232	808	701	538	1,020	1,157	700	650	640	
PBT bef. EO Exp.	18,856	22,275	27,733	29,936	32,548	33,070	36,879	47,649	49,161	
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	36,361	47,649	49,161	
Current Tax	3,635	5,966	7,207	7,596	8,183	7,269	9,482	10,721	11,061	
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	26.1	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	26,933	36,983	38,154	
Adjusted PAT	13,228	15,758	20,251	23,015	25,021	25,288	27,316	36,983	38,154	
Change (%)	350.1	19.1	28.5	13.6	8.7	1.1	8.0	35.4	3.2	
Margin (%)	16.3	13.0	14.5	15.3	15.2	12.9	11.7	12.3	12.0	

Consolidated - Balance Sheet										(INR M)
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	1,63,790	1,99,308	2,35,412	
Net Worth	37,502	51,559	72,873	93,719	1,16,804	1,38,908	1,64,376	1,99,894	2,35,998	
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	1,12,049	1,13,925	1,08,027	
Capital Employed	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,77,441	3,14,856	3,45,081	
Gross Block	41,066	53,821	41,312	53,650	70,719	97,987	1,44,987	1,59,987	1,74,987	
Less: Accum. Deprn.	14,613	17,405	3,455	7,168	11,843	18,298	28,624	42,653	57,559	
Net Fixed Assets	26,453	36,416	37,856	46,482	58,876	79,689	1,16,362	1,17,333	1,17,427	
Goodwill on Consolidation	764	640	4,063	4,063	8,165	8,325	18,825	18,825	18,825	
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	1,69,697	2,15,488	2,40,335	
Inventory	23,675	36,113	40,561	43,305	58,584	72,456	80,687	1,15,188	1,21,456	
Account Receivables	26,366	35,392	46,067	35,042	38,721	47,336	60,710	73,917	76,387	
Cash and Bank Balance	1,786	4,691	8,003	5,135	12,616	19,572	3,299	1,383	17,492	
Loans and Advances	12,559	11,451	11,001	11,957	15,390	18,312	25,000	25,000	25,000	
Curr. Liability & Prov.	18,747	36,587	41,909	37,420	47,051	55,275	44,465	53,813	48,528	
Account Payables	13,512	20,511	24,570	24,883	26,274	26,771	31,840	41,188	35,902	
Other Current Liabilities	3,877	13,650	15,776	11,415	18,209	26,230	12,000	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	1,25,232	1,61,676	1,91,807	
Appl. of Funds	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,77,441	3,14,856	3,45,081	

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	46.6	63.1	65.1
Cash EPS	28.1	32.7	41.3	46.6	52.2	54.6	64.2	87.1	90.6
BV/Share	64.3	88.3	124.5	160.0	199.4	237.1	280.6	341.2	402.8
DPS	1.5	2.3	2.0	2.5	2.5	2.5	2.5	2.5	3.5
Payout (%)	6.6	8.3	5.8	6.4	6.0	6.2	5.4	4.0	5.4
Valuation (x)									
P/E	19.7	16.5	12.9	11.4	10.4	10.3	9.6	7.1	6.8
Cash P/E	15.9	13.6	10.8	9.6	8.5	8.2	6.9	5.1	4.9
P/BV	6.9	5.1	3.6	2.8	2.2	1.9	1.6	1.3	1.1
EV/Sales	3.7	2.4	2.1	1.9	1.8	1.6	1.6	1.2	1.1
EV/EBITDA	13.0	11.5	9.3	8.4	7.7	7.7	7.6	5.9	5.3
Dividend Yield (%)	0.3	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.8
FCF per share	-1.4	5.1	-0.5	27.0	-12.3	-20.8	-97.5	0.7	46.2
Return Ratios (%)									
RoE	41.6	35.4	32.5	27.6	23.8	19.8	18.0	20.3	17.5
RoCE	23.3	20.4	20.4	19.0	17.4	14.4	12.0	13.3	12.3
RoIC	24.2	20.9	22.8	22.5	20.4	16.9	13.3	14.0	13.2
Working Capital Ratios									
Inventory (Days)	217	198	227	238	275	277	280	281	321
Debtor (Days)	93	91	107	98	82	80	85	82	87
Creditor (Days)	117	113	134	140	138	112	107	105	105
Working Cap. (Days)	193	177	200	196	219	245	257	258	303
Leverage Ratio (x)									
Current Ratio	3.4	2.4	2.5	2.6	2.7	2.9	3.8	4.0	5.0
Interest Cover Ratio	18	26	30	45	42	21	17	18	17
Debt/Equity	0.9	0.7	0.5	0.3	0.3	0.3	0.7	0.6	0.4

Consolidated - Cash Flow Statement

(INR M)

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	38,424	49,824	51,629
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	10,326	14,029	14,906
Interest / Dividend received	232	808	689	384	1,020	1,157	700	650	640
Direct Taxes Paid	-3,635	-5,966	-7,326	-7,737	-8,183	-7,269	-9,482	-10,721	-11,061
(Inc)/Dec in WC	-13,533	-2,515	-10,794	6,110	-12,760	-17,184	-39,104	-38,361	-14,022
CF from Operations	5,893	17,963	13,936	33,641	17,962	16,923	865	15,421	42,092
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	346	15,421	42,092
(inc)/dec in FA	-4,656	-14,389	-14,475	-16,942	-25,011	-26,916	-57,500	-15,000	-15,000
Free Cash Flow	-793	2,978	-277	15,844	-7,217	-12,176	-57,154	421	27,092
(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	-57,500	-15,000	-15,000
Change in networth	-910								
Inc/(Dec) in Debt	2,131	2,298	6,033	-17,279	13,982	22,704	44,517	1,877	-5,898
Interest Paid	-1,079	-843	-835	-568	-777	-1,627	-2,245	-2,825	-3,107
Dividend Paid	-875	-1,314	-1,616	-1,372	-1,465	-1,465	-1,465	-1,465	-2,051
Others	1,253	-214	-16	1,436	2,302	-968	74	75	75
CF from Fin. Activity	520	-73	3,566	-17,784	14,042	18,645	40,882	-2,338	-10,981
Inc/Dec of Cash	-298	2,905	3,312	-2,868	7,482	6,955	-16,272	-1,917	16,111
Opening Balance	2,085	1,786	4,691	8,003	5,135	12,616	19,572	3,299	1,383
Closing Balance	1,786	4,691	8,003	5,134	12,616	19,572	3,299	1,383	17,493

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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