

Incurring Capex to Drive Growth

Aarti Drugs' revenue grew by 11.6% (vs. exp. 14.4%) which is majorly led by volume growth while realizations are on a lower side in Q4FY21. The API segment (78% revenue) and formulation segment (22% revenue) grew by 8.7% and 12.4% on yoy respectively. The major growth is driven by the anti-inflammatory segment while anti-protazole de-grew due to low global travel.

Gross margins (36.3%) decreased by 260 bps on a QoQ basis and are expected to be impacted due to an increase in raw material prices. The industry reflects the same trend. EBITDA margins (16.1%, -380 bps QoQ) were majorly impacted by low realizations and an increase in raw material prices. PAT reported a fall of 11.6% due to low operational profitability. **We expect revenue and PAT CAGR of 15.9% and 15.3% respectively over the period FY21-FY23E and recommend a Buy with TP of INR 840.**

Anti-inflammatory segment drives growth in APIs

The overall contribution of anti-inflammatory stood at 44% while anti-protazole stood at 15%, anti-inflammatory at 12%, anti-diabetic at 10%, and anti-fungal at 6%. In APIs, Anti-inflammatory (Nimuslide, Celecoxib, Dichlorophen) had driven the top-line growth. Anti-diabetic and Formulations could drive growth in upcoming quarters with the augmentation of brownfield capacity. API is expected to deliver a structural growth based on the dual source of supply and import substitutions. The management is targeting Rs 4,500 crores of revenue in the next 5 years.

Realizations stabilized due to ease of supply bottlenecks

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Incurring Capex to drive growth

ARTD has planned to incur a Capex of Rs 550 crore in the next 3 years on the upcoming seven projects. The company envisages Rs 120 crore Capex to benefit from the PLI scheme. The Capex breakup: Maintenance comprises 20%, Backward integration 40%, and Greenfield expansion 40%. This Capex has the potential to generate sales of Rs 1500 crores.

Key Financials (Consolidated)

(Rs. Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	1,806	2,155	2,510	2,894
EBITDA	262	437	477	564
Net Profit	141	280	306	373
EPS (Rs.)	15	30	33	40
PER (x)	51.0	25.1	23.0	18.9
EV/EBITDA (x)	28.8	16.8	15.2	12.6
P/BV (x)	11.0	7.7	6.1	4.9
ROE (%)	21.6	30.7	26.6	25.7

Source: Company, Axis Research

(CMP as May 17, 2021)

CMP (Rs)	756
Upside /(Downside (%))	11%
High/Low (Rs)	1,815 /850
Market cap (Cr)	30,385
Avg. daily vol. (6m) Shrs.	1,90,577
No. of shares (Cr)	17

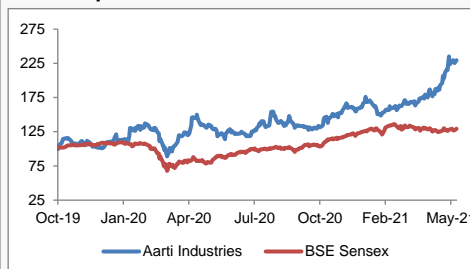
Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	47.6	47.3	46.8
FII's	7.5	9.0	8.7
MFs / UTI	12.8	11.2	10.9
Banks / FIIs	0.1	0.0	0.0
Others	32.0	32.4	33.6

Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	2,155	2,510	2,894
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Relative performance



Source: Capitaline, Axis Securities

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Result Update
(Rs Cr)

Y/E March	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	% change (YoY)	% change (QoQ)
Net Sales	450	545	578	530	502	11.6	-5.4
Growth (%)	-2.1%	34.4%	21.1%	12.0%	11.6%		
Total Expenditure	378	411	462	424	421	11.2	-0.9
Raw Material Consumed	283	320	326	296	301	6.4	1.8
Purchase of stock in trade	0	0	35	23	27		
Stock Adjustment	0	0	-2	4	-8		
% of sales	63.0%	58.7%	62.0%	61.1%	63.7%		
Gross margins (%)	37.0%	41.3%	38.0%	38.9%	36.3%		
Employee Expenses	19	19	22	20	20	7.0	0.3
% of sales	4.1%	3.4%	3.8%	3.7%	4.0%		
Other Expenses	77	73	81	81	81	6.3	0.5
% of sales	17.0%	13.3%	14.1%	15.3%	16.2%		
EBITDA	71	134	116	106	81	14.0	-23.5
EBITDAM (%)	15.8%	24.6%	20.1%	20.0%	16.1%		
Interest	8	7	7	5	4		
Depreciation	13	12	13	13	12	-1.8	-2.9
Other Income	1	1	0	2	1		
Exceptional Items	-8	0	0	-0	0		
PBT	60	116	97	90	65	8.1	-27.8
Tax	2	31	22	22	14		
Tax (%)	3.1%	26.5%	22.5%	24.7%	20.8%		
Reported PAT	58.5	85.5	75.3	68.1	51.7	-11.7	-24.1

Source: Company, Axis Securities

Geographical Revenue Breakup
(Rs Cr)

Y/E March	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	% change (YoY)	% change (QoQ)
APIs	361	430	509	461	392	8.7	-15.0
Formulations	51	81	69	69	62	22.2	-10.5

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	1,806	2,155	2,510	2,894
Other operating income	0	0	0	0
Net Revenue	1,806	2,155	2,510	2,894
Cost of goods sold	1,179	1,321	1,548	1,786
Contribution (%)	65.28%	61.30%	61.70%	61.70%
Other operating costs	365	397	484	544
EBITDA	262	437	477	564
Other income	2	5	7	10
PBIDT	263	442	483	574
Depreciation	49	50	57	61
Interest & Fin Chg.	34	23	24	23
E/o income / (Expense)	5	0	0	0
Pre-tax profit	185	369	403	491
Tax provision	44	89	97	118
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	141	280	306	373
Other Comprehensive Income	0	0	0	0
Reported PAT	141	280	306	373

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	1,577	1,766	2,057	2,388
Net Block	644	659	703	741
CWIP	12	19	19	19
Investments	13	17	17	17
Wkg. cap. (excl cash)	273	452	545	680
Cash / Bank balance	8	10	89	198
Misc. Assets	0	0	0	0
Capital employed	1,577	1,766	2,057	2,389
Equity capital	24	93	93	93
Reserves	629	820	1,056	1,358
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	338	305	285	265
Def tax Liabilities	81	77	77	77

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources				
Cash profit	132	190	330	363
(-) Dividends	-21	-23	-70	-70
Retained earnings	0	0	0	0
Issue of equity	0	0	0	0
Change in Oth. Reserves	0	0	0	0
Borrowings	-133	-33	-20	-20
Others	-19	-75	-0	0
Applications	627	495	645	645
Capital expenditure	-47	-72	-100	-100
Investments	-1	-4	0	0
Net current assets	0	0	0	0
Change in cash	8	10	89	198

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	15.7	19.3	16.5	15.3
OPM	14.5	20.3	19.0	19.5
Oper. profit growth	26.2	67.1	9.1	18.4
COGS / Net sales	65.3	61.3	61.7	61.7
Overheads/Net sales	20.2	18.4	19.3	18.8
Depreciation / G. block	4.7	4.5	4.7	4.7
Effective interest rate	23.7	24.0	24.0	24.0
Net wkg.cap / Net sales	0.2	0.2	0.2	0.2
Net sales / Gr block (x)	1.7	2.0	2.1	2.2
RoCE	21.5	31.8	29.3	29.3
Debt / equity (x)	0.5	0.3	0.2	0.2
Effective tax rate	23.7	24.0	24.0	24.0
RoE	21.6	30.7	26.6	25.7
Payout ratio (Div/NP)	7.4	24.9	75.4	75.4
EPS (Rs.)	14.8	30.1	32.8	40.0
EPS Growth	57.6	98.5	9.2	21.9
CEPS (Rs.)	20.0	35.4	38.9	46.6
DPS (Rs.)	0.7	2.5	7.5	7.5

Source: Company, Axis Securities

About the analyst**Analyst:** Ankush Mahajan**Contact Details:** ankush.mahajan@axissecures.in**Sector:**Midcaps/ Pharma Sector**Analyst Bio:** Ankush Mahajan is MBA (Finance) from SMVDU with over 12 years of research experience in the Midcaps/ Pharma Sector**Disclosures:**

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