

Aurobindo Pharma

US injectable, OTC, EU geared for higher growth in FY19E

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Rating	BUY
Price	Rs602
Target Price	Rs909
Implied Upside	51.0%
Sensex	34,413
Nifty	10,577

(Prices as on February 08, 2018)

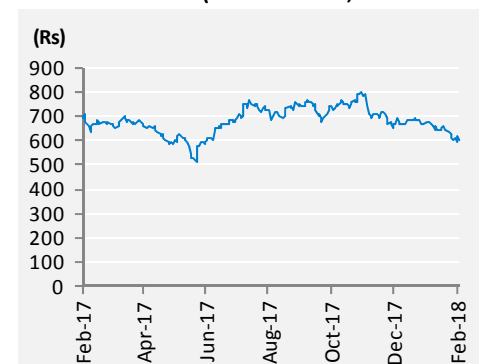
Trading data	
Market Cap. (Rs bn)	352.2
Shares o/s (m)	585.2
3M Avg. Daily value (Rs m)	1647.9

Major shareholders	
Promoters	51.87%
Foreign	18.80%
Domestic Inst.	15.35%
Public & Other	13.98%

Stock Performance			
(%)	1M	6M	12M
Absolute	(11.2)	(17.2)	(13.8)
Relative	(11.4)	(24.6)	(35.4)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2019	46.7	48.8	-4.3
2020	50.5	52.8	-4.3

Price Performance (RIC: ARBN.BO, BB: ARBP IN)



Source: Bloomberg

■ **Sales, adj. EBITDA, PAT continue growth ex-Renvela:** Aurobindo's (ARBP) adj. sales, adj. EBITDA and margin sequentially grew by 2%, 8% and 110bps, in spite of revenue from major US product, gRenvela contracting due to strong competition and high price erosion. ARBP's revenues from US injectable (Auromedics) business had sequentially similar revenues of US\$46m, falling short on our expectation of US\$60m/quarter in H2FY18E due to delay in approvals of Ertapenem, delay in launch of Vancomycin and lower supply of Pantoprazole post recall of few batches in US. Branded business in emerging markets grew by 15% QoQ and guided for a robust growth of 15-20% in FY19E. With integration of sales (US\$18m) from Generis Farma and procurement of govt-tender, revenues in EU were maintained at Rs11.7bn up 37% YoY.

■ **US business to grow on tripod of OSD, Injectable and OTC:** With ramp up in OTC business, ARBP's US business to grow on OSD, injectable and OTC in FY19E and FY20E. Management plans to launch 23 OSD including complex generics in 9-12 months including gWelchol and gToprol. With expectation of successful completion of upcoming FDA visit of Unit-4, ARBP is geared to launch large number of injectables including Ertapenem, Imipenem (Cilastatin combo) and Vancomycin. With launch of Mucinex XR, Nexium and Omeprazol in Q3FY18, management expects major revenues from OTC business in US in FY19E.

■ **Valuation-Maintain 'BUY', increase TP at Rs909:** With guidance of robust pipeline of generics and visibility from the waves of complex generics till FY20E, we expect ARBP's US generics to grow at CAGR of 10% in FY18E-20E despite price erosion of 8% core portfolio. Near term growth drivers to be gWelchol, Ertapenem, Vancomycin and key OTC drugs in US and DTG in ARV business. We expect gRenvela sales to be US\$10-15m/quarter in near term and OTC revenues to grow to US\$60-70m in FY19E from US\$20m in FY18E. ARBP trades at attractive valuation among the pharma large-caps at 13x and 12x FY19E and FY20E. We rolled forward our earnings estimates to FY20E and derive our new TP at Rs909 (from Rs877) on PE 18x of FY20E. We maintain 'Buy'.

Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	148,448	162,910	176,776	194,386
Growth (%)	8.3	9.7	8.5	10.0
EBITDA (Rs m)	31,892	35,759	39,421	43,348
PAT (Rs m)	23,017	24,637	27,388	29,579
EPS (Rs)	39.3	42.0	46.7	50.5
Growth (%)	5.0	7.0	11.2	8.0
Net DPS (Rs)	1.9	4.5	4.5	4.5

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	21.5	22.0	22.3	22.3
RoE (%)	27.6	23.5	21.4	19.3
RoCE (%)	18.6	18.0	17.2	16.3
EV / sales (x)	2.5	2.3	2.1	1.8
EV / EBITDA (x)	11.7	10.4	9.2	8.2
PE (x)	15.3	14.3	12.9	11.9
P / BV (x)	3.8	3.0	2.5	2.1
Net dividend yield (%)	0.3	0.7	0.7	0.7

Source: Company Data; PL Research

Key takeaways from conference call

- Launched 8 products in Q3FY18 and guided for the overall launch of 25 products in the US in FY18E. The company has been prioritising launches among its approved ANDAs to optimise existing capacities and opportunities. This may result in delayed launches and limited supply in key products such as Vancomycin and upcoming approvals in Ertapenem and Metoprolol. Management also guided for US injectable sales of US\$55m in FY18E and 30% growth in FY19E. They also guided for launch of Vancomycin in Q1FY19E
- The product rationalisation in Actavis portfolio, site transfer of 76 products (74 in Q2FY18) to the Indian plant and the integration of Generis Farma in Portugal has helped maintain the overall profitability in double-digit EBITDA in Q3FY18. With transfer of manufacturing activity of key products to EU to the newly commissioned formulation plant (Unit-15) in Vizag, ARBP expects further improvement in profitability. It will commence production and supply up to 112 products. With the mandatory sourcing from third party manufacturer's contract coming to an end in FY18E, EU Actavis generics will be able to reduce manufacturing costs and improve headline margins
- **Generis Farma to drive growth, margin in EU:** At constant currency, ARBP's EU sales grew 37% in Q3FY18, post inclusion of acquired business of Generis Farma in Portugal. Adjusting sales of Generis, the growth in core sales in EU was at 16% due to better sales traction. Management expects double-digit EBITDA margin and higher PAT in FY18E as 76 drugs are site transferred to new Vizag plant (Unit-15), which is dedicated for EU
- US sales increased 9% YoY with lower gRenvela sales at US\$20-22m. Management guided for Natrol sales at US\$120m in FY19E.
- Filed 2 ANDAs, received 20 approvals and 2 tentative approvals in Q3FY18. ARBP filed 38 ANDAs 9MFY18 and launched 8 products in Q3FY18
- There are 114 ANDAs pending with USFDA for approval along with tentative approvals of 38 ANDAs (includes 11 ANDAs under PEPFAR)
- The net debt declined to US\$540m in Q3FY18 from US\$616m in Q2FY18 post aggressive launch of gRenvela and Pantoprazole in US. Current Cash and cash equivalents are US\$196m. Management guided for reducing net debt below US\$475 and effective tax rate at 26.5% in FY18E and 24.5-25.5% in FY19E
- Incurred capex of US\$26m in Q3FY18 and guided for US\$130m in FY18E and FY19E (excluding capex for biosimilars and vaccine).
- R&D expenses were 3.7% of sales in Q3FY18. Management guided for increase in R&D expenses to 5% in FY18E-19E due to initiation of trials of complex drugs, Biosimilars, inhalers and Vaccines. Management expects to balance out the growth in R&D expenditure with growth in revenues

Exhibit 1: Change in Estimates

	Old		New		Difference	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Sales (Rs m)	161,871	179,167	162,910	176,776	1%	-1%
EBITDA (Rs m)	35,531	39,954	35,759	39,421	1%	-1%
EBITDA margin	22.0%	22.3%	22.0%	22.3%		
PAT (Rs m)	25,388	28,538	24,637	27,388	-3%	-4%

Source: PL Research

Exhibit 2: Q3FY18 Result Overview (Rs m)

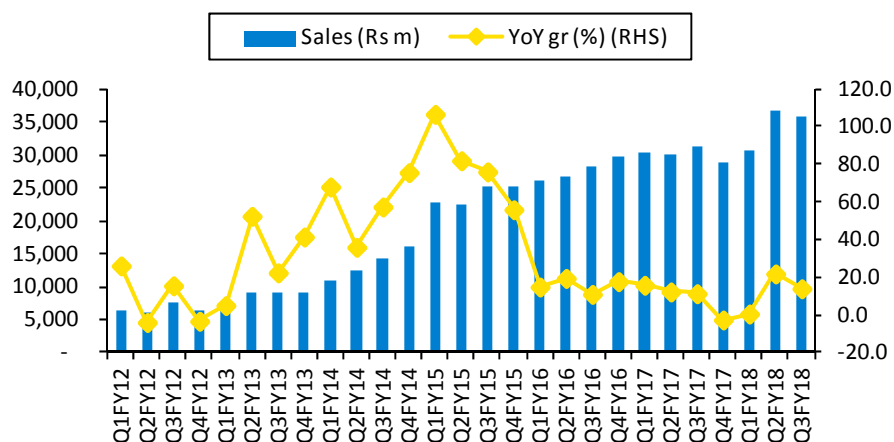
Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	42,690	38,445	11.0	43,542	1,22,442	1,12,627	8.7
Raw Material	18,175	17,097	6.3	17,679	50,833	50,173	1.3
% of Net Sales	42.6	44.5		40.6	41.5	44.5	
Personnel Cost	5,407	4,456	21.3	5,187	15,496	13,043	18.8
% of Net Sales	12.7	11.6		11.9	12.7	11.6	
Others	9,524	8,560	11.3	10,319	28,334	24,137	17.4
% of Net Sales	22.3	22.3		23.7	23.1	21.4	
Total Expenditure	33,105	30,113	9.9	33,186	94,663	87,352	8.4
EBITDA	9,585	8,331	15.0	10,356	27,780	25,274	9.9
Margin (%)	22.5	21.7		23.8	22.7	22.4	
Depreciation	1,381	1,111	24.2	1,321	4,013	3,276	22.5
EBIT	8,204	7,220	13.6	9,035	23,767	21,999	8.0
Other Income	1,002	696	43.9	920	2,719	2,449	11.0
Interest	189	(15)	NA	177	611	366	66.8
PBT	9,017	7,932	13.7	9,778	25,875	24,081	7.4
Extra-Ord. Inc./Exps.	(3)	(31)		(13)	(31)	(36)	
Total Taxes	3,069	2,177	41.0	1,980	6,959	6,425	8.3
ETR (%)	34.0	27.4		20.2	26.9	26.7	
Reported PAT	5,950	5,786	2.8	7,812	18,947	17,692	7.1

Source: Company Data, PL Research

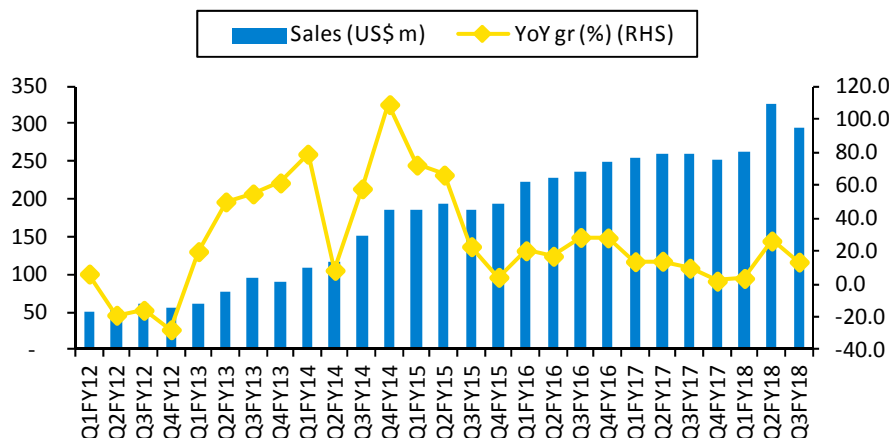
Exhibit 3: Major Sources of revenues (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Formulations	35,703	31,302	14.1	36,633	1,02,846	91,661	12.2
<i>% of Net Sales</i>	<i>82.3%</i>	<i>80.1%</i>		<i>82.5%</i>	<i>82.6%</i>	<i>80.1%</i>	
USA	19,096	17,451	9.4	20,989	57,034	51,841	10.0
<i>% of Net Sales</i>	<i>44.0%</i>	<i>44.7%</i>		<i>47.3%</i>	<i>45.8%</i>	<i>45.3%</i>	
Europe & ROW	14,218	10,432	36.3	13,569	38,902	30,586	27.2
<i>% of Net Sales</i>	<i>32.8%</i>	<i>26.7%</i>		<i>30.5%</i>	<i>31.2%</i>	<i>26.7%</i>	
ARV	2,389	3,419	(30.1)	2,075	6,910	9,234	(25.2)
<i>% of Net Sales</i>	<i>5.5%</i>	<i>8.8%</i>		<i>4.7%</i>	<i>5.5%</i>	<i>8.1%</i>	
API	7,658	7,759	(1.3)	7,718	21,627	22,793	(5.1)
<i>% of Net Sales</i>	<i>17.7%</i>	<i>19.9%</i>		<i>17.4%</i>	<i>17.4%</i>	<i>19.9%</i>	
SSPs	5,366	5,250	2.2	5,142	14,597	15,313	(4.7)
<i>% of Net Sales</i>	<i>12.4%</i>	<i>13.4%</i>		<i>11.6%</i>	<i>11.7%</i>	<i>13.4%</i>	
ARV & Others (NPNC)	2,292	2,509	(8.6)	2,576	7,030	7,480	(6.0)
<i>% of Net Sales</i>	<i>5.3%</i>	<i>6.4%</i>		<i>5.8%</i>	<i>5.6%</i>	<i>6.5%</i>	
Dossier Income	1	1	-	70	99	29	241.4
Gross Sales	43,362	39,062	11.0	44,421	1,24,572	1,14,483	8.8

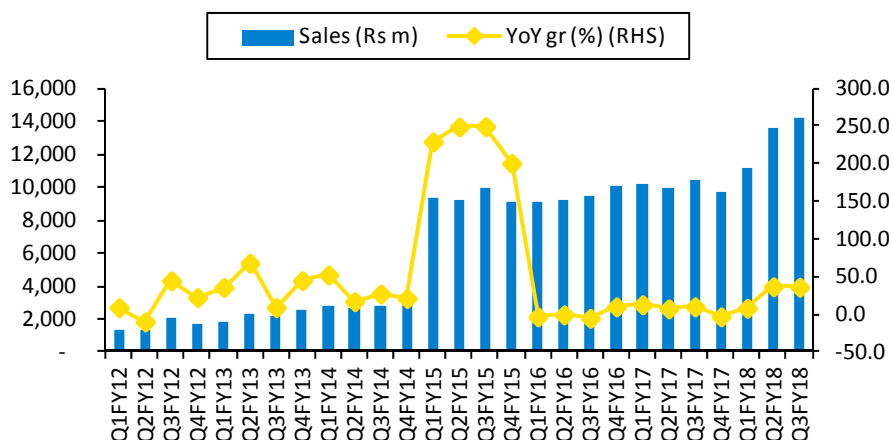
Source: Company Data, PL Research

Exhibit 4: Formulation sales, growth


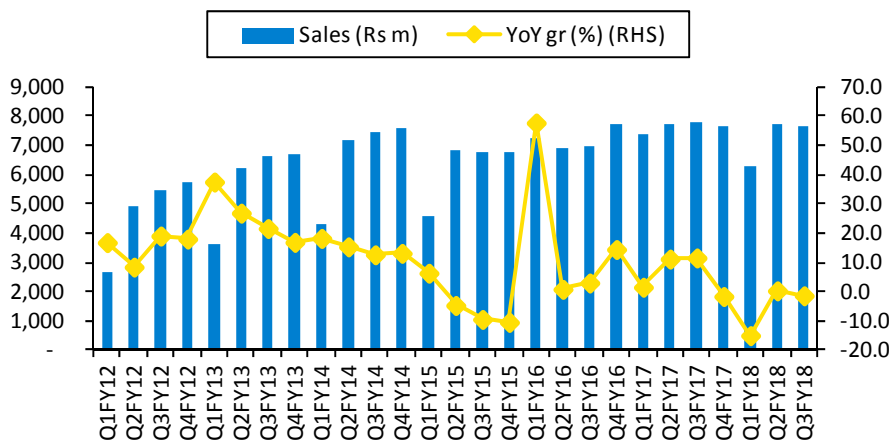
Source: Company Data, PL Research

Exhibit 5: US generic sales (US\$ m), growth


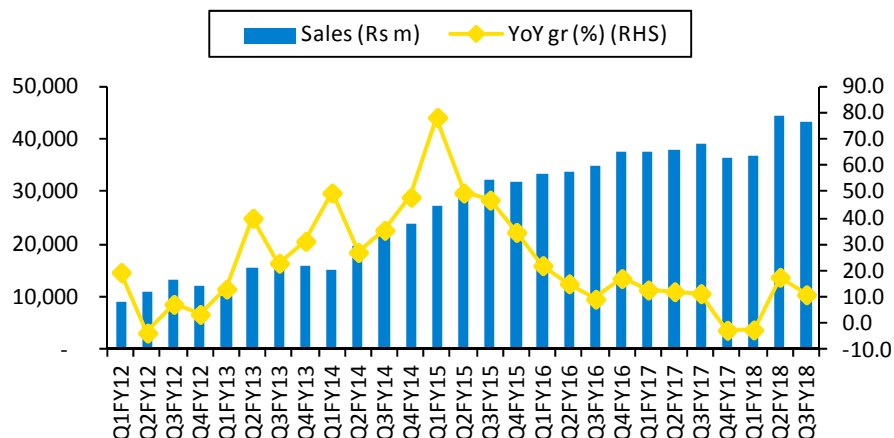
Source: Company Data, PL Research

Exhibit 6: EU & ROW sales, growth


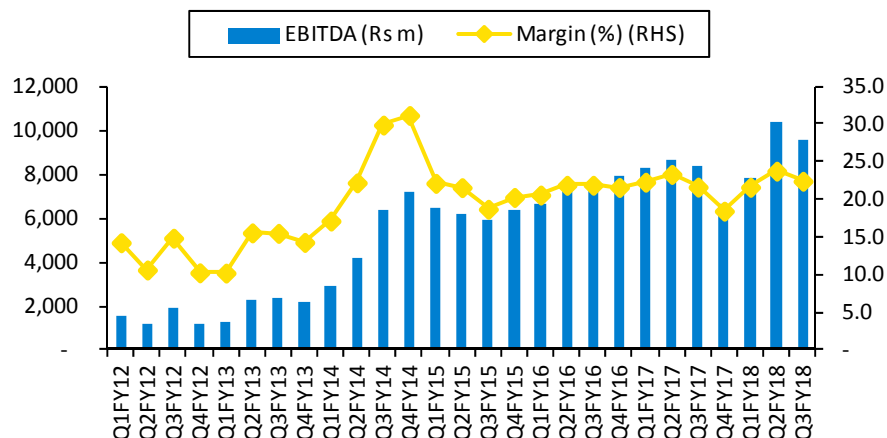
Source: Company Data, PL Research

Exhibit 7: API sales, growth


Source: Company Data, PL Research

Exhibit 8: Overall sales, growth


Source: Company Data, PL Research

Exhibit 9: EBITDA, margin


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	148,448	162,910	176,776	194,386
Raw Material Expenses	64,343	71,273	75,925	83,489
Gross Profit	84,105	91,637	100,851	110,897
Employee Cost	17,678	18,735	19,887	21,868
Other Expenses	34,536	37,143	41,542	45,681
EBITDA	31,892	35,759	39,421	43,348
Depr. & Amortization	4,276	5,555	6,510	7,852
Net Interest	667	777	731	658
Other Income	3,610	3,826	4,056	4,299
Profit before Tax	30,558	33,252	36,235	39,138
Total Tax	7,596	8,646	8,878	9,589
Profit after Tax	22,962	24,607	27,358	29,549
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	23,017	24,637	27,388	29,579
Avg. Shares O/S (m)	585.9	585.9	585.9	585.9
EPS (Rs.)	39.3	42.0	46.7	50.5

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	32,786	33,426	28,599	32,581
C/F from Investing	(17,870)	(16,124)	(14,854)	(15,336)
C/F from Financing	(19,154)	(4,032)	(9,753)	(13,345)
Inc. / Dec. in Cash	(4,239)	13,270	3,993	3,900
Opening Cash	7,435	3,196	16,466	20,459
Closing Cash	3,196	16,466	20,459	24,359
FCFF	31,015	631	11,131	13,358
FCFE	14,236	2,464	7,245	9,994

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	8.3	9.7	8.5	10.0
EBITDA (%)	8.4	12.1	10.2	10.0
PAT (%)	5.1	7.0	11.2	8.0
EPS (%)	5.0	7.0	11.2	8.0
Profitability				
EBITDA Margin (%)	21.5	22.0	22.3	22.3
PAT Margin (%)	15.5	15.1	15.5	15.2
RoCE (%)	18.6	18.0	17.2	16.3
RoE (%)	27.6	23.5	21.4	19.3
Balance Sheet				
Net Debt : Equity	0.2	0.2	0.1	—
Net Wrkng Cap. (days)	173	173	173	180
Valuation				
PER (x)	15.3	14.3	12.9	11.9
P / B (x)	3.8	3.0	2.5	2.1
EV / EBITDA (x)	11.7	10.4	9.2	8.2
EV / Sales (x)	2.5	2.3	2.1	1.8
Earnings Quality				
Eff. Tax Rate	24.9	26.0	24.5	24.5
Other Inc / PBT	11.8	11.5	11.2	11.0
Eff. Depr. Rate (%)	7.6	6.9	6.7	7.0
FCFE / PAT	61.9	10.0	26.5	33.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	93,719	115,883	140,186	166,680
Total Debt	33,866	35,699	31,813	28,449
Other Liabilities	(1,164)	(2,191)	(3,308)	(4,513)
Total Liabilities	126,421	149,390	168,690	190,617
Net Fixed Assets	62,919	74,383	82,887	90,535
Goodwill	—	—	—	—
Investments	2,459	3,196	3,196	3,196
Net Current Assets	57,666	67,589	77,330	90,288
<i>Cash & Equivalents</i>	<i>12,523</i>	<i>16,466</i>	<i>20,459</i>	<i>24,359</i>
<i>Other Current Assets</i>	<i>79,538</i>	<i>83,227</i>	<i>87,393</i>	<i>93,195</i>
<i>Current Liabilities</i>	<i>34,396</i>	<i>32,103</i>	<i>30,522</i>	<i>27,266</i>
Other Assets	3,378	4,222	5,278	6,597
Total Assets	126,421	149,390	168,690	190,617

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	35,821	36,211	43,542	42,690
EBITDA	6,617	7,839	10,356	9,585
% of revenue	18.5	21.6	23.8	22.5
Depr. & Amortization	1,001	1,312	1,321	1,381
Net Interest	143	169	173	189
Other Income	1,003	721	915	1,002
Profit before Tax	6,477	7,080	9,778	9,017
Total Tax	1,172	1,910	1,980	3,069
Profit after Tax	5,325	5,185	7,812	5,950
Adj. PAT	5,325	5,185	7,812	5,950

Key Operating Metrics (Rs m)

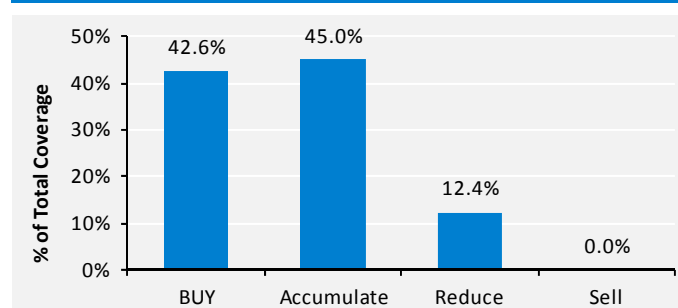
Y/e March	2017	2018E	2019E	2020E
US Formulations	68,272	76,921	84,614	94,507
EU & ROW	40,327	43,536	47,562	52,765
ARV formulations	11,854	13,276	14,604	16,312
APIs	30,420	29,151	29,971	30,776

Source: Company Data, PL Research.

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Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
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