

AUROBINDO PHARMA

PHARMACEUTICALS

24 JUL 2017

Company Update

BUY

Target Price: Rs 850

Gets gRenvela; complex R&D monetization starts

Aurobindo has launched (post approval) generic version of Renvela (Sevelamer Carbonate tablets – kidney ailment drug) in the US (market size of USD 1.9 bn as per IMS vs USD 745mn, in our view), following gRenvela OS[^] (IMS market size of USD140mn) approval in Jun'17. Aurobindo is the first and the only generic player to receive final approval for gRenvela (tablets + OS).

We expect this to be meaningful limited competition contributor in FY18 (USD 116 mn in FY18 sales with ~75% EBITDA margin). We raise FY18/19 EPS estimate by 11%/5%, as we increase our US sales and margin assumptions owing to gRenvela launch (not factored in previously). Revise TP to Rs 850 (17x FY19E EPS) vs. Rs 760 (16x FY19E EPS) earlier. Maintain **BUY**.

CMP : Rs 734
Potential Upside : 16%

MARKET DATA

No. of Shares : 586 mn
Free Float : 48%
Market Cap : Rs 430 bn
52-week High / Low : Rs 895 / Rs 504
Avg. Daily vol. (6mth) : 3.1 mn shares
Bloomberg Code : ARBP IB Equity
Promoters Holding : 52%
FII / DII : 21% / 13%

- ♦ **gRenvela to be limited competition opportunity in near term:** Aurobindo (ARBP) has received approval (with immediate launch) for its generic version of Renvela (tablets) ahead of earlier filers namely Lupin, Invagen (Cipla), Glenmark, Torrent Pharma, Endo, Sandoz, Impax labs. This is a complex drug given complexity of the API#, and generic approvals of peers are delayed due to product complexity and data requirements by USFDA. Lupin and Glenmark expect approval for generic version in H2FY19 (has received CRL's). Cipla expects approval in H2FY18. Additionally, Sanofi (innovator) had settled with Impax, and granted it license to sell allotment of a specified number of bottles from Apr'2014. Impax had launched its AG[@] in Apr'14 and sold its allotted bottles through Dec'14
- ♦ **Raise estimates:** As per IMS, gRenvela tablets have an estimated market size of USD 1.9bn (MAT* May 2017). However, we note that as per Sanofi's (innovator) annual report, Renvela (tablets + OS)/Renagel tablets had US sales of USD 880mn (EUR 764mn) for CY16. Accordingly, we estimate the US market size of USD 745 mn for gRenvela tablets. We expect USD 116 mn in FY18 sales: USD 107mn from tablets and USD 9mn from OS. We expect additional generic competition in end FY18-19

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	1,37,024	1,48,424	1,72,886	1,88,772
Adj PAT (Rs mn)	20,475	22,926	26,581	29,281
Con. EPS* (Rs)	-	-	42.4	48.1
EPS (Rs)	35.0	39.1	45.4	50.0
Change YOY (%)	26.2	11.8	15.9	10.2
P/E (x)	21.0	18.8	16.2	14.7
RoE (%)	32.9	27.5	25.6	22.8
RoCE (%)	27.1	25.7	27.0	25.5
EV/E (x)	14.6	13.1	11.1	9.7
DPS (Rs)	2.5	2.5	2.5	2.5

Source: *Consensus broker estimates, Company, Axis Capital

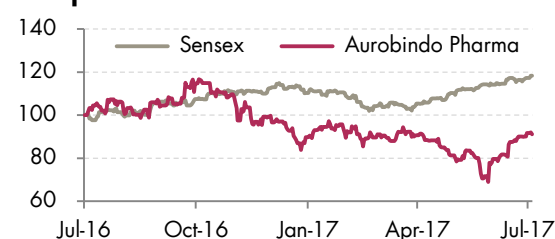
[^]OS: Oral Suspension, #API – Active Pharmaceutical Ingredient

[@]AG- Authorized generic

Key drivers

Growth (%)	FY17	FY18E	FY19E
US	9	23	8
Europe	5	22	6
EBITDA margin	23.1	23.5	23.6
core-EPS	12	16	10

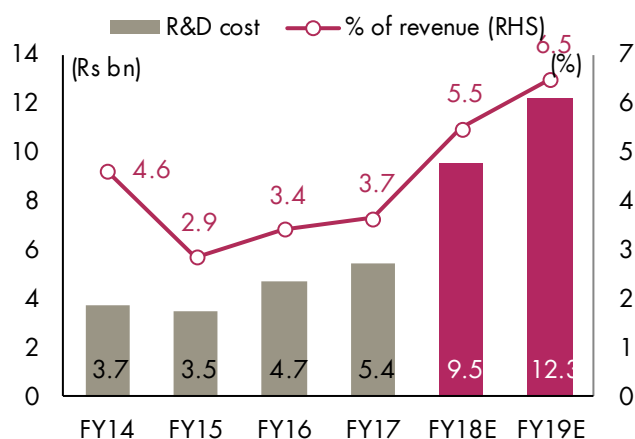
Price performance



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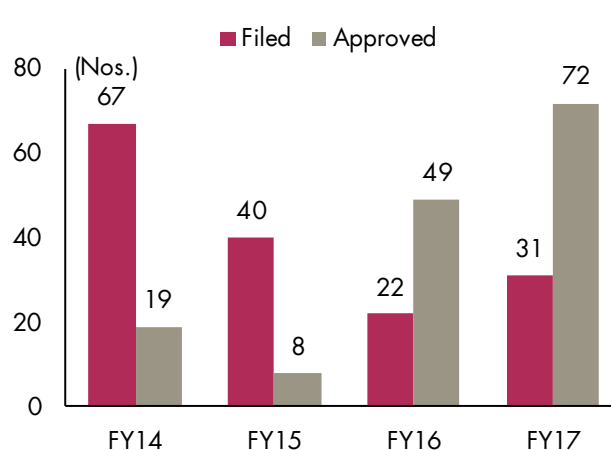
- ♦ **Approval momentum remains strong, while quality of approvals has improved:**
 This is ARBP's 11th final approval in FY18 YTD following 61 final approvals in FY17. Further, we note that over end Q4'16-Q1'17, ARBP has exhibited improved execution with approvals of complex formulation, highlighting that ARBP is well placed to grow its US business. Recent high value/niche launches include Meropenem injection (USD 118mn market), gEpzicom (USD 388 mn – 4 generic players), gBenicar (USD 1bn), gBenicar HCT (USD 800 mn – 5 generic players), gStrattera (USD 1bn – 4 generic players), gRenvela- Tablets + OS (USD 2bn – sole generic). We also expect approvals of some limited competition products like gFortamet, gToprol XL & gArixtra in 2HFY18 which would drive FY19 financials
- ♦ **US launch momentum to improve from H2FY18:** Despite receiving 61 final approvals in FY17, ARBP launched only 35 products in FY17 given capacity constraints (Unit III and Unit VII operating at ~85% utilization). However, the launch momentum is expected to improve along with pick-up in volumes with the commissioning of unit XV for EU (thus freeing unit VII), unit X – Naidupetoral solid facility – approved by the USFDA in Apr'17 and new injectable lines (Q2FY18) improving capacities
- ♦ **Maintain BUY** with revised TP of Rs 850 (17x FY19E EPS), as we expect growth to pick up with improving execution (approval of complex molecules), increased capacity in FY18 and lower concentration risk. Regulatory action (outstanding Form 483 on its unit IV injectable facility) remains a concern

Exhibit 1: R&D expense expected to increase over FY18/19



Source: Company

Exhibit 2: To support filing momentum with higher complexity



Source: Company

Exhibit 3: Facility-wise ANDA filings

	Filed			Approved			Pending		
	Mar-16	Sep-16	Mar-17	Mar-16	Sep-16	Mar-17	Mar-16	Sep-16	Mar-17
Total Orals	309	317	325	202	227	251	107	88	74
Unit VII (SEZ)	148	155	158	69	89	108	79	66	50
Total Injectables	70	75	82	30	38	44	40	37	38
Unit IV	67	71	78	30	38	43	37	33	35
Total	379	412	429	232	284	314	147	126	115

Source: Company Note:303 FAs includes 41 TAs

Exhibit 4: Market share trends in key products

Generic name	Brand name	Brand sales / market size (USD mn)	#No. of players	Market share				
				Sept'16	Dec'16	Mar'17	Apr'17	May'17
Rosuvastatin Calcium*	Crestor	6,780	9	9%	10%	16%	13%	15%
Abacavir Sulfate, Lamivudine	Epzicom	388	4	-	-	-	1%	6%
Pantoprazole Sodium. Inj.	Protonix	94	3	7%	5%	9%	15%	10%
Valganciclovir	Valcyte	440	4	10%	29%	22%	24%	26%
Isosulfan Blue	Lymphazurin	57	2	53%	71%	3%	0%	0%
Aripiprazole	Abilify	4,764	7	7%	5%	2%	2%	2%
Entecavir	Baraclude	206	4	43%	34%	35%	38%	38%
Eptifibatide Inj.	Interiglin	137	2	55%	48%	47%	45%	41%
Cefixime OS	Suprax	80	2	23%	27%	27%	27%	28%
Tazo-pip	Zosyn	635	7	7%	10%	5%	9%	8%
Duloxetine*	Cymbalta	5,100	16	24%	25%	26%	26%	26%
Valsartan+HCTZ	Diovan HCT	1,700	8	31%	33%	32%	32%	32%
Metformin	Glucophage	-	>10	15%	15%	15%	15%	14%

Source: Bloomberg, Company, Axis Capital; *sold through partner Citron Pharma

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	1,37,024	1,48,424	1,72,886	1,88,772
Other operating income	2,529	2,475	2,600	2,800
Total operating income	1,39,552	1,50,899	1,75,486	1,91,572
Cost of goods sold	(61,621)	(64,343)	(71,671)	(78,904)
Gross profit	77,931	86,556	1,03,816	1,12,668
<i>Gross margin (%)</i>	<i>56.9</i>	<i>58.3</i>	<i>60.0</i>	<i>59.7</i>
Total operating expenses	(46,050)	(51,713)	(62,494)	(67,405)
EBITDA	31,881	34,843	41,322	45,263
<i>EBITDA margin (%)</i>	<i>23.3</i>	<i>23.5</i>	<i>23.9</i>	<i>24.0</i>
Depreciation	(3,924)	(4,276)	(5,461)	(6,047)
EBIT	27,957	30,567	35,862	39,216
Net interest	(927)	(667)	(709)	(646)
Other income	701	538	700	910
Profit before tax	27,652	30,468	35,852	39,479
Total taxation	(7,207)	(7,596)	(9,322)	(10,265)
<i>Tax rate (%)</i>	<i>26.1</i>	<i>24.9</i>	<i>26.0</i>	<i>26.0</i>
Profit after tax	20,445	22,871	26,531	29,215
Minorities	15	5	(5)	6
Profit/ Loss associate co(s)	15	50	55	61
Adjusted net profit	20,475	22,926	26,581	29,281
<i>Adj. PAT margin (%)</i>	<i>14.9</i>	<i>15.4</i>	<i>15.4</i>	<i>15.5</i>
Net non-recurring items	(224)	91	-	-
Reported net profit	20,251	23,017	26,581	29,281

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	585	586	586	586
Reserves & surplus	72,288	93,133	1,13,755	1,41,496
Net worth	72,873	93,719	1,14,341	1,42,082
Borrowing	44,155	30,841	30,841	25,841
Other non-current liabilities	240	493	493	493
Total liabilities	1,17,293	1,25,074	1,45,696	1,68,437
Gross fixed assets	61,510	72,327	92,552	1,02,497
Less: Depreciation	(19,713)	(23,989)	(29,449)	(35,497)
Net fixed assets	41,797	48,338	63,102	67,000
Add: Capital WIP	8,481	14,581	16,768	19,283
Total fixed assets	50,278	62,919	79,870	86,283
Total Investment	-	-	-	-
Inventory	40,561	43,305	49,734	54,304
Debtors	46,067	27,653	37,893	41,375
Cash & bank	8,003	5,135	2,786	15,464
Loans & advances	158	166	173	189
Current liabilities	41,909	37,420	48,077	52,494
Net current assets	67,015	62,155	65,825	82,154
Other non-current assets	-	-	-	-
Total assets	1,17,293	1,25,074	1,45,696	1,68,437

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	27,652	30,468	35,852	39,479
Depreciation & Amortisation	3,924	4,276	5,461	6,047
<i>Chg in working capital</i>	<i>(5,558)</i>	<i>11,433</i>	<i>(5,760)</i>	<i>(3,382)</i>
Cash flow from operations	19,223	41,043	29,312	35,115
<i>Capital expenditure</i>	<i>(15,682)</i>	<i>(16,900)</i>	<i>(20,225)</i>	<i>(9,945)</i>
Cash flow from investing	(15,682)	(16,900)	(20,225)	(9,945)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(5,173)</i>	<i>(13,314)</i>	<i>-</i>	<i>(5,000)</i>
<i>Dividend paid</i>	<i>(1,342)</i>	<i>(1,763)</i>	<i>(1,763)</i>	<i>(1,763)</i>
Cash flow from financing	(14,874)	(15,744)	(2,472)	(7,409)
Net chg in cash	(11,332)	8,399	6,614	17,761

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	35.0	39.1	45.4	50.0
CEPS (Rs)	41.3	46.6	54.7	60.3
DPS (Rs)	2.5	2.5	2.5	2.5
Dividend payout ratio (%)	7.2	6.4	5.5	5.0
GROWTH				
Net sales (%)	13.1	8.3	16.5	9.2
EBITDA (%)	24.4	9.3	18.6	9.5
Adj net profit (%)	26.5	12.0	15.9	10.2
FDEPS (%)	26.2	11.8	15.9	10.2
PERFORMANCE				
RoE (%)	32.9	27.5	25.6	22.8
RoCE (%)	27.1	25.7	27.0	25.5
EFFICIENCY				
Asset turnover (x)	1.4	1.3	1.3	1.3
Sales/ total assets (x)	1.0	0.9	1.0	0.9
Working capital/ sales (x)	0.4	0.4	0.3	0.3
Receivable days	122.7	68.0	80.0	80.0
Inventory days	137.5	136.2	135.3	135.5
Payable days	83.3	78.3	83.8	83.9
FINANCIAL STABILITY				
Total debt/ equity (x)	0.7	0.4	0.3	0.2
Net debt/ equity (x)	0.6	0.3	0.3	0.1
Current ratio (x)	2.6	2.7	2.4	2.6
Interest cover (x)	30.2	45.8	50.6	60.7
VALUATION				
PE (x)	21.0	18.8	16.2	14.7
EV/ EBITDA (x)	14.6	13.1	11.1	9.7
EV/ Net sales (x)	3.4	3.1	2.6	2.3
PB (x)	5.9	4.6	3.8	3.0
Dividend yield (%)	0.3	0.3	0.3	0.3
Free cash flow yield (%)	-	0.1	-	0.1

Source: Company, Axis Capital

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