

BUY

TP: Rs 850 | ▲ 20%

AUROBINDO PHARMA

Pharmaceuticals

29 March 2022

Acquisition of Veritaz Healthcare marks India formulations foray

- ARBP acquired Veritaz Healthcare at 1x FY22E sales (9.8x EBITDA), marking its foray into domestic formulations
- Deal represents a related-party transaction for a cash consideration of Rs 1.7bn on slump sale and debt-free, cash-free basis
- Reiterate BUY on ARBP with TP unchanged at Rs 850 as we await better clarity on Veritaz before revising estimates

Surajit Pal | Saad Shaikh
 researchreport@bobcaps.in

Veritaz acquired for Rs 1.7bn: ARBP has bought branded generic formulations player Veritaz Healthcare in a Rs 1.7bn all-cash deal – in keeping with management’s guidance of entering the India formulations business where it has a sales target of Rs 1bn by FY25. Veritaz services an addressable market worth ~Rs 268bn and based on 9MFY22 numbers, the acquisition is valued at 1x FY22E sales and 9.8x FY22E EBITDA (annualised). The company is promoted by the sons of the ARBP promoter and hence the deal is a related-party transaction. In addition, it is a slump sale and has no debt liability or cash benefits.

Offers platform for India formulations foray: Incorporated in Sep’06, Veritaz is engaged in wholesale marketing and distribution of branded generic formulations in acute therapeutic areas (anti-infectives, PMS), nutraceuticals and toiletries. The company markets 40 brands across sectors and has 180 registered trademarks. Its largest brands are Fepanil (Paracetamol, sales: Rs 310mn in FY21) and Merogram (Meropenem injectable, sales: Rs 200mn). Veritaz plans to launch products in cardiology/diabetic and orthopaedic/gynaecology segments in the near term. With 900 employees (including 700 representatives) at Veritaz, the acquisition enables ARBP to reach over 70k doctors, 50k retailers and 1,700 stockists in 23 cities.

Our view: While the acquisition offers opportunities for ARBP to build a presence in India formulations, we note that Veritaz has low-value products in highly competitive segments and reasons for the related-party transaction aren’t very compelling. This apart, we expect monetisation of ARBP’s global IPR in India to have back-ended benefits while the addition of employees and brands/promotions related to the deal will raise overhead expenses from FY23. We await better clarity on the strategy and financial planning post acquisition before incorporating Veritaz into our estimates.

Reiterate BUY: ARBP is trading at attractive valuations of 5.8x FY24E EV/EBITDA (9.3x FY24 P/E). We reiterate BUY and maintain our TP at Rs 850, based on 7.5x FY24E EV/EBITDA (implied P/E of 12x). Our target multiple reflects a continued 45% discount to other frontline stocks (SUNP, CIPLA, DRRD) due to ARBP’s low branded sales and high US exposure.

Ticker/Price	ARBP IN/Rs 707
Market cap	US\$ 5.4bn
Free float	48%
3M ADV	US\$ 20.5mn
52wk high/low	Rs 1,064/Rs 584
Promoter/FPI/DII	52%/22%/16%

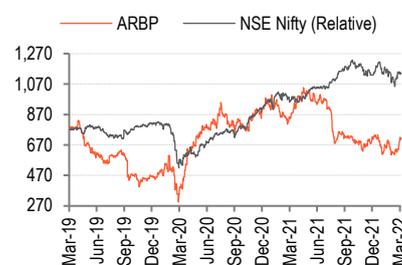
Source: NSE | Price as of 28 Mar 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	2,47,746	2,38,108	2,64,197
EBITDA (Rs mn)	53,334	45,792	55,779
Adj. net profit (Rs mn)	25,203	27,825	34,726
Adj. EPS (Rs)	43.0	47.5	59.3
Consensus EPS (Rs)	43.0	52.0	59.2
Adj. ROAE (%)	12.9	11.9	13.3
Adj. P/E (x)	16.4	14.9	11.9
EV/EBITDA (x)	8.5	9.3	7.2
Adj. EPS growth (%)	(12.2)	10.4	24.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	2,30,986	2,47,746	2,38,108	2,64,197	2,93,199
EBITDA	48,247	53,334	45,792	55,779	65,220
Depreciation	9,667	10,554	11,798	13,487	14,745
EBIT	38,580	42,780	33,994	42,291	50,475
Net interest inc./(exp.)	(1,598)	(745)	(545)	(385)	(270)
Other inc./(exp.)	862	3,808	3,650	4,395	4,947
Exceptional items	0	0	0	0	0
EBT	37,844	45,844	37,100	46,301	55,152
Income taxes	8,994	20,098	9,275	11,575	13,788
Extraordinary items	(261)	28,146	500	0	0
Min. int./Inc. from assoc.	137	543	0	0	0
Reported net profit	28,452	53,349	28,325	34,726	41,364
Adjustments	261	(28,146)	(500)	0	0
Adjusted net profit	28,714	25,203	27,825	34,726	41,364

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	25,450	27,947	32,618	36,191	40,164
Other current liabilities	30,745	29,831	28,573	31,704	35,184
Provisions	4,914	3,291	3,162	3,509	3,894
Debt funds	56,867	52,373	41,898	33,519	23,463
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	1,68,912	2,19,923	2,45,327	2,77,123	3,15,558
Shareholders' fund	1,69,498	2,20,509	2,45,913	2,77,709	3,16,144
Total liab. and equities	2,87,473	3,33,950	3,52,164	3,82,632	4,18,849
Cash and cash eq.	28,422	54,680	67,000	79,512	97,173
Accounts receivables	43,552	35,033	58,712	65,145	72,296
Inventories	76,999	90,266	71,759	79,621	88,361
Other current assets	19,130	23,711	21,430	23,778	26,388
Investments	5,547	5,910	5,910	5,910	5,910
Net fixed assets	64,948	68,866	71,868	73,181	73,235
CWIP	19,859	30,615	30,615	30,615	30,615
Intangible assets	29,017	24,870	24,870	24,870	24,870
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,87,474	3,33,950	3,52,164	3,82,632	4,18,849

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	45,455	55,279	41,061	39,006	45,716
Capital expenditures	(17,500)	(14,000)	(14,800)	(14,800)	(14,800)
Change in investments	(1,945)	(363)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(19,445)	(14,363)	(14,800)	(14,800)	(14,800)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12,800)	(4,494)	(10,475)	(8,380)	(10,056)
Interest expenses	(1,598)	(745)	(545)	(385)	(270)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	144	(6,489)	9	0	0
Cash flow from financing	(17,184)	(14,658)	(13,940)	(11,695)	(13,255)
Chg in cash & cash eq.	8,827	26,258	12,321	12,512	17,661
Closing cash & cash eq.	28,421	54,680	67,001	79,512	97,173

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	48.6	91.1	48.3	59.3	70.6
Adjusted EPS	49.0	43.0	47.5	59.3	70.6
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	289.6	376.8	420.2	474.6	540.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.0	1.8	1.8	1.5	1.3
EV/EBITDA	9.5	8.5	9.3	7.2	5.8
Adjusted P/E	14.4	16.4	14.9	11.9	10.0
P/BV	2.4	1.9	1.7	1.5	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.9	55.0	75.0	75.0	75.0
Interest burden (PBT/EBIT)	98.1	107.2	109.1	109.5	109.3
EBIT margin (EBIT/Revenue)	16.7	17.3	14.3	16.0	17.2
Asset turnover (Rev./Avg TA)	26.5	24.8	21.2	22.1	22.5
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.2	1.1	1.1
Adjusted ROAE	18.6	12.9	11.9	13.3	13.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	18.1	7.3	(3.9)	11.0	11.0
EBITDA	22.1	10.5	(14.1)	21.8	16.9
Adjusted EPS	19.0	(12.2)	10.4	24.8	19.1
Profitability & Return ratios (%)					
EBITDA margin	20.9	21.5	19.2	21.1	22.2
EBIT margin	16.7	17.3	14.3	16.0	17.2
Adjusted profit margin	12.4	10.2	11.7	13.1	14.1
Adjusted ROAE	18.6	12.9	11.9	13.3	13.9
ROCE	18.1	18.7	13.4	15.6	17.0
Working capital days (days)					
Receivables	69	52	90	90	90
Inventory	122	133	110	110	110
Payables	40	41	50	50	50
Ratios (x)					
Gross asset turnover	1.9	1.8	1.6	1.6	1.6
Current ratio	2.8	3.3	3.4	3.5	3.6
Net interest coverage ratio	24.1	57.4	62.4	109.7	187.1
Adjusted debt/equity	0.2	0.0	(0.1)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

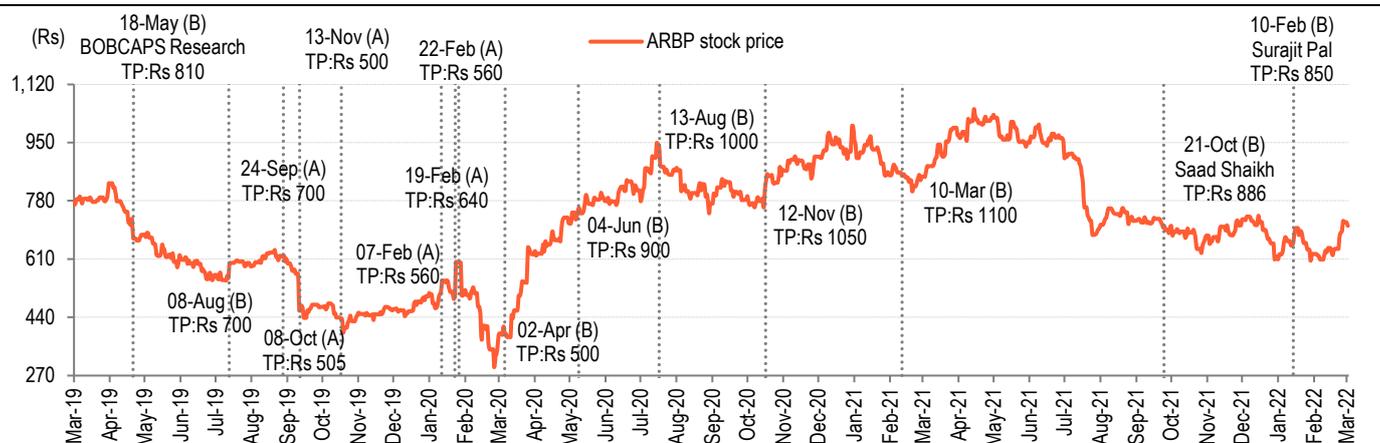
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AUROBINDO PHARMA (ARBP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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