

# Aurobindo Pharma

BSE SENSEX

31,955

S&amp;P CNX

9,900

CMP: INR767

TP: INR850(+11%)

Buy

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## Stock Info

Bloomberg	ARBP IN
Equity Shares (m)	585.2
52-Week Range (INR)	895 / 504
1, 6, 12 Rel. Per (%)	15/-10/-14
M.Cap. (INR b)	397.3
M.Cap. (USD b)	6.1
Avg Val, INRm	1824
Free float (%)	48.1

## Financials Snapshot (INR b)

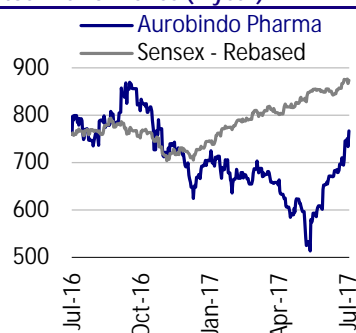
Y/E Mar	2017	2018E	2019E
Net Sales	150.9	171.2	189.3
EBITDA	34.3	40.9	44.7
PAT	23.0	26.7	29.3
EPS (INR)	39.3	45.7	50.0
Gr. (%)	13.6	16.2	9.5
BV/Sh (INR)	157.4	200.6	248.2
RoE (%)	28.3	25.5	22.3
RoCE (%)	19.1	19.5	18.2
P/E (x)	19.5	16.8	15.3
P/BV (x)	4.9	3.8	3.1

## Shareholding pattern (%)

As On	Jun-17	Mar-17	Jun-16
Promoter	51.9	51.9	53.8
DII	14.2	12.8	8.0
FII	19.6	21.0	26.1
Others	14.3	14.4	12.1

FII Includes depository receipts

## Stock Performance (1-year)



## Launch of niche product bodes well for near-term growth

### Key catalysts in place to drive medium-term earnings too

- Receives approval for Renvela in US:** ARBP has received final USFDA approval to manufacture sevelamer carbonate tablet 800mg (brand name – Renvela; innovator – Genzyme) in the US. Notably, ARBP is the first generic player to receive approval for Renvela, which is indicated for the control of serum phosphorus in patients with chronic kidney disease on dialysis.
- Only player in the USD800m market:** According to the IMS, the estimated market size of this product is USD1.9b for the 12 months ended May 2017. Primary sales booked by the innovator for Renvela/Renagel stood at ~USD1b (estimated market for Renvela expected to be ~USD800m) in CY16. ARBP has already received approval for sevelamer carbonate oral suspension from the US FDA in June-17 (IMS estimates market size of USD140m).
- Limited-competition product:** Although there are at least eight generic filers for Renvela (ARBP, Cipla, Mylan, Sandoz, DRRD, Lupin, Impax and Glenmark), only ARBP has received approval by now. ARBP was one of the late filers for this product, but since most other players have received CRLs (due to complexity at API level), Renvela may remain a limited-competition product in near term. Impax expects to launch the product by late 2017/early 2018, while Cipla guides for launch by 3QFY18. LPC/GNP may not be able to launch in FY18.
- Renvela sales will explain 12-14% of FY18 PAT:** We expect ARBP to generate ~USD120-140m of sales on annualized basis (~USD100-120m in FY18), assuming that 2-3 more players are able to launch in FY18. Renvela will help explain >12-13% of FY18E PAT for ARBP. However, in FY19, the contribution will come down significantly due to competition from at least 7-8 players.
- Pricing risk lowest among peers:** No single product for ARBP contributes more than 3% of sales (unlike SUNP, LPC and DRRD, where the top-3 products account for >20-25% of sales). Also, no single ANDA has any meaningful disproportionate contribution to margins, as ARBP has a matured product basket with all ~200 launched ANDAs facing competition from multiple players (typically 4-5 or more).
- R&D expense to remain range bound in near term:** We expect ARBP to file 35-40 ANDAs in FY18 (including 6-7 controlled substance and 10-15 oncology & hormones). Oncology & hormones-related R&D expense will be entirely borne by Eugia JV. We expect R&D expense for ARBP to not inch up beyond 5.5% in FY18 and 7% in FY19.
- Maintain Buy:** We expect ARBP's share price to remain range bound in the near term as it has moved up ~50% in less than two months. However, the key catalysts in 2HFY18 (e.g., launch of Fondaparinux, Toprol XL, DTG combination, injectables business ramp-up, and EU business margins improvement) will help drive growth in the medium term. ARBP remains one of our top picks in the sector, with a target price of INR850 @ 17x FY19E PER (v/s INR750 @ 15x FY19E earlier). We have increased our target multiple due to enhanced visibility of growth and FCF generation.

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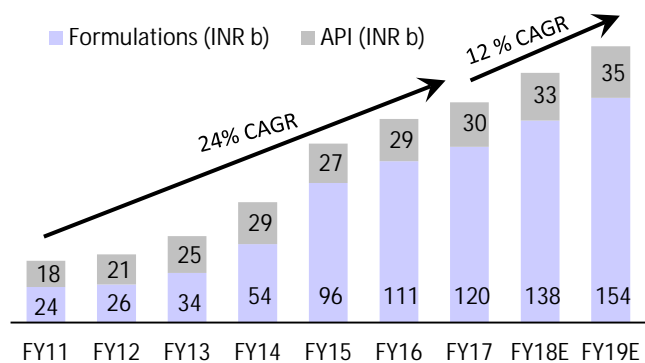
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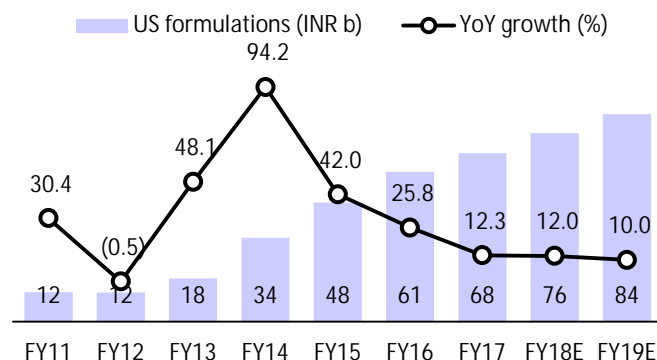
## Story in charts

Exhibit 1: Formulation led sales growth



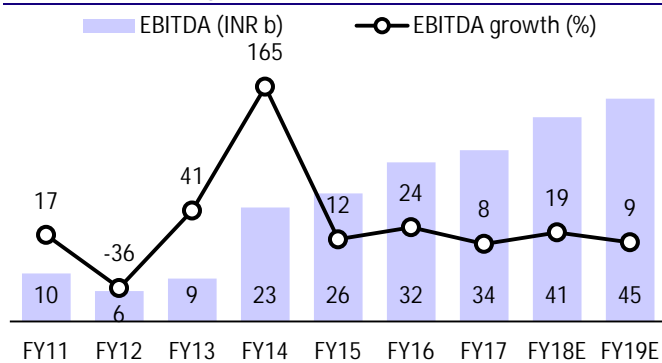
Source: Company, MOSL

Exhibit 2: US sales to grow at 11% CAGR over FY17-19E



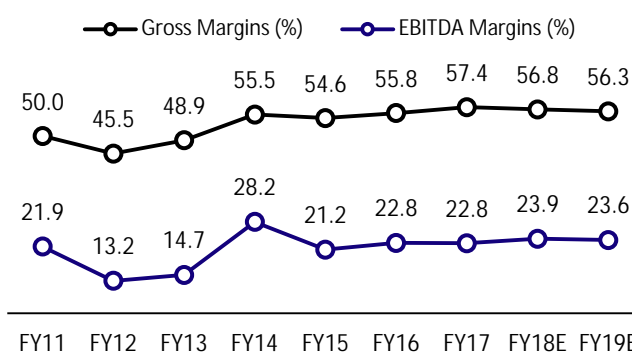
Source: Company, MOSL

Exhibit 3: EBITDA growth to sustain in FY17-19E



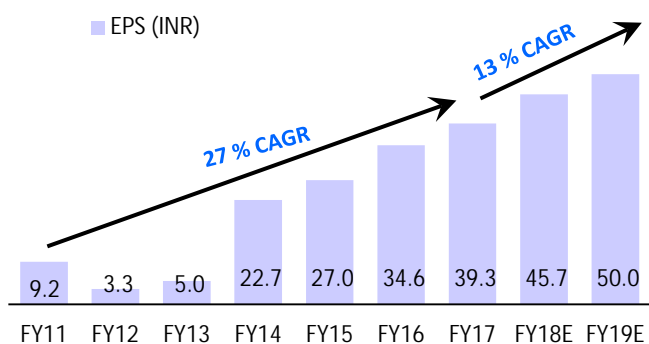
Source: Company, MOSL

Exhibit 4: EBITDA margins improving with product mix



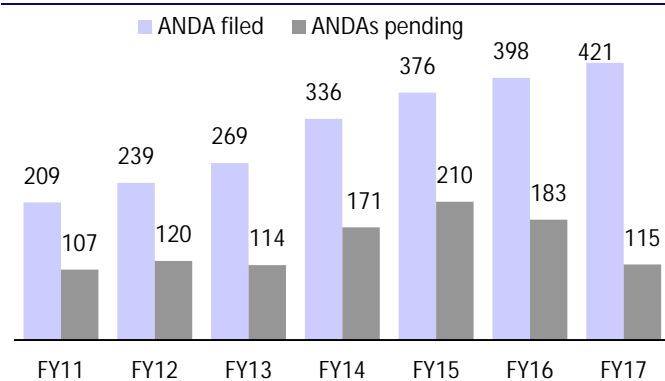
Source: Company, MOSL

Exhibit 5: EPS growth to sustain at 13% over FY17-19E



Source: Company, MOSL

Exhibit 6: Rich ANDA pipeline



Source: Company, MOSL

## Valuation and view

At its CMP, ARBP trades at ~15x FY19E, which is at >15% discount to its peers. The valuation gap is expected to narrow on account of the company's increasing profitability, better US growth outlook and improving free cash flow. ARBP remains one of our top picks in the sector, with a target price of INR850 @ 17x FY19E PER (v/s INR750 @ 15x FY19E earlier).

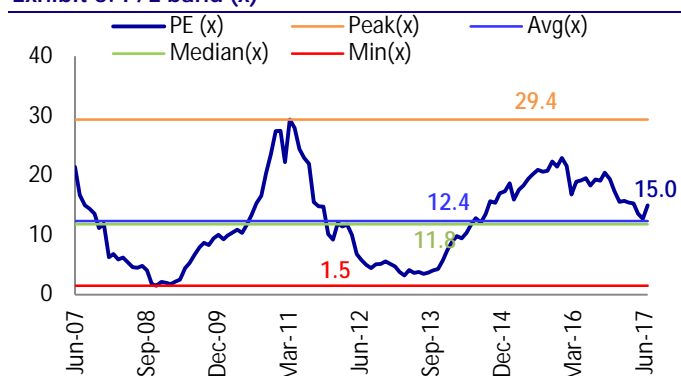
We expect ARBP stock to remain range bound in the near term as the stock has moved up ~50% in less than two months since end-May 2017. However, the key catalysts in 2HFY18 (including launch of Fondaparinux, Toprol XL, DTG combination, injectables business ramp-up, and EU business margins improvement) will help drive growth in the medium term.

**Exhibit 7: Change in estimates**

	FY18E			FY19E		
	New	Old	% change	New	Old	% change
Sales	171.2	169.1	-1.24%	186.3	199.3	-6.52%
EBITDA	40.9	39.6	-3.28%	44.9	48.8	-7.99%
PAT	26.7	25.8	-3.49%	29.4	31.8	-7.55%

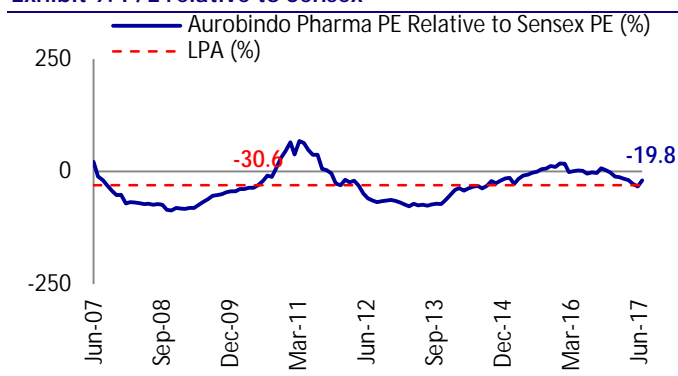
Source: Company, MOSL

**Exhibit 8: P/E band (x)**



Source: Company, MOSL

**Exhibit 9: P/E relative to Sensex**



Source: Company, MOSL

## Financials and Valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Total Income from Operations</b>	<b>46,274</b>	<b>58,553</b>	<b>80,998</b>	<b>121,205</b>	<b>139,553</b>	<b>150,897</b>	<b>171,193</b>	<b>189,264</b>
Change (%)	5.6	26.5	38.3	49.6	15.1	8.1	13.5	10.6
<b>EBITDA</b>	<b>6,101</b>	<b>8,610</b>	<b>22,828</b>	<b>25,636</b>	<b>31,882</b>	<b>34,341</b>	<b>40,915</b>	<b>44,666</b>
Margin (%)	13.2	14.7	28.2	21.2	22.8	22.8	23.9	23.6
Depreciation	2,005	2,487	3,125	3,326	3,924	4,276	4,663	5,083
<b>EBIT</b>	<b>4,096</b>	<b>6,122</b>	<b>19,703</b>	<b>22,310</b>	<b>27,958</b>	<b>30,065</b>	<b>36,252</b>	<b>39,583</b>
Int. and Finance Charges	1,028	1,313	1,079	843	927	667	926	747
Other Income	247	285	232	808	701	538	500	500
<b>PBT bef. EO Exp.</b>	<b>3,315</b>	<b>5,095</b>	<b>18,856</b>	<b>22,275</b>	<b>27,733</b>	<b>29,936</b>	<b>35,826</b>	<b>39,336</b>
EO Items	-5,445	-1,353	-2,031	-596	-304	621	0	0
<b>PBT after EO Exp.</b>	<b>-2,129</b>	<b>3,741</b>	<b>16,825</b>	<b>21,679</b>	<b>27,429</b>	<b>30,557</b>	<b>35,826</b>	<b>39,336</b>
Current Tax	327	132	3,635	5,966	7,207	7,596	9,136	10,109
Deferred Tax	-1,216	695	0	0	0	0	0	0
Tax Rate (%)	41.7	22.1	21.6	27.5	26.3	24.9	25.5	25.7
Less: Mionrity Interest	-6	-25	-38	-45	-30	-55	-55	-55
<b>Reported PAT</b>	<b>-1,235</b>	<b>2,939</b>	<b>13,228</b>	<b>15,758</b>	<b>20,252</b>	<b>23,015</b>	<b>26,745</b>	<b>29,282</b>
<b>Adjusted PAT</b>	<b>1,939</b>	<b>2,939</b>	<b>13,228</b>	<b>15,758</b>	<b>20,251</b>	<b>23,015</b>	<b>26,745</b>	<b>29,282</b>
Change (%)	-63.9	51.6	350.1	19.1	28.5	13.6	16.2	9.5
Margin (%)	4.2	5.0	16.3	13.0	14.5	15.3	15.6	15.5

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	582	582	583	584	585	585	585	585
Total Reserves	22,814	25,475	36,919	50,975	69,982	91,534	116,816	144,635
<b>Net Worth</b>	<b>23,397</b>	<b>26,058</b>	<b>37,502</b>	<b>51,559</b>	<b>70,567</b>	<b>92,119</b>	<b>117,402</b>	<b>145,220</b>
Minority Interest	102	110	257	258	596	607	620	632
Deferred Liabilities	-16	680	2,054	2,058	2,364	2,411	2,459	2,508
Total Loans	30,959	34,355	36,339	38,636	40,762	37,030	33,907	31,259
<b>Capital Employed</b>	<b>54,442</b>	<b>61,202</b>	<b>76,151</b>	<b>92,511</b>	<b>114,289</b>	<b>132,167</b>	<b>154,388</b>	<b>179,620</b>
Gross Block	30,863	37,080	41,066	53,821	61,224	74,224	81,224	88,224
Less: Accum. Deprn.	8,916	11,246	14,613	17,405	19,713	23,989	28,652	33,736
<b>Net Fixed Assets</b>	<b>21,947</b>	<b>25,834</b>	<b>26,453</b>	<b>36,416</b>	<b>41,511</b>	<b>50,235</b>	<b>52,571</b>	<b>54,488</b>
Goodwill on Consolidation	0	554	764	640	887	887	887	887
Capital WIP	6,454	2,185	3,097	4,196	10,238	15,000	15,000	15,000
<b>Total Investments</b>	<b>385</b>	<b>223</b>	<b>198</b>	<b>198</b>	<b>2</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>33,536</b>	<b>43,982</b>	<b>64,386</b>	<b>87,647</b>	<b>104,356</b>	<b>105,368</b>	<b>126,618</b>	<b>152,885</b>
Inventory	15,456	19,236	23,675	36,113	40,881	42,307	48,628	54,384
Account Receivables	12,400	15,970	26,366	35,392	41,719	45,476	51,592	57,038
Cash and Bank Balance	709	2,085	1,786	4,691	8,344	5,685	12,497	27,563
Loans and Advances	4,972	6,692	12,559	11,451	13,412	11,900	13,900	13,900
<b>Curr. Liability &amp; Prov.</b>	<b>7,880</b>	<b>11,576</b>	<b>18,747</b>	<b>36,587</b>	<b>42,704</b>	<b>39,522</b>	<b>40,888</b>	<b>43,840</b>
Account Payables	6,601	9,687	13,512	20,511	25,268	25,597	27,963	30,915
Other Current Liabilities	572	998	3,877	13,650	15,374	13,000	12,000	12,000
Provisions	706	891	1,358	2,426	2,063	925	925	925
<b>Net Current Assets</b>	<b>25,656</b>	<b>32,406</b>	<b>45,640</b>	<b>51,060</b>	<b>61,652</b>	<b>65,846</b>	<b>85,730</b>	<b>109,045</b>
<b>Appl. of Funds</b>	<b>54,442</b>	<b>61,202</b>	<b>76,151</b>	<b>92,511</b>	<b>114,289</b>	<b>132,167</b>	<b>154,388</b>	<b>179,620</b>

## Financials and Valuations

### Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>3.3</b>	<b>5.0</b>	<b>22.7</b>	<b>27.0</b>	<b>34.6</b>	<b>39.3</b>	<b>45.7</b>	<b>50.0</b>
Cash EPS	6.8	9.3	28.1	32.7	41.3	46.6	53.7	58.7
BV/Share	40.2	44.7	64.3	88.3	120.6	157.4	200.6	248.2
DPS	0.5	0.8	1.5	2.3	2.0	2.5	2.5	2.5
Payout (%)	-23.6	14.9	6.6	8.3	5.8	6.4	5.5	5.0
<b>Valuation (x)</b>								
P/E			33.8	28.4	22.2	19.5	16.8	15.3
Cash P/E			27.3	23.5	18.6	16.4	14.3	13.1
P/BV			11.9	8.7	6.4	4.9	3.8	3.1
EV/Sales			5.3	3.6	3.1	2.8	2.4	2.1
EV/EBITDA			18.9	16.8	13.5	12.5	10.2	9.0
Dividend Yield (%)	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3
FCF per share	-12.3	-0.1	-1.4	5.1	5.3	5.6	20.9	33.8
<b>Return Ratios (%)</b>								
RoE	8.1	11.9	41.6	35.4	33.2	28.3	25.5	22.3
RoCE	4.9	8.7	23.3	20.4	21.0	19.1	19.5	18.2
RoIC	5.4	9.2	24.2	20.9	23.0	21.8	22.7	22.3
<b>Working Capital Ratios</b>								
Asset Turnover (x)	0.8	1.0	1.1	1.3	1.2	1.1	1.1	1.1
Inventory (Days)	122	120	107	109	107	102	104	105
Debtor (Days)	96	97	116	105	109	110	110	110
Creditor (Days)	96	118	137	136	150	145	138	136
Working Cap. Turnover (Days)	197	189	198	140	139	146	156	157
<b>Leverage Ratio (x)</b>								
Current Ratio	4.3	3.8	3.4	2.4	2.4	2.7	3.1	3.5
Interest Cover Ratio	4	5	18	26	30	45	39	53
Debt/Equity	1.3	1.3	1.0	0.7	0.6	0.4	0.3	0.2

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(Loss) before Tax	4,096	6,122	19,703	22,310	27,958	30,065	36,252	39,583
Depreciation	2,005	2,487	3,125	3,326	3,924	4,276	4,663	5,083
Interest / Dividend recieved	247	285	232	808	701	538	500	500
Direct Taxes Paid	-327	-132	-3,635	-5,966	-7,207	-7,596	-9,136	-10,109
(Inc)/Dec in WC	-1,288	-5,374	-13,533	-2,515	-6,939	-6,853	-13,071	-8,250
<b>CF from Operations</b>	<b>4,733</b>	<b>3,390</b>	<b>5,893</b>	<b>17,963</b>	<b>18,437</b>	<b>20,430</b>	<b>19,208</b>	<b>26,807</b>
Others	-5,445	-1,353	-2,031	-596	-304	621	0	0
<b>CF from Operating incl EO</b>	<b>-712</b>	<b>2,036</b>	<b>3,863</b>	<b>17,367</b>	<b>18,134</b>	<b>21,050</b>	<b>19,208</b>	<b>26,807</b>
(inc)/dec in FA	-6,446	-2,106	-4,656	-14,389	-15,060	-17,762	-7,000	-7,000
<b>Free Cash Flow</b>	<b>-7,157</b>	<b>-70</b>	<b>-793</b>	<b>2,978</b>	<b>3,074</b>	<b>3,288</b>	<b>12,208</b>	<b>19,807</b>
(Pur)/Sale of Investments	0	-163	-25	0	-196	198	0	0
<b>CF from Investments</b>	<b>-6,446</b>	<b>-2,269</b>	<b>-4,681</b>	<b>-14,388</b>	<b>-15,256</b>	<b>-17,564</b>	<b>-7,000</b>	<b>-7,000</b>
Issue of Shares	474	159	-910	-386	-73	0	0	0
(Inc)/Dec in Debt	6,828	3,403	2,131	2,298	2,464	-3,721	-3,110	-2,636
Interest Paid	-1,028	-1,313	-1,079	-843	-927	-667	-926	-747
Dividend Paid	-291	-437	-875	-1,314	-1,170	-1,463	-1,463	-1,463
Others	15	-204	1,253	172	480	-294	103	104
<b>CF from Fin. Activity</b>	<b>5,998</b>	<b>1,608</b>	<b>520</b>	<b>-73</b>	<b>774</b>	<b>-6,145</b>	<b>-5,396</b>	<b>-4,742</b>
<b>Inc/Dec of Cash</b>	<b>-1,159</b>	<b>1,376</b>	<b>-298</b>	<b>2,905</b>	<b>3,652</b>	<b>-2,658</b>	<b>6,813</b>	<b>15,066</b>
Opening Balance	1,867	709	2,085	1,786	4,691	8,344	5,685	12,497
<b>Closing Balance</b>	<b>708</b>	<b>2,084</b>	<b>1,786</b>	<b>4,691</b>	<b>8,343</b>	<b>5,686</b>	<b>12,497</b>	<b>27,563</b>

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