

June 5, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	838		702	
Sales (Rs. m)	2,56,300	2,79,199	2,50,633	2,73,644
% Chng.	2.3	2.0		
EBITDA (Rs. m)	53,182	60,447	52,006	59,244
% Chng.	2.3	2.0		
EPS (Rs.)	57.3	64.4	56.6	63.8
% Chng.	1.2	0.9		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	1,92,259	2,27,380	2,56,300	2,79,199
EBITDA (Rs. m)	36,322	36,540	53,182	60,447
Margin (%)	18.9	16.1	20.8	21.7
PAT (Rs. m)	25,819	19,216	33,561	37,760
EPS (Rs.)	44.1	32.8	57.3	64.4
Gr. (%)	3.5	(25.6)	74.6	12.5
DPS (Rs.)	2.5	3.0	3.0	3.0
Yield (%)	0.3	0.4	0.4	0.4
RoE (%)	20.2	12.5	18.3	17.5
RoCE (%)	16.6	12.5	17.7	17.7
EV/Sales (x)	2.6	2.1	1.8	1.6
EV/EBITDA (x)	13.6	12.9	8.8	7.5
PE (x)	17.2	23.2	13.3	11.8
P/BV (x)	3.2	2.6	2.3	1.9

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.791 / Rs.281
Sensex / Nifty	33,981 / 10,029
Market Cap	Rs.445bn / \$ 5,888m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.9266.69m

Shareholding Pattern (%)

Promoter's	52.01
Foreign	22.26
Domestic Institution	12.56
Public & Others	13.17
Promoter Pledge (Rs bn)	3.21

Stock Performance (%)

	1M	6M	12M
Absolute	16.2	67.7	16.2
Relative	8.5	101.6	37.0

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Operationally strong led by EM/Europe/ARV

Quick Pointers:

- US growth to follow only after EIR of Unit-IV and VII.
- CAPA for Unit-I, IX, VII and XI completed

We believe regulatory issues are likely to abate in FY21E as CAPA (Corrective and Preventive Actions) have been completed for Unit-I, IX, VII, and XI and ARBP is in continuous discussion with FDA for virtual cGMP audit. We believe successful resolution will lead ARBP to launch 50-60 quality products in FY21E with better realization due to favorable forex. ARBP had received only 22 ANDAs approval in FY20 versus 49 in FY19 and 51 in FY18. The lower approval was on the back of regulatory issues in its two key plants (Unit-IV and VII). With a high probability of complete resolution for its key plants in FY21E, we improve PE to 13x (11X earlier) of FY22E and increase TP to Rs838 (earlier Rs702). We maintain 'Accumulate'.

Positive surprise led by EU/ARV/EM: Revenue/EBITDA grew by 5%/12% QoQ to Rs60,640m (PLe Rs53,471m) and Rs12,474m (PLe Rs8,756m). EBITDA margin was at 20.6 % (PLe 16%) v/s 19.2% QoQ. Also gross margin improved to 59% v/s 56% QoQ due to favorable product mix, low cost of raw materials and rupee depreciation. ARBP highlighted that every 100bps rupee depreciation leads to an incremental EBITDA of Rs320-400mn. US business declined 1% QoQ to US\$413m whereas Europe/ARV/EM witnessed a strong growth 12%/20%/9% QoQ.

Conference call and key highlights:

- US formulations:** Revenue declined 1% QoQ to US\$413m with Auromedics (Injectable) contribution of US\$59m v/s US\$76m (Q3FY20). Auromedics sequential decline was led by lower footfall in hospitals and competition in Ertapenem. In April-CY20 FDA classified Unit-IV (Injectable) as VAI (Voluntary Action Indicated) without EIR (Establishment Inspection Report). We believe FDA would re-visit the facility for further investigation once travelling restrictions ease as few observations related to data integrity.
- US filings:** In FY20, ARBP filed 55 ANDAs with the USFDA but received only 22 approvals due to regulatory issues. It guided for 55-60 ANDA filing for FY21-22E with improved approval rate. ARBP has ~9% Rx-share in the US market with base business price erosion in the range of 5-7%.
- Regulatory Status:** ARBP's many plants continues to be under FDA issues with the latest inclusion of oral solid mfg facility at Dayton receiving OAI status for inspection conducted between Jan-Feb CY20. Unit-I,VII & IX have been under OAI status, Unit- XI with warning letter and Unit- IV in VAI status without EIR .ARBP has completed CAPA for Unit-I,IX ,VII and XI and has requested for a virtual CGMP audit except for Unit -VII as its CAPA has been recently completed.

- **R&D:** ARBP spend Rs2.5bn on R&D,4.0% of sales and guided 5-6% of sales for FY21E due to initiation of trials for depot injectable and biosimilar (Bevacizumab) for US and Europe markets. Management expects revenue from its biosimilar portfolio to kick start from Europe in FY22E.
- **Europe:** Revenue increased 12% QoQ. Guided Apotex business too turn profitable from 2HFY21E along with an EBITDA margin for whole Europe business of 11-12%(FY20 9-10%).
- **EMs, ARV and API:** Emerging markets and ARVs increased by 9%,22% QoQ while API segment declined 4% QoQ. ARBP highlighted ARV growth was not led by COVID and guided for sustainable strong in FY21E due to DTG (Dolutegravir)
- **Debt:** Net debt was US\$359m with reduction of US\$87m inQ4FY20.Guided to make ARBP a debt free company in next 3 years without assumptions of no other acquisition.

Exhibit 1: Q4FY20 Result Overview (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	60,634	52,020	16.6	57,994	2,27,380	1,92,259	18.3
Raw Material	25,034	23,726	5.5	25,650	97,352	87,126	11.7
<i>% of Net Sales</i>	<i>41.3</i>	<i>45.6</i>		<i>44.2</i>	<i>42.8</i>	<i>45.3</i>	
Personnel Cost	8,643	7,135	21.1	7,978	32,192	25,849	24.5
<i>% of Net Sales</i>	<i>14.3</i>	<i>13.7</i>		<i>13.8</i>	<i>14.2</i>	<i>13.4</i>	
Others	14,483	11,458	26.4	13,242	52,798	43,141	22.4
<i>% of Net Sales</i>	<i>23.9</i>	<i>22.0</i>		<i>22.8</i>	<i>23.2</i>	<i>22.4</i>	
Total Expenditure	48,160	42,319	13.8	46,870	1,82,342	1,56,116	16.8
EBITDA	12,474	9,701	28.6	11,125	45,038	36,143	24.6
<i>Margin (%)</i>	<i>20.6</i>	<i>18.6</i>		<i>19.2</i>	<i>19.8</i>	<i>18.8</i>	
Depreciation	2,324	1,866	24.5	2,501	9,667	6,680	44.7
EBIT	10,150	7,835	29.5	8,624	35,370	29,464	20.0
Other Income	1,276	1,225	4.2	1,176	4,468	4,533	(1.4)
Interest	580	529	9.6	282	1,995	2,229	(10.5)
PBT	10,846	8,530	27.1	9,517	37,843	31,767	19.1
Extra-Ord. Inc./Exps.	71	365		134	448	851	
Total Taxes	2,285	2,311	(1.1)	2,329	9,135	7,269	25.7
<i>ETR (%)</i>	<i>21.1</i>	<i>27.1</i>		<i>24.5</i>	<i>24.1</i>	<i>22.9</i>	
Reported PAT	8,490	5,854	45.0	7,055	28,260	23,647	19.5

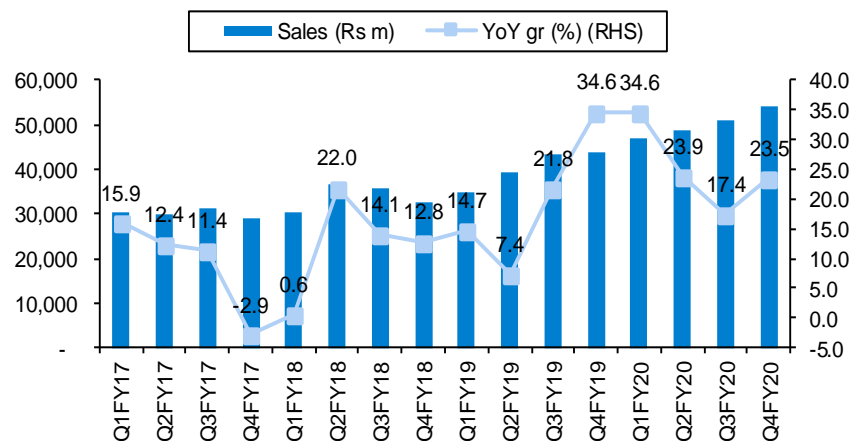
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major sources of revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Formulations	54,012	43,735	23.5	51,051	2,00,110	1,61,571	23.9
<i>% of Net Sales</i>	<i>87.7</i>	<i>82.6</i>		<i>86.6</i>	<i>86.6</i>	<i>82.6</i>	
USA	29,903	24,811	20.5	29,694	1,14,831	90,307	27.2
<i>% of Net Sales</i>	<i>48.6</i>	<i>46.9</i>		<i>50.4</i>	<i>49.7</i>	<i>46.2</i>	
Europe & Emerging Markets	20,291	16,009	26.7	18,223	72,764	61,539	18.2
<i>% of Net Sales</i>	<i>33.0</i>	<i>30.3</i>		<i>30.9</i>	<i>31.5</i>	<i>31.5</i>	
ARV	3,818	2,915	31.0	3,134	12,515	9,725	28.7
<i>% of Net Sales</i>	<i>6.2</i>	<i>5.5</i>		<i>5.3</i>	<i>5.4</i>	<i>5.0</i>	
API	7,557	9,167	(17.6)	7,898	30,835	34,030	(9.4)
<i>% of Net Sales</i>	<i>12.3</i>	<i>17.3</i>		<i>13.4</i>	<i>13.4</i>	<i>17.4</i>	
Betalactam	4,909	5,830	(15.8)	5,111	19,505	21,459	(9.1)
<i>% of Net Sales</i>	<i>8.0</i>	<i>11.0</i>		<i>8.7</i>	<i>8.4</i>	<i>11.0</i>	
Non-Betalactam	2,648	3,337	(20.7)	2,787	11,330	12,571	(9.9)
<i>% of Net Sales</i>	<i>4.3</i>	<i>6.3</i>		<i>4.7</i>	<i>4.9</i>	<i>6.4</i>	
Dossier Income	-	20		3	8	35	(77.1)
Gross Sales	61,569	52,922	16.3	58,952	2,30,953	1,95,636	18.1

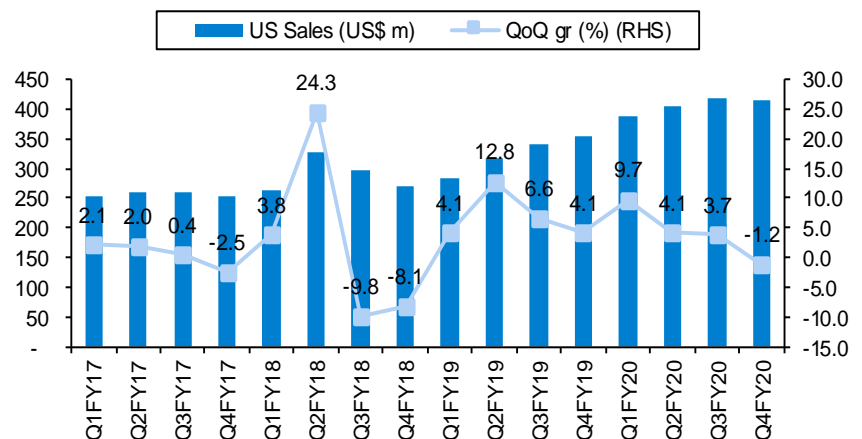
Source: Company, PL

Exhibit 3: Formulation sales & growth



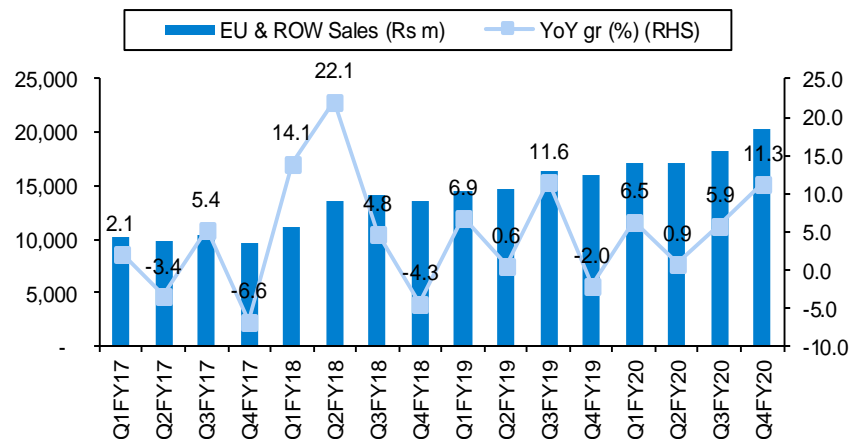
Source: Company, PL

Exhibit 4: Exhibit 4: US Generics sales (US\$m), growth



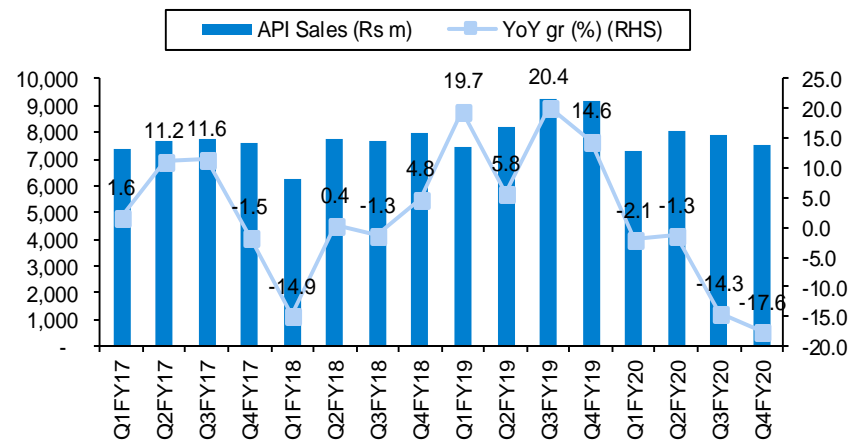
Source: Company, PL

Exhibit 5: Exhibit 1: EU & ROW sales and QoQ growth (%)



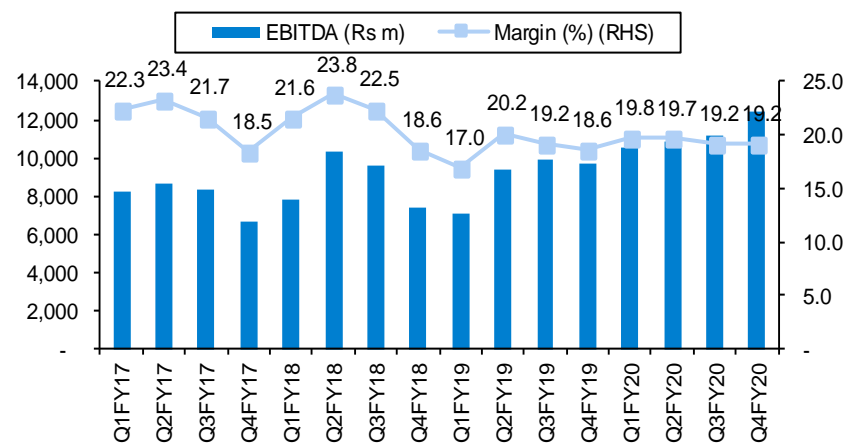
Source: Company, PL

Exhibit 6: API Sales (Rs mn) and YoY Growth (%)



Source: Company, PL

Exhibit 7: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,92,259	2,27,380	2,56,300	2,79,199
YoY gr. (%)	18.4	18.3	12.7	8.9
Cost of Goods Sold	86,948	1,05,850	1,15,335	1,23,545
Gross Profit	1,05,311	1,21,530	1,40,965	1,55,653
Margin (%)	54.8	53.4	55.0	55.8
Employee Cost	25,849	32,192	28,834	30,991
Other Expenses	8,716	9,581	15,378	16,752
EBITDA	36,322	36,540	53,182	60,447
YoY gr. (%)	3.5	0.6	45.5	13.7
Margin (%)	18.9	16.1	20.8	21.7
Depreciation and Amortization	5,685	9,667	11,395	13,501
EBIT	30,636	26,873	41,787	46,945
Margin (%)	15.9	11.8	16.3	16.8
Net Interest	1,627	1,598	1,211	979
Other Income	4,929	4,468	4,736	5,020
Profit Before Tax	33,939	29,743	45,312	50,986
Margin (%)	17.7	13.1	17.7	18.3
Total Tax	7,269	9,942	11,781	13,256
Effective tax rate (%)	21.4	33.4	26.0	26.0
Profit after tax	26,671	19,800	33,531	37,730
Minority interest	(29)	187	(30)	(30)
Share Profit from Associate	-	-	-	-
Adjusted PAT	25,819	19,216	33,561	37,760
YoY gr. (%)	3.5	(25.6)	74.6	12.5
Margin (%)	13.4	8.5	13.1	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	25,819	19,216	33,561	37,760
YoY gr. (%)	3.5	(25.6)	74.6	12.5
Margin (%)	13.4	8.5	13.1	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	25,819	19,216	33,561	37,760
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	44.1	32.8	57.3	64.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	96,651	1,22,336	1,50,554	1,80,583
Tangibles	74,283	95,703	1,16,921	1,41,950
Intangibles	22,368	26,633	33,633	38,633
Acc: Dep / Amortization	20,228	31,989	43,384	56,885
Tangibles	17,347	26,436	35,134	45,901
Intangibles	2,881	5,553	8,250	10,985
Net fixed assets	76,423	73,931	1,07,170	1,23,698
Tangibles	56,937	52,851	81,787	96,049
Intangibles	19,487	21,080	25,383	27,648
Capital Work In Progress	16,685	29,859	31,080	32,353
Goodwill	8,325	9,159	9,159	9,159
Non-Current Investments	4,587	6,776	2,753	2,832
Net Deferred tax assets	(980)	1,632	(451)	(1,471)
Other Non-Current Assets	3,368	2,907	3,156	3,428
Current Assets				
Investments	0	0	0	0
Inventories	72,456	76,999	84,688	91,668
Trade receivables	34,138	43,152	44,238	46,661
Cash & Bank Balance	19,572	28,422	29,142	42,988
Other Current Assets	13,420	14,858	8,915	5,349
Total Assets	2,64,544	2,88,389	3,21,776	3,58,654
Equity				
Equity Share Capital	586	586	586	586
Other Equity	1,38,322	1,67,518	1,97,122	2,32,826
Total Network	1,38,908	1,68,104	1,97,708	2,33,411
Non-Current Liabilities				
Long Term borrowings	1,800	-	-	-
Provisions	465	747	755	762
Other non current liabilities	113	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	65,732	54,223	51,512	48,936
Trade payables	26,771	25,450	34,407	36,717
Other current liabilities	27,926	34,195	36,246	37,709
Total Equity & Liabilities	2,64,544	2,88,389	3,21,776	3,58,654

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	32,767	38,240	45,312	50,986
Add. Depreciation	6,680	9,667	11,395	13,501
Add. Interest	1,627	1,598	1,211	979
Less Financial Other Income	4,929	4,468	4,736	5,020
Add. Other	(2,051)	(2,802)	2,890	(504)
Op. profit before WC changes	39,021	46,703	60,808	64,962
Net Changes-WC	(15,103)	4,512	8,045	(2,208)
Direct tax	(7,698)	(9,178)	(10,875)	(12,237)
Net cash from Op. activities	16,220	42,036	57,978	50,517
Capital expenditures	(28,568)	(38,859)	(29,438)	(31,302)
Interest / Dividend Income	263	268	273	279
Others	(463)	324	-	-
Net Cash from Inv. activities	(28,768)	(38,267)	(29,165)	(31,023)
Issue of share cap. / premium	1	-	-	-
Debt changes	22,304	(13,309)	(2,711)	(2,576)
Dividend paid	(1,599)	(2,057)	(2,057)	(2,057)
Interest paid	(1,515)	(1,598)	(1,211)	(979)
Others	-	-	-	-
Net cash from Fin. activities	19,191	(16,963)	(5,978)	(5,611)
Net change in cash	6,643	(13,193)	22,835	13,883
Free Cash Flow	(12,348)	3,177	28,540	19,215

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	53,568	55,183	57,994	60,634
YoY gr. (%)	28.1	18.2	12.1	16.6
Raw Material Expenses	22,985	23,683	25,650	25,034
Gross Profit	30,583	31,500	32,344	35,600
Margin (%)	57.1	57.1	55.8	58.7
EBITDA	10,586	10,853	11,125	12,474
YoY gr. (%)	49.0	15.2	12.1	28.6
Margin (%)	19.8	19.7	19.2	20.6
Depreciation / Depletion	2,409	2,433	2,501	2,324
EBIT	8,178	8,419	8,624	10,150
Margin (%)	15.3	15.3	14.9	16.7
Net Interest	499	409	371	318
Other Income	1,035	756	1,265	1,014
Profit before Tax	8,714	8,766	9,517	10,846
Margin (%)	16.3	15.9	16.4	17.9
Total Tax	2,278	2,244	2,329	2,285
Effective tax rate (%)	26.1	25.6	24.5	21.1
Profit after Tax	6,437	6,522	7,189	8,561
Minority interest	(49)	(1)	(1)	193
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,485	6,523	7,190	8,367
YoY gr. (%)	42.3	2.2	(2.5)	34.6
Margin (%)	12.1	11.8	12.4	13.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,485	6,523	7,190	8,367
YoY gr. (%)	42.3	2.2	(2.5)	34.6
Margin (%)	12.1	11.8	12.4	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,485	6,523	7,190	8,367
Avg. Shares O/s (m)	586	586	586	586
EPS (Rs)	11.1	11.1	12.3	14.3

Source: Company Data, PL Research

Key Financial Metrics

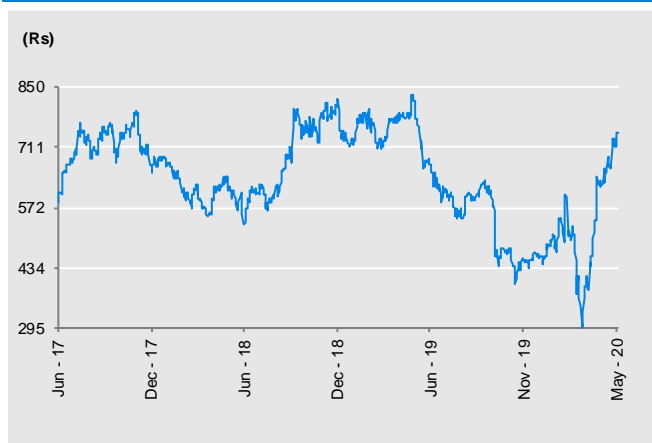
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	44.1	32.8	57.3	64.4
CEPS	53.8	49.3	76.7	87.5
BVPS	237.1	286.9	337.4	398.4
FCF	(21.1)	5.4	48.7	32.8
DPS	2.5	3.0	3.0	3.0
Return Ratio(%)				
RoCE	16.6	12.5	17.7	17.7
ROIC	12.5	10.3	14.3	14.9
RoE	20.2	12.5	18.3	17.5
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.1	0.0
Net Working Capital (Days)	152	152	135	133
Valuation(x)				
PER	17.2	23.2	13.3	11.8
P/B	3.2	2.6	2.3	1.9
P/CEPS	14.1	15.4	9.9	8.7
EV/EBITDA	13.6	12.9	8.8	7.5
EV/Sales	2.6	2.1	1.8	1.6
Dividend Yield (%)	0.3	0.4	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
US Formulations	90,307	1,14,831	1,31,430	1,43,729
EU & ROW	61,539	72,764	77,752	85,057
ARV formulations	9,725	12,515	12,600	13,367
APIs	34,030	30,834	34,055	36,555

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	21-Apr-20	Accumulate	702	644
2	18-Apr-20	Hold	566	543
3	14-Apr-20	UR	-	460
4	03-Apr-20	UR	-	392
5	24-Feb-20	Sell	525	599
6	07-Feb-20	Hold	525	547
7	03-Jan-20	Hold	412	460
8	13-Nov-19	Hold	511	434
9	09-Oct-19	Hold	511	452
10	03-Oct-19	BUY	715	580

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	Accumulate	576	520
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

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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We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management Research Analysts, authors and the names 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. 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.

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