Aurobindo Pharma (ARBP IN)

Rating: BUY | CMP: Rs777 | TP: Rs952

March 20, 2019

Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	952		952	
Sales (Rs. m)	2,12,768	2,27,679	2,12,768	2,27,679
% Chng.	-	-		
EBITDA (Rs. m)	42,554	49,634	42,554	49,634
% Chng.	-	-		
EPS (Rs.)	51.5	59.5	51.5	59.5
% Chng.	-	-		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	1,62,329	1,92,922	2,12,768	2,27,679
EBITDA (Rs. m)	35,216	37,195	42,554	49,634
Margin (%)	*21.7*	*19.3*	*20.0*	*21.8*
PAT (Rs. m)	23,952	24,745	30,184	34,868
EPS (Rs.)	40.9	42.2	51.5	59.5
Gr. (%)	*4.1*	*3.3*	*22.0*	*15.5*
DPS (Rs.)	-	4.5	4.5	4.5
Yield (%)	-	*0.6*	*0.6*	*0.6*
RoE (%)	*22.8*	*19.3*	*19.7*	*19.1*
RoCE (%)	*20.5*	*17.6*	*17.5*	*18.0*
EV/Sales (x)	3.0	2.5	2.3	2.1
EV/EBITDA (x)	13.8	13.2	11.5	9.7
PE (x)	19.0	18.4	15.1	13.0
P/BV (x)	3.9	3.3	2.7	2.3

Key Data	ARBN.BO | ARBP IN
52-W High / Low	Rs.830 / Rs.527
Sensex / Nifty	38,387 / 11,521
Market Cap	Rs.455bn/ $ 6,608m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.3569.33m

Shareholding Pattern (%)

Promoter's	51.87
Foreign	20.07
Domestic Institution	14.44
Public & Others	13.62
Promoter Pledge (Rs bn)	5.29

Stock Performance (%)

	1M	6M	12M
Absolute	7.4	0.1	35.9
Relative	0.1	(3.2)	16.8

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Royal mix: Alert in Quality control and spurt in value chain of products

We met Aurobindo Pharma at their Hyderabad office and came back confident on management initiatives to address quality control issues and de-risking product, operational and geographical risks. ARBP's success in achieving resolution three times in past 18 months showcased commitment and cohesive organizational structure that professionally manages processes without dependence on key personnel.

Noticing the operational risk among large peers in key markets, ARBP strategically envisaged alleviation of concentration risk and regulatory risk on key products/ plants/ markets. It's newly commissioned Unit-16, made to replicate products of Unit-12 for US market, additionally supplies injectable to EU. Likewise, the supply of oral products to EU is also distributed between Unit-15 and Portugal plant. It also plans to set up a new Injectable plant in US to diversify risk in Unit-4 and one more injectable block in Portugal plant to address faster regulatory approval in US and EU, respectively. Similarly, ARBP keeps on evolving its pipeline to move up the value chain. The visibility of gRenvela, Fondaparinux, gToprol XL and gPrevacid ODT increases its presence in complex generics while acquisition of Spectrum pharma, Advent pharma and Apotex Europe will augur well for its prospect in specialty/branded products in FY19E-23E. With filings of 26 products in oncology drugs (Oral, Inj.), ARBP also pushes itself further in the value chain of complex drugs.

The stock trades at PE 15x and 13x of FY20E and 21E, respectively and has a few inexpensive valuations among peers. With earnings growth of 19% in FY20E and 16% in FY21E, we believe that the prospect of the company in key markets along with visibility of pipeline (including acquired businesses/products) are not yet reflected in valuations, as compared to its peers. However, we believe that a large part of valuation gap was attributed due to lack in India formulations. Factoring lack of significant presence in India, we value ARBP at 20% discount to its peers and retain TP at Rs952 (PE 16x of FY21E). We maintain 'Buy'.

Issues of sartans

- After finding possible carcinogenic (NDMA, NDEA, NMBA, EPINA and DIPNA) impurities in sartan's APIs, FDA have asked all sartan suppliers to re-examine the sample batches (of sartans) exported to US (in last 24-36 months) with new interim limits. Out of 1,200 batches of sartans, ARBP found and recalled 118 batches till date (80 in Dec CY18 and 38 in Mar CY19) which have higher impurities in comparison to the new interim limits. Majority of the recalled batches are from Valsartan/combinations in US. The company also recalled Irbesartans/combinations from Europe.

- Following the reports of recalled sartans across companies, USFDA initiated its own investigation to evaluate the cause of nitrosamines being impure due to the presence of carcinogenic materials. It was found that the trace of impurity with possible carcinogens in sartans/ARBs (angiotensin II receptor blocker) may have arrived due to presence of specific chemicals and their reactions in the manufacturing process, which also occurs from the reuse of certain solvents. As per USFDA, the **impure nitrosamines may cause 1: 100,000 cancer risk after 70 years of exposures**.

- Though its earlier process was compliant, ARBP plans to file a new process for Irbesartan (in EU) and Valsartan in US under CD-30 route to be compliant with new (and lower) standard of impurity. In the new sartans process, APIs are to be filed both in US and EU, as the new interim limits of impurity are significantly lower than the previous benchmark. ARBP found that 66% of its Irbesartan (for EU) batches were compliant (below the new upper limit) and only 10% of valsartan batches (sent in US) are above the current interim limits of impure Nitrosamines over the last 2.5-3 years.

Exhibit 1: Interim limits of NDMA, NDEA, NMBA in Sartans/ARBs

Drug	Maximum Daily Dose (mg/day)	Acceptable Intake NDMA (ng/day)*	Acceptable Intake NDMA (ppm)**	Acceptable Intake NDEA (ng/day)*	Acceptable Intake NDEA (ppm)**	Acceptable Intake NMBA (ng/day)*	Acceptable Intake NMBA (ppm)**
Valsartan	320	96	0.3	26.5	0.083	96	0.3
Losartan	100	96	0.96	26.5	0.27	96	0.96
Irbesartan	300	96	0.32	26.5	0.088	96	0.32
Azilsartan	80	96	1.2	26.5	0.33	96	1.2
Olmesartan	40	96	2.4	26.5	0.66	96	2.4
Eprosartan	800	96	0.12	26.5	0.033	96	0.12
Candesartan	32	96	3	26.5	0.83	96	3
Telmisartan	80	96	1.2	26.5	0.33	96	1.2

Source: Company, PL

** The acceptable intake is a daily exposure to a compound such as NDMA, NDEA, or NMBA that approximates a 1:100,000 cancer risk after 70 years exposure*

*** These values are based on a drug's maximum daily dose as reflected in the drug label*

- In the key markets, there is a stringent check on the current batch of sartans samples that has led to low supply of sartans (mainly valsartans) in US. This has resulted in a penalty of Rs600m for non-supply of products (vs. agreed volumes) in US, which in-turn have impacted gross margins in Q3FY19. ARBP's supply of valsartans decreased to 60m units in Q3FY19 as compared to 160m units in Q4FY18 due to stringent checks on the batches to ensure low impurity vs the new interim benchmark of nitrosamines. ARBP's Rx share in valsartan reduced to 15% in Q3FY19 from 22% in Q4FY18.

- While all major players of US (Prinston, Mylan, Teva, Torrent, Jubilant, ARBP) are active in recalling valsartans, the market size of molecule is decreasing both in API and formulations. While Zhejian Huahai and Hetero controls 85% of API market and Rx shares 60% of valsartan markets in US, the manufacturing issues in both the companies have led to shortage (though valsartan remains a better sartan than the peers). The shortage issue has led to a shift of Rx to losartan market as the molecules have lesser manufacturing issues with key suppliers.

- This has benefitted ARBP as its loss of revenues in valsartan are compensated from significant gains in Losartan (led by increase in volumes). The company increased its volume of losartan supply in US by 20m units per quarter. ARBP's revenues from losartan is expected to rise upto US$22-25m from US$10-12m in next 12 months. Hence, we believe that there would be a minimal impact in US revenues of ARBP due to the loss of sales in valsartan, expected to be around US$10-12m in next 12 months. Irbesartan contributed US$0.5m revenues from exports to US since FY16.

- FDA's active persuasion of addressing sartan shortage (especially valsartans) has increased approvals of new filers such as Alkem and Zydus Cadila in last two months. With strong belief in their process, ARBP decided for recovery of sartans solvents in-house, instead of it being outsourced. We believe this will help to find impurity of its sartans lower than interim limit and be able to supply valsartan/irbesartan in US and EU.

Progress, prospects in Injectable business in US

- With a strong US-focused pipeline and wide Rx reach, new Onco-inj plant in Eugia and diversified portfolio, ARBP expects 10% CAGR in US injectable revenues in FY20E-23E. We expect US injectable to generate a revenues of US$260m (FY20E, 21% gr), US$290m (FY21E, 12% gr), US$320m (FY22E, 10% gr) and US$340m (FY23E, 6% gr) will be benefitted from expansion in product line and the value chain with lesser competition and higher market size. ARBP plans to set up a medium size injectable unit in US to de-risk its concentration in Unit-4. It also de-risked its dependence on beta lactam (mainly Tazo-pip) products in Unit-12 post commissioning a new plant Unit-16 in CY17. The new unit filed ANDA of key products of Unit-12 and it plans to export beta-lactam injectable to EU in FY20E onwards.

- Aurobindo has injectable business in US and EU on several verticals: Beta lactam inj (Unit-12, 16), non-beta lactam inj (Unit-4), Penem Inj (AuroNext-Bhiwadi), Onco and steroid/growth hormone Inj (Eugia), Peptide Inj and Microsphere (Depo) Inj (Eugia). ARBP guides for US injectable revenues to be US$210m in FY19E, mainly to be contributed by Unit-12 and 16, Unit-4 and Bhiwadi plants. Its prospect in Onco, Steroid/growth hormone, peptides and depo injectable will be the leading growth drivers from FY21E onwards.

- In microsphere (Depo) technology, ARBP targets four injectable with current market size of US$3.2bn. All its targeted products remain patented and no generics are expected in near term. It plans to begin clinical trials in Q1FY20E before filing in Q4FY20E. Management expects approvals by FY22E. The company will manufacture depo injectable in Eugia plant as it already has capability to manufacture cyto-toxic oncology as well as hormone injectable.

- In peptide segments, ARBP filed 6 DMFs and one ANDA on Linzess recently. It plans to file seven more ANDAs in FY20E and expects its first product to be launched by FY21E. There are five ANDAs filed in Linzess of which ARBP, Sun and Mylan are settled out-of-court for launch of generics in FY30E while Teva and Sandoz continue to challenge in the court. ARBP will be owner of Sandoz's filing as a part of the acquisition deal between the companies. Other than being backward integrated in gLinzess, ARBP also has an agreement with Sandoz, Teva and Mylan to supply API of the molecule.

Visibility of key approvals in US

- With further pending queries, ARBP expects approval of Metoprolol (gToprol XL) in Q3FY20E and Lansoprazole (gPrevacid ODT) in Q2FY20E. ARBP also received a new approval of vancomycin Inj from new lyophilized block and started exporting from August CY18. It expects a ramp up from Q1FY20E onwards. The manufacturing issue of producing bagline injectable from Unit-4 received resolution from USFDA. It plans to export from Q2FY20E onwards as currently batches are getting validated.

New business opportunities (NBO) in US

- With rationalization of product portfolio across the major generics, there are new supply opportunities from the older generics, where large players (e.g. Teva, Sandoz, Sun) have withdrawn. Generally, the NBOs arise between Apr-Sept of a fiscal year as ARBP participated in US$200m opportunities (out of US$300m) in FY19 and received US$100m order book to supply within 90 days from signing of agreement. ARBP received strong benefits from NBOs in FY19E as we believe it generated revenues of US$50-60m in M9FY19.

Development of vaccines

- ARBP to complete phase-1 clinical trial of pneumococcal vaccine (gPrevnar 15) in FY19E and it plans to finish with phase-2 clinical trial by FY20E.
- Aims to participate in Indian government tender for procurement of pneumococcal vaccine (PCV) which is currently imported by Pfizer (Prevnar).
- ARBP expects competition from Serum Institute (gPrevnar 10) and Bharat Biotech (Prevnar 9) along with Pfizer in the government tender business. Management is however confident of receiving sizeable order book in comparison to the competitors due to a) target of larger number bacteria (i.e. 15 vs 9 and 10) and b) lower cost (vs. import of Pfizer)
- ARBP medium to long term target is to participate in tender business of immunization program of Gavi- The Vaccine Alliance, which is a biggest vaccine procurer for poor countries. Pfizer is the sole supplier of pneumococcal vaccine in the Gavi markets currently. ARBP however needs three years of track record in domestic immunization program to be eligible to participate in the Gavi vaccines tender business.

Plan for plant infra, reduce concentration/geography risk

- Aurobindo has total 27 manufacturing plants including 16 formulation plants (in India, US, Portugal, the Netherlands and Brazil) and 9 API plants. Out of its portfolio of formulation plants, there are 10 key facilities including 8 in India and 1 each in US and Brazil.

- With growing importance of injectable in revenues and focus, ARBP plans to de-risk concentration of injectable revenues from key installations. Following the operational strategy, it has commissioned Unit-16, which will not file additional ANDA for US market. The key purpose of the plant will be a) filing applications from key products of Unit-12 (Unit-12 and 16 are beta lactam plant) as an alternative site and b) supply selective beta lactam injectable in EU markets where ARBP has strong presence in hospital segment.

- ARBP also plans similar strategy of setting up a replica plant of Unit-4 in US, a plant with high dependence of non-beta lactam injectable business in US. The plant will also to be registered with USFDA as alternative site for key products and helps de-risk the concentration risk of US injectable revenues to release capacity for other markets. Management expects the replica plant to be commissioned in 24 months once project starts.

- Similarly, ARBP also plans to expand gradually its injectable block of the plant in Portugal. The plant was part of ARBP post the acquisition of Generis Farmaceutica in Portugal in CY17. The plant has all necessary approvals for supplying drugs without regulatory hurdles, which are common for products manufactured outside Europe.

Key regulatory status of Plants

- It received resolution (EIR) in March CY19 from USFDA against the observations on Unit-4 post the visiting plant in November CY18. The FDA raised two observations post the plant visit and currently no observations are pending in Unit-4 plant.

- Post recall of sartans, USFDA visited Unit-1, 9 and 11 in December CY18 and raised six, five and three Form-483 observations respectively. The Unit-1 and 11 produce non-beta lactam API while Unit-9 produces intermediates.

- With visit of USFDA in Unit-16, ARBP received 11 observations in Form-483 in March CY19 to address the issues.

ARV-Tender business

- ARBP won a new tender from South African (SA) government to supply TLD (Tenofovir/Lamivudine/Dolutegravir), a triple fixed dose combination, in February CY19. While ARBP is vertically integrated in TLD combinations, the total value of the contract is US$100m and duration of the supply was over two years.

- ARBP to initiate the supply of TLD to SA govt. from July FY20 onwards. Other competitors also share the tender order of SA govt: Aspen (Laurus to supply API) and Cipla. Other than SA govt, ARBP currently has order book of US$80m for supplying TLD to African countries over two years. It started supply of the contract from Q2FY19 and has revenues of US$20m in M9FY19.

- Management strategically continues to avoid less profitable double combination ARV drugs and focuses on receiving more number of tenders in TLD combinations. The EBITDA margin of TLD contracts is +/-2% of the company's average margin, which is between 20-24%

Oncology, hormones business poised to contribute more from FY20 onwards

- ARBP is poised to contribute from its oncology business after commissioning of Eugia plant in FY20E onwards. With three approvals in oral-onco segment, management expects to launch first oncology drug in US by Q1FY20.
- The plant has commissioned capacities of oral-capsules (softgel/hardgel), oral-oncology, Inj-oncology and Inj-steroids (growth hormones)
- The company filed 8 ANDAs in Inj-Steroids and 26 ANDAs in Oncology segment including 2 products in para-IVs. Overall, it identified 79 products and expects all to be filed by next 3 years.
- Oral contraceptive (OCs)—Four ANDAs filed and it plans to file 18 ANDAs more. First product to be launched in US in 12 months or FY20E. Its marketing strategy is to target only state specific distributors in US.

Progress in Europe

- ARBP expects 5-6% YoY growth in FY20E for European business in addition to the US$100m revenues from the acquisition of the European business of Apotex. With completion of the Apotex deal in February FY19, there will be partial benefits from the addition of Apotex revenues by Q4FY19E and full benefits by Q1FY20E.
- With 30-35% (or 110 products) supply of products from India, European business currently has a 12% EBITDA margin. With more capacity utilization at Unit-15 (dedicated for EU business only) and commissioning supply of injectable from Unit-16, we expect ARBP's EBITDA margin to increase to 15% over 24-36 months.

Capex, acquisition (Sandoz)

- ARBP plans for US$150m capex by FY20E with its plan for
  - Expansions of multiple API plants
  - New injectable block in Portugal for EU/US
  - New vaccine plant
- ARBP expects a net revenues of US$850m of Sandoz, once its acquisition of US generic business of Sandoz will be completed post clearance of USFTC. It expects the deal to be officially closed by Q1FY20E.
- ARBP has acquired one product under development and related assets from a R&D company Advent Pharma, Australia for US$12.5m (Rs910m) via cash in November FY19. The deal was completed in January FY19 boosting ARBP's R&D capabilities for complex specialty generics, especially in asthma inhaler for US/EU market. Advent Pharma is specialty R&D company with focus on generic inhaled products in the global market.
- ARBP guided for US$200m reduction of debt in FY20E post integration of US generic business of Sandoz.

US business guidance

- We expect US generic sales to be US$1,200m including revenues of US$800m from AuroLife, US$210m from AuroMedic, US$130m from Natrol, US$45m from OTC.
- ARBP expects a differential growth in each of its US business verticals including 5% growth in Auro Life, 20-25% growth in AuroMedic, more than 15% growth in Natrol and additional sales of US$20m in OTC business.

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	**1,62,329**	**1,92,922**	**2,12,768**	**2,27,679**
YoY gr. (%)	*9.4*	*18.8*	*10.3*	*7.0*
Cost of Goods Sold	67,527	87,297	96,278	97,788
Gross Profit	94,801	1,05,625	1,16,491	1,29,891
Margin (%)	*58.4*	*54.8*	*54.8*	*57.1*
Employee Cost	21,308	25,408	23,936	25,614
Other Expenses	6,669	9,260	12,766	14,799
EBITDA	**35,216**	**37,195**	**42,554**	**49,634**
YoY gr. (%)	*10.4*	*5.6*	*14.4*	*16.6*
Margin (%)	*21.7*	*19.3*	*20.0*	*21.8*
Depreciation and Amortization	5,580	6,568	7,397	8,476
EBIT	**29,636**	**30,627**	**35,157**	**41,158**
Margin (%)	*18.3*	*15.9*	*16.5*	*18.1*
Net Interest	777	2,454	941	1,180
Other Income	3,690	4,427	4,693	4,975
Profit Before Tax	**32,548**	**32,600**	**38,909**	**44,952**
Margin (%)	*20.1*	*16.9*	*18.3*	*19.7*
Total Tax	8,463	7,335	8,755	10,114
Effective tax rate (%)	*26.0*	*22.5*	*22.5*	*22.5*
Profit after tax	**24,086**	**25,265**	**30,154**	**34,838**
Minority interest	(34)	(30)	(30)	(30)
Share Profit from Associate	-	-	-	-
Adjusted PAT	**23,952**	**24,745**	**30,184**	**34,868**
YoY gr. (%)	*4.1*	*3.3*	*22.0*	*15.5*
Margin (%)	*14.8*	*12.8*	*14.2*	*15.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**23,952**	**24,745**	**30,184**	**34,868**
YoY gr. (%)	*4.1*	*3.3*	*22.0*	*15.5*
Margin (%)	*14.8*	*12.8*	*14.2*	*15.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,952	24,745	30,184	34,868
Equity Shares O/s (m)	**586**	**586**	**586**	**586**
EPS (Rs)	**40.9**	**42.2**	**51.5**	**59.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	**70,638**	**95,469**	**1,16,341**	**1,31,841**
Tangibles	59,555	81,550	1,00,047	1,13,347
Intangibles	11,083	13,918	16,294	18,494
Acc: Dep / Amortization	**13,597**	**20,165**	**27,562**	**36,039**
Tangibles	12,189	17,722	23,969	31,209
Intangibles	1,407	2,443	3,593	4,830
Net fixed assets	**57,041**	**75,303**	**88,779**	**95,803**
Tangibles	47,366	63,829	76,078	82,138
Intangibles	9,676	11,475	12,701	13,665
Capital Work In Progress	15,830	11,873	6,500	6,500
Goodwill	8,165	8,165	8,165	8,165
Non-Current Investments	4,044	4,276	4,567	4,930
Net Deferred tax assets	(765)	1,389	2,556	3,905
Other Non-Current Assets	2,504	2,879	3,321	3,847
Current Assets				
Investments	0	0	0	0
Inventories	58,584	63,890	69,209	73,307
Trade receivables	30,844	33,299	36,724	43,664
Cash & Bank Balance	12,616	10,489	12,636	15,472
Other Current Assets	11,790	12,380	14,856	17,827
Total Assets	**2,11,052**	**2,33,581**	**2,57,393**	**2,83,967**
Equity				
Equity Share Capital	586	586	586	586
Other Equity	1,16,218	1,39,118	1,66,218	1,98,001
Total Networth	**1,16,804**	**1,39,704**	**1,66,804**	**1,98,587**
Non-Current Liabilities				
Long Term borrowings	4,512	4,828	5,166	5,217
Provisions	559	698	873	882
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	40,313	41,523	42,768	38,492
Trade payables	26,274	28,542	27,980	29,941
Other current liabilities	20,218	17,121	12,667	9,743
Total Equity & Liabilities	**2,11,052**	**2,33,581**	**2,57,393**	**2,83,967**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	32,548	32,600	38,909	44,952
Add. Depreciation	5,580	6,568	(1)	8,476
Add. Interest	777	2,454	941	1,180
Less Financial Other Income	3,690	4,427	4,693	4,975
Add. Other	(1,582)	1,679	6,632	(1,076)
Op. profit before WC changes	37,323	43,302	46,481	53,533
Net Changes-WC	(10,405)	(12,436)	(16,736)	(15,532)
Direct tax	(8,267)	(8,313)	(9,922)	(11,463)
Net cash from Op. activities	**18,650**	**22,553**	**19,824**	**26,539**
Capital expenditures	(19,596)	(20,873)	(15,500)	(15,500)
Interest / Dividend Income	158	161	164	167
Others	(657)	-	-	-
Net Cash from Invt. activities	**(20,095)**	**(20,712)**	**(15,336)**	**(15,333)**
Issue of share cap. / premium	-	-	-	-
Debt changes	11,184	1,525	1,584	(4,225)
Dividend paid	-	(3,085)	(3,085)	(3,085)
Interest paid	(777)	(2,454)	(941)	(1,180)
Others	-	-	-	-
Net cash from Fin. activities	**10,407**	**(4,014)**	**(2,442)**	**(8,490)**
Net change in cash	**8,963**	**(2,173)**	**2,046**	**2,716**
Free Cash Flow	(945)	1,680	4,324	11,039

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	**39,886**	**41,816**	**46,671**	**51,753**
YoY gr. (%)	*11.3*	*15.5*	*7.2*	*21.2*
Raw Material Expenses	16,695	19,073	20,429	23,899
Gross Profit	23,192	22,743	26,242	27,854
Margin (%)	*58.1*	*54.4*	*56.2*	*53.8*
EBITDA	**7,436**	**7,105**	**9,417**	**9,920**
YoY gr. (%)	*(22.4)*	*(4.4)*	*32.5*	*5.3*
Margin (%)	*18.6*	*17.0*	*20.2*	*19.2*
Depreciation / Depletion	1,566	1,545	1,637	1,631
EBIT	**5,869**	**5,560**	**7,780**	**8,289**
Margin (%)	*14.7*	*13.3*	*16.7*	*16.0*
Net Interest	247	295	354	477
Other Income	884	443	708	1,583
Profit before Tax	**6,506**	**5,707**	**8,135**	**9,395**
Margin (%)	*16.3*	*13.6*	*17.4*	*18.2*
Total Tax	1,224	1,155	1,754	2,048
Effective tax rate (%)	*18.8*	*20.2*	*21.6*	*21.8*
Profit after Tax	**5,282**	**4,552**	**6,380**	**7,347**
Minority interest	(3)	(5)	(2)	(26)
Share Profit from Associates	-	-	-	-
Adjusted PAT	**5,285**	**4,557**	**6,383**	**7,373**
YoY gr. (%)	*(0.7)*	*(12.1)*	*(18.3)*	*23.9*
Margin (%)	*13.3*	*10.9*	*13.7*	*14.2*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,285**	**4,557**	**6,383**	**7,373**
YoY gr. (%)	*(0.7)*	*(12.1)*	*(18.3)*	*23.9*
Margin (%)	*13.3*	*10.9*	*13.7*	*14.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**5,285**	**4,557**	**6,383**	**7,373**
Avg. Shares O/s (m)	586	586	586	586
EPS (Rs)	**9.0**	**7.8**	**10.9**	**12.6**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	40.9	42.2	51.5	59.5
CEPS	50.4	53.4	64.1	74.0
BVPS	199.4	238.4	284.7	338.9
FCF	(1.6)	2.9	7.4	18.8
DPS	-	4.5	4.5	4.5
Return Ratio(%)				
RoCE	20.5	17.6	17.5	18.0
ROIC	14.9	13.7	14.4	15.3
RoE	22.8	19.3	19.7	19.1
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.2	0.1
Net Working Capital (Days)	142	130	134	140
Valuation(x)				
PER	19.0	18.4	15.1	13.0
P/B	3.9	3.3	2.7	2.3
P/CEPS	15.4	14.5	12.1	10.5
EV/EBITDA	13.8	13.2	11.5	9.7
EV/Sales	3.0	2.5	2.3	2.1
Dividend Yield (%)	-	0.6	0.6	0.6

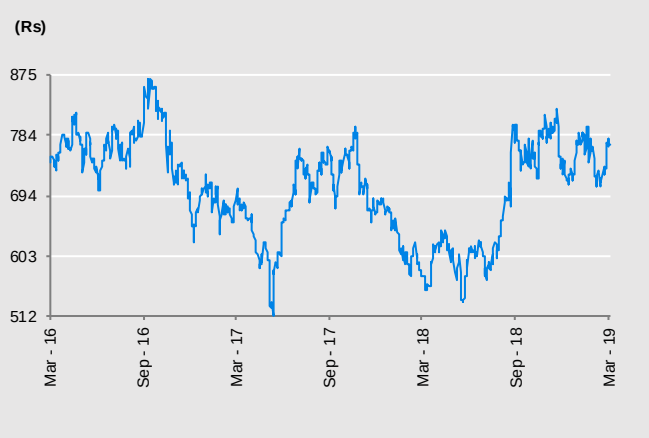
Source: Company Data, PL Research

Key Operating Metrics (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
US Formulations	76,921	89,298	98,278	1,04,371
EU & ROW	43,536	61,573	69,050	75,300
ARV formulations	13,276	9,579	10,839	11,922
APIs	29,151	32,455	34,590	36,078

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	BUY	909	620
2	21-May-18	BUY	909	595
3	27-Jun-18	BUY	909	608
4	10-Jul-18	BUY	909	627
5	01-Aug-18	BUY	909	600
6	11-Aug-18	BUY	909	611
7	06-Sep-18	BUY	909	759
8	05-Oct-18	BUY	909	757
9	13-Nov-18	BUY	909	796
10	07-Jan-19	BUY	994	725

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	952	761
2	Cadila Healthcare	Accumulate	362	322
3	Cipla	Reduce	475	535
4	Dr. Lal PathLabs	Accumulate	1,070	1,031
5	Dr. Reddy's Laboratories	Reduce	2,558	2,821
6	Eris Lifesciences	Accumulate	695	678
7	Glenmark Pharmaceuticals	Reduce	591	569
8	Indoco Remedies	Reduce	111	186
9	Ipca Laboratories	BUY	921	873
10	Jubilant Life Sciences	Reduce	703	850
11	Lupin	Reduce	820	842
12	Sun Pharmaceutical Industries	Reduce	427	442
13	Thyrocare Technologies	BUY	795	501

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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