

Aurobindo Pharma

VAI to Penem plant; Tazo-Pip sales may boost post Apotex recall

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Surajit Pal
surajitpal@plindia.com
+91-22-66322259

Rating	BUY
Price	Rs595
Target Price	Rs909
Implied Upside	52.8%
Sensex	35,149
Nifty	10,683

(Prices as on February 08, 2018)

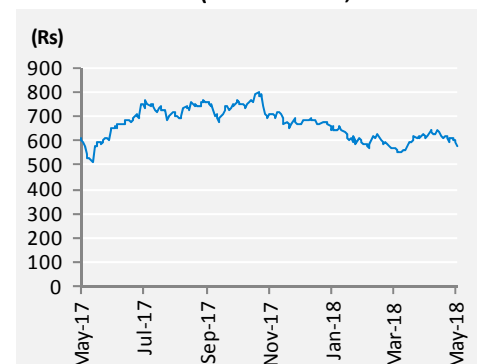
Trading data	
Market Cap. (Rs bn)	173.8
Shares o/s (m)	292.0
3M Avg. Daily value (Rs m)	1501.9

Major shareholders	
Promoters	51.87%
Foreign	17.99%
Domestic Inst.	15.64%
Public & Other	14.50%

Stock Performance			
(%)	1M	6M	12M
Absolute	(4.0)	(15.9)	(2.1)
Relative	(6.1)	(21.3)	(16.7)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2019	46.7	43.4	7.6
2020	50.5	48.0	5.1

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



Source: Bloomberg

- **Regulatory boost from USFDA for Penem plant in Bhiwadi:** ARBP (Aurobindo) received VAI status from USFDA post the company's adequate address of the concerns on the Bhiwadi plant. The assigned status by USFDA is positive development for ARBP as the status implies that the plant is unlikely to receive warning letter. ARBP received three observations under Form-483s during the regulator's visit of the plant in March CY18. The plant is exclusive production facilities of Penem injectable and API. The observations were on the lighter side and easier to address, which are: a)lack of written procedures for production and process controls, b)employees lack training required to perform specialist functions in the plant and c)the laboratory control mechanisms are not drafted by the organisational unit.
- **Strategic importance of the plant:** ARBP filed ANDAs on four Penems from the plant and currently supplies only Meropenem (Mkt size: US\$98m) to US and multiple Penems to emerging markets. There are three Penems of ARBP are under review including Doripenem (Mkt size: US\$2m), Ertapenem (Mkt size: US\$383m) and Imipenem/Cilastatin (Mkt size: US\$18m). While Ertapenem is biggest opportunity among Penems, being a limited competition drug, other pending filings in Penem might have been withdrawn due to miniscule market sizes. There are currently no unaddressed queries from USFDA on Ertapenem with ARBP and management expects US approval in near term. We expect ARBP to be among the first wave of approvals in Ertapenem generics in H1FY19E.

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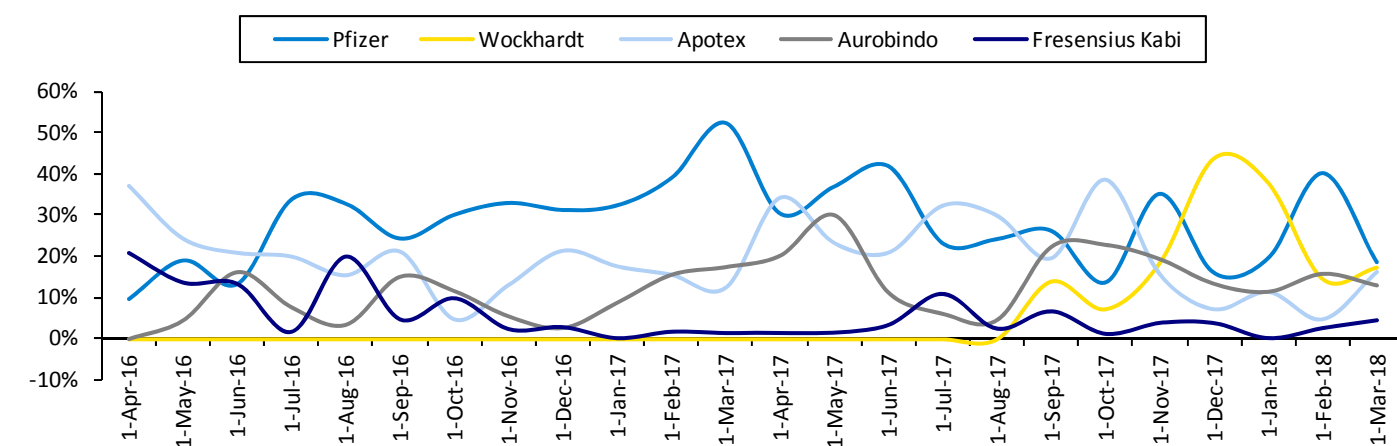
Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	148,448	162,910	176,776	194,386
Growth (%)	8.3	9.7	8.5	10.0
EBITDA (Rs m)	31,892	35,759	39,421	43,348
PAT (Rs m)	23,017	24,637	27,388	29,579
EPS (Rs)	39.3	42.0	46.7	50.5
Growth (%)	5.0	7.0	11.2	8.0
Net DPS (Rs)	1.9	4.5	4.5	4.5

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	21.5	22.0	22.3	22.3
RoE (%)	27.6	23.5	21.4	19.3
RoCE (%)	18.6	18.1	17.3	16.5
EV / sales (x)	2.5	2.3	2.1	1.9
EV / EBITDA (x)	11.8	10.5	9.4	8.4
PE (x)	15.2	14.2	12.7	11.8
P / BV (x)	3.7	3.0	2.5	2.1
Net dividend yield (%)	0.3	0.8	0.8	0.8

Source: Company Data; PL Research

- ARBP may expand market share post recall of Apotex in Tazo-Pip:** With Apotex recalled 36 lots of Tazo-Pip (3.375gm and 4.5gm/vial) in US due to elevated levels of impurities, there could be a possibility of ARBP to boost its Rx share in Tazo-Pip in near to medium term. While the recalled lot size is too small to assume market share expansion in near term, the ongoing organisational disarray in Apotex (promoted died with no heir apparent, CEO resigned with no captain in the ship) may led to the lower supply from Apotex or regulatory scanning from USFDA due to lingering of the issue. Currently, ARBP produces Tazo-pip from Unit-12 and newly inducted Unit-16. ARBP received revenues of US\$22m from Tazo-Pip in FY17 and expected to have revenues of US\$30m in FY18E. While it will be too early to discount the possibility in earnings estimates, ARBP's 9% Rx share in Tazo-Pip may gain from 16% Rx share of Apotex going forward. We maintain Buy and retain TP at Rs909.

Exhibit 1: Tazo-Pip: ARBP's average 9% TRx share may gain from Apotex average TRx share of 21%



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2017	2018	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	33,253	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	2018	2019E	2020E
C/F from Operations	32,786	25,776	24,451	24,549
C/F from Investing	(17,870)	(17,599)	(14,854)	(15,336)
C/F from Financing	(19,154)	(2,816)	(8,669)	(7,519)
Inc. / Dec. in Cash	(4,239)	5,361	929	1,695
Opening Cash	7,435	3,196	8,557	9,486
Closing Cash	3,196	8,557	9,486	11,181
FCFF	23,627	1,187	9,004	11,558
FCFE	6,857	2,233	4,152	7,782

Key Financial Metrics

Y/e March	2017	2018	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	18.1	17.3	16.5
RoE (%)	27.6	23.5	21.4	19.3
Balance Sheet				
Net Debt : Equity	0.3	0.2	0.1	0.1
Net Wrkng Cap. (days)	173	173	173	180
Valuation				
PER (x)	15.2	14.2	12.7	11.8
P / B (x)	3.7	3.0	2.5	2.1
EV / EBITDA (x)	11.8	10.5	9.4	8.4
EV / Sales (x)	2.5	2.3	2.1	1.9
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 (%)	8.2	7.3	7.0	7.3
FCFE / PAT	29.8	9.1	15.2	26.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	93,719	115,883	140,186	166,680
Total Debt	33,641	34,687	29,835	26,058
Other Liabilities	738	719	748	791
Total Liabilities	128,098	151,289	170,768	193,530
Net Fixed Assets	58,856	70,320	78,825	86,473
Goodwill	4,063	4,063	4,063	4,063
Investments	—	—	—	—
Net Current Assets	57,666	66,812	75,645	88,264
<i>Cash & Equivalents</i>	<i>5,135</i>	<i>8,857</i>	<i>9,816</i>	<i>11,578</i>
<i>Other Current Assets</i>	<i>86,927</i>	<i>90,618</i>	<i>97,975</i>	<i>105,965</i>
<i>Current Liabilities</i>	<i>34,396</i>	<i>32,663</i>	<i>32,146</i>	<i>29,278</i>
Other Assets	7,514	10,093	12,236	14,729
Total Assets	128,098	151,289	170,769	193,530

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18E
Net Revenue	36,211	43,542	42,690	41,198
EBITDA	7,839	10,356	9,585	9,143
% of revenue	21.6	23.8	22.5	22.2
Depr. & Amortization	1,312	1,321	1,381	1,422
Net Interest	169	173	189	190
Other Income	721	915	1,002	851
Profit before Tax	7,080	9,778	9,017	8,382
Total Tax	1,910	1,980	3,069	2,095
Profit after Tax	5,185	7,812	5,950	6,285
Adj. PAT	5,185	7,812	5,950	6,285

Key Operating Metrics (Rs m)

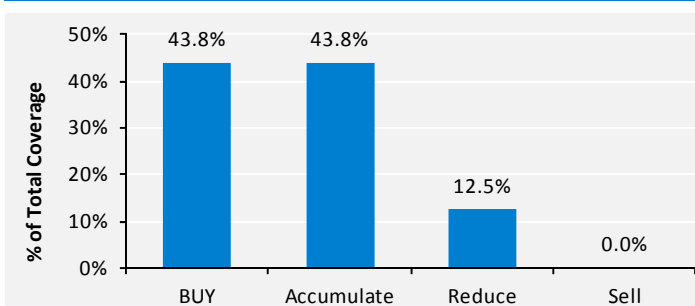
Y/e March	2017	2018	2019E	2020E
US Formulations	68,272	76,921	84,614	94,507
EU & ROW	40,327	43,536	47,562	52,765
ARV formulations	11,854	13,276	14,604	16,312
APIs	30,420	29,151	29,971	30,776

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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