

## RETAIL EQUITY RESEARCH

## Aurobindo Pharma Ltd.

## Pharmaceuticals

BSE CODE: 524804

NSE CODE: AUOPHARMA

Bloomberg CODE: ARPB:IN

SENSEX: 31,730

**BUY**

Rating as per Largcap

12months investment period

**CMP Rs 725 TARGET Rs 817 RETURN 13%** 

1st September 2017

**Better Q1FY18 performance compared to its peers**

Aurobindo Pharma (Auro) is one of the largest vertically integrated pharmaceutical companies. Over the past few years, the company has drastically shifted its focus from APIs business to generic formulations.

- Auro reported ~2% YoY decline in revenue in Q1FY18 primarily due to weak API & ARV business performance.
- US sales fell just 0.5% YoY as new product launches offset the impact of pricing pressure in select brands.
- EBITDA margin fell ~72bps YoY in Q1FY18 due to higher employee, R&D and other expenses.
- We expect revenues to grow at 11% CAGR over FY17-19E driven by recent acquisition in Europe, new product launches mainly in complex generics and strong momentum in Injectables segment.
- Given robust product portfolio, strong approval and launch pace, no pending regulatory rulings and upbeat performance from EU business, we increase our PE multiple to 17x (15x earlier).
- Hence, our revised target price stands at Rs 817. Maintain 'BUY' rating on the stock.

**Niche product launches provides visibility**

Net sales fell ~2% YoY in Q1FY18 primarily due to weak API and ARV business performance. Revenue from API business fell sharply by 15% YoY owing to the impact of GST implementation and deferment of certain products sale. ARV formulation sales declined by 19% YoY impacted by increased competition. US formulation business (contributes 46% to the total revenues) reported just 0.5% YoY decline in Q1FY18 as new product launches offset the impact of pricing pressure in select brands. On sequential basis, the US business rose 3.1% supported by key launches during the quarter including Meropenem, Renvela Oral solutions and Strattera. AuroMedics, the Injectable business registered a growth of 5% YoY. ANDA filings for Injectables stood robust at 80, of which 51 are approved while 31 are awaiting approvals. The management expects US injectable sales to grow in the range of 40-50% per annum for the next few years driven by new product launches. Overall, during Q1FY18, Auro filed 13 ANDAs with USFDA (9 oral and 4 injectable) and received final approval for 17 ANDAs (16 oral and 1 Injectable). It launched 15 products in the US market including 3 injectables. We expect the launch momentum to continue going ahead considering the robust product pipeline and steady approval rate. Although, the management expects pricing pressure to sustain, we expect US sales to grow at a CAGR of 11.5% over FY17-19E driven by recently launched limited competition gRenvela tablets (generic version of kidney drug) and new launches in Injectables and Oral solids segments.

**Acquisition of Generis Farma and Actavis to drive growth in Europe**

Europe sales surged 10.4% YoY in Q1FY18 supported by higher sales in Actavis business and integration of acquired business of Generis Farmaceutica SA. During Q1FY18, Agile Pharma B.V. Netherlands, the wholly owned subsidiary of the company has successfully completed the acquisition of Generis Farmaceutica SA. We expect improved operating performance from the European business on the back of transfer of product manufacturing to India. The company has transferred manufacturing of 71 products from Europe to India till date and expects to transfer another 40-45 products in the coming quarters. Importantly, the management expects double-digit EBITDA margin in FY18 in Europe driven by new product launches and focus on ramping up presence in new geographies.

**EBITDA margin to improve by 120bps YoY in FY18 and normalise in FY19**

EBITDA declined by 5.3% YoY and EBITDA margins fell ~72bps in Q1FY18 due to higher employee, R&D and other expenses. The company expects R&D expense as percent of sales to remain in the range of ~5-6% in FY18. We expect EBITDA margin to expand by 120 bps YoY to 24.2% in FY18E on the back of exclusive complex generics launches. However, it is expected to normalise to 23.9% in FY19E. Adj. Pat fell by 7% YoY owing to lower operational performance and higher depreciation (up by 24% YoY) on account of commissioning of Unit XVI and Vizag facility. On the capex front, the company has guided capex of USD120-130 mn for FY18 excluding biosimilars and vaccines.

**Outlook & Valuation**

We lower our revenue and PAT estimates for FY18E/19E by 4.4%/5.7% and 6.2%/10.1% respectively due to tepid ARV and API sales. We believe Aurobindo Pharma is better placed as compared to its peers on the back of relatively better performance in a challenging pricing environment especially in US. We expect revenue and PAT to grow at a CAGR of 11% and 10% respectively, over FY17-19E. Given robust product portfolio, strong approval and launch pace, no pending regulatory rulings, upbeat performance from EU business and ramp up in injectables business led by new product launches, we increase our PE multiple to 17x (15x earlier). Hence, our revised target price stands at Rs 817. Maintain 'BUY' rating on the stock.

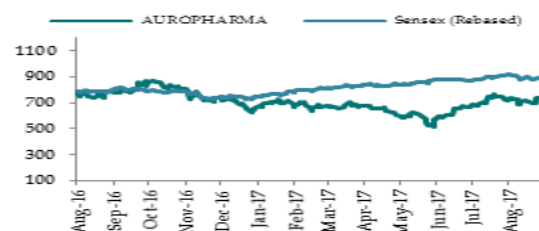
**Company Data**

Market Cap (Rs cr)	42,492
Enterprise Value (Rs cr)	45,063
Outstanding Shares (cr)	58.6
Free Float	48%
Dividend Yield	0.3
52-week high	Rs895
52-week low	Rs504
6m average volume (cr)	0.3
Beta	0.8
Face value	Rs1

Shareholding %	Q3FY17	Q4FY17	Q1FY18
Promoters	51.9	51.9	51.9
FII's	24.1	21.0	19.6
MFs/Insti	11.0	12.8	14.2
Public	9.2	9.7	10.0
Others	3.8	4.6	4.3
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	28%	8%	(8%)
Absolute Sensex	2%	10%	14%
Relative Return*	26%	(2%)	(22%)

\*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
Sales	14,910	16,773	18,264
Growth (%)	8.1%	12.5%	8.9%
EBITDA	3,434	4,052	4,366
Margin (%)	23.0	24.2	23.9
PAT Adj	2,297	2,573	2,810
Growth (%)	13.5%	12.1%	9.2%
Adj.EPS	39.2	43.9	48.0
Growth (%)	13.4%	12.1%	9.2%
P/E	18.5	16.5	15.1
P/B	4.5	3.6	3.0
EV/EBITDA	13.1	11.1	9.9
RoE (%)	27.6	24.3	21.5
D/E	0.3	0.3	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
<b>Total Revenue</b>	3,679	3,767	(2.3)	3,642	1.0
<b>EBITDA</b>	842	889	(5.3)	721	16.7
EBITDA Margin (%)	22.9	23.6	(72)	19.8	307
Depreciation	131	106	23.5	100	31.1
<b>EBIT</b>	710	783	(9.2)	621	14.4
Interest	17	21	(18.3)	14	18.1
Other Income	33	16	109.3	41	(18.4)
Exceptional Items	(19)	7	(367.5)	-	-
<b>PBT</b>	708	785	(9.8)	648	9.3
Tax	191	201	(4.9)	117	63.0
<b>PAT</b>	517	584	(11.5)	531	(2.6)
Minority Interest/P&L of Associates	2	1	92.4	2	(20.4)
<b>Reported PAT</b>	518.5	584.96	(11.4)	532.45	(2.6)
Adjustment	19	(7)	(367.5)	-	-
<b>Adj PAT</b>	537	578	(7.0)	532	0.9
No. of shares (cr)	58.6	58.5	0.1	58.5	0.1
<b>Adj. EPS (Rs)</b>	8.8	9.9	(10.4)	9.1	(2.7)

### Business performance

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
US	1695	1704	(0.5)	1643	3.1
Europe	918	831	10.4	777	18.1
RoW	194	194	-	197	(1.6)
ARVs	245	303	(19.3)	262	(6.6)
<b>Total Formulations</b>	<b>3051</b>	<b>3032</b>	<b>0.6</b>	<b>2879</b>	<b>6.0</b>
APIs	625	735	(14.9)	763	(18.1)
<b>Total sales</b>	<b>3676</b>	<b>3767</b>	<b>(2.4)</b>	<b>3642</b>	<b>0.9</b>

Source: Company, Geojit Research

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	17,552	19,363	16,773	18,264	(4.4)	(5.7)
EBITDA	4,247	4,782	4,052	4,366	(4.6)	(8.7)
Margins (%)	24.2	24.7	24.2	23.9	-	(80bps)
PAT	2,744	3,124	2,573	2,810	(6.2)	(10.1)
EPS	46.9	53.4	43.9	48.0	(6.4)	(10.1)

Source: Company, Geojit Research

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Sales</b>	<b>12,121</b>	<b>13,795</b>	<b>14,910</b>	<b>16,773</b>	<b>18,264</b>
% change	49.6%	13.8%	8.1%	12.5%	8.9%
<b>EBITDA</b>	<b>2,564</b>	<b>3,188</b>	<b>3,434</b>	<b>4,052</b>	<b>4,366</b>
% change	20.2%	24.4%	7.7%	18.0%	7.7%
Depreciation	333	392	428	570	669
<b>EBIT</b>	<b>2,231</b>	<b>2,796</b>	<b>3,007</b>	<b>3,482</b>	<b>3,697</b>
Interest	160	257	67	68	46
Other Income	97	204	116	87	96
<b>PBT</b>	<b>2,168</b>	<b>2,743</b>	<b>3,056</b>	<b>3,501</b>	<b>3,747</b>
% change	41.5%	26.5%	11.4%	14.6%	7.0%
Tax	597	721	760	928	937
Tax Rate (%)	27.5%	26.3%	24.9%	26.5%	25.0%
<b>Reported PAT</b>	<b>1,576</b>	<b>2,024</b>	<b>2,297</b>	<b>2,573</b>	<b>2,810</b>
Adj*	0	0	-	-	-
<b>Adj PAT</b>	<b>1,576</b>	<b>2,024</b>	<b>2,297</b>	<b>2,573</b>	<b>2,810</b>
% change	34.4%	28.4%	13.5%	12.1%	9.2%
No. of shares (cr)	29	59	59	59	59
<b>Adj EPS (Rs)</b>	<b>26.9</b>	<b>34.6</b>	<b>39.2</b>	<b>43.9</b>	<b>48.0</b>
% change	34.4%	28.4%	13.4%	12.1%	9.2%
DPS (Rs)	2.2	2.5	2.5	2.5	2.5

### Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	469	800	513	649	1,364
Accounts Receivable	3,539	4,607	2,765	3,395	3,697
Inventories	3,611	4,056	4,331	4,727	5,197
Other Cur. Assets	660	837	1,603	1,763	1,939
Investments	20	123	246	246	246
Gross Fixed Assets	5,459	4,164	5,229	8,187	9,187
Net Fixed Assets	3,718	3,773	4,427	6,816	7,147
CWIP	407	848	1,458	500	500
Intangible Assets	0	406	406	406	406
Def. Tax (Net)	-206	182	118	118	118
Other Assets	486	263	332	332	332
<b>Total Assets</b>	<b>12,704</b>	<b>15,896</b>	<b>16,200</b>	<b>18,953</b>	<b>20,946</b>
Current Liabilities	3,047	4,191	3,742	4,097	4,456
Provisions	-	-	-	-	-
Debt Funds	4,451	4,415	3,084	3,084	2,084
Other Liabilities	24	0	0	0	0
Equity Capital	29	59	59	59	59
Reserves and Surplus	5,127	7,229	9,313	11,711	14,345
Shareholder's Fund	5,156	7,287	9,372	11,770	14,404
Minority Interest	26	3	2	2	2
<b>Total Liabilities</b>	<b>12,704</b>	<b>15,896</b>	<b>16,200</b>	<b>18,953</b>	<b>20,946</b>
<b>BVPS (Rs.)</b>	<b>88.0</b>	<b>124.5</b>	<b>160.0</b>	<b>200.9</b>	<b>245.8</b>

### Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
<b>Pre-tax profit</b>	<b>2,168</b>	<b>2,744</b>	<b>3,061</b>	<b>3,501</b>	<b>3,747</b>
Depreciation	333	392	428	570	669
Changes in W.C	(842)	(1,098)	563	(832)	(588)
Others	131	114	1	(19)	(50)
Tax Paid	(496)	(733)	(774)	(928)	(937)
<b>C.F.O</b>	<b>1,295</b>	<b>1,420</b>	<b>3,279</b>	<b>2,292</b>	<b>2,841</b>
Capital exp.	(746)	(1,566)	(1,685)	(2,000)	(1,000)
Change in inv.	-	(31)	(118)	-	-
Other invest.CF	(663)	152	15	87	96
<b>C.F - investing</b>	<b>(1,409)</b>	<b>(1,445)</b>	<b>(1,787)</b>	<b>(1,913)</b>	<b>(904)</b>
Issue of equity	7	7	7	-	-
Issue/repay debt	341	603	(1,728)	-	(1,000)
Dividends paid	(180)	(162)	(137)	(176)	(176)
Other finance.CF	(74)	(84)	(57)	(68)	(46)
<b>C.F - Financing</b>	<b>93</b>	<b>365</b>	<b>(1,915)</b>	<b>(244)</b>	<b>(1,222)</b>
Chg. in cash	(21)	340	(424)	136	715
Closing cash	<b>469</b>	<b>800</b>	<b>513</b>	<b>649</b>	<b>1,364</b>

### Ratios

Y.E March	FY15	FY16	FY17	FY18E	FY19E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	21.2	23.1	23.0	24.2	23.9
EBIT margin (%)	18.4	20.3	20.2	20.8	20.2
Net profit mgn.(%)	13.0	14.7	15.4	15.3	15.4
ROE (%)	35.4	32.5	27.6	24.3	21.5
ROCE (%)	27.1	28.1	25.8	26.1	24.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	105.3	120.5	66.9	73.0	73.0
Inventory (days)	159.8	154.6	156.6	154.5	155.1
Payables (days)	78.3	84.6	79.1	79.0	79.2
Current ratio (x)	2.7	2.5	2.5	2.6	2.7
Quick ratio (x)	1.5	1.5	1.3	1.4	1.6
<b>Turnover &amp; Lev.</b>					
Gross asset T.O (x)	2.5	2.9	3.2	2.5	2.1
Total asset T.O (x)	1.1	1.0	0.9	1.0	0.9
Int. covge. ratio (x)	14.0	10.9	45.1	51.3	80.6
Adj. debt/equity (x)	0.9	0.6	0.3	0.3	0.1
<b>Valuation ratios</b>					
EV/Sales (x)	3.8	3.3	3.0	2.7	2.4
EV/EBITDA (x)	18.1	14.4	13.1	11.1	9.9
P/E (x)	26.9	21.0	18.5	16.5	15.1
P/BV (x)	8.2	5.8	4.5	3.6	3.0

### Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
10-June-16	BUY	924
23-Feb-17	BUY	801
01-Sep-17	BUY	817

### Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

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\* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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