

Aurobindo Pharma

Best positioned to grow in US generics

Strong execution in US; attractive valuations

We resume coverage on Aurobindo with a Buy premised on: 1) strong execution track record exhibited by ~530bps increase in prescription share over the past 4 years in US generics; 2) steady progress on a differentiated pipeline should drive long-term earnings sustainability; 3) turnaround of Apotex business will further drive margin expansion of EU business; and 4) strong FCF generation to aid in reducing leverage. The stock has underperformed the sector over the past year by 17%. At 12x FY22e EPS, it trades at a 20% discount to its historical average and 40% discount to the sector.

Injectables is the key growth driver

Aurobindo ranks second in the US generic injectables market in terms of units (eaches) share as of Dec 2019. It has a comprehensive injectables portfolio (122 filed and 49 pending ANDAs) and is best placed to capitalize on the growth opportunities led by drug shortages (refer Page 5) and increased demand. Additionally, resolution of Unit IV (largest injectables facility) gives confidence on growth as it paves way for future approvals. The pending ANDAs and future filings comprise of bigger share of complex opportunities viz. oncology, hormonal, liposomes, microspheres, depot injectables, peptides which will improve product mix and profitability.

Apotex turnaround will drive Europe profitability higher

We expect the acquired Apotex businesses to be a key driver of margins for the Europe business in the medium term. Aurobindo has already integrated three out of five markets and plans to shift manufacturing of 20 products in India over the next two years. The business is expected to breakeven in 2H FY21 and likely to turn profitable in FY22 (negative EBIDTA margins of 2-3% at the time of acquisition, Feb 2019). Ex-Apotex, the EU business margins are at ~12-13% and are likely to inch up to 14-16% in the next two years.

Disciplined debt reduction and FCF generation to sustain valuation

Aurobindo's net debt has reduced to USD446mn from USD724mn as on FY19. Net debt/equity is comfortable at 0.2x as on Dec 2019. We expect internal accruals will fund the maintenance capex requirement and surplus will be utilized in repaying debt. We expect company to become net debt free by FY22.

Our target price of Rs790/sh provides ~14% upside potential; risks

We rate Aurobindo Buy with a TP of Rs 790 on a target PER of 14x FY22e EPS, in line with its 5-year hist. avg. Risks: higher erosion in the US; delay in plant resolution (Unit I, IX, XI and VII); slower margin improvement in Apotex business and lower debt reduction.

Financial Summary

YE Mar (Rs bn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	150,899	164,998	195,636	228,182	251,017	265,033
EBIDTA	34,893	37,885	39,520	47,119	52,025	54,997
APAT	22,967	24,349	24,761	28,063	31,128	32,964
Diluted EPS (Rs)	39.2	41.6	42.3	47.9	53.1	56.3
P/E (x)	17.6	16.6	16.3	14.4	13.0	12.3
EV / EBITDA (x)	12.4	11.6	11.5	9.3	8.1	7.2
RoE (%)	24.6	20.7	17.2	17.1	16.0	14.6

Source: Company, HSIE Research

BUY

CMP (as on 12 May 2020)	Rs 691
Target Price	Rs 790
NIFTY	9,197

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	Rs 790
EPS %	FY20	FY21E
	-	-

KEY STOCK DATA

Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (Rs bn) / (\$ mn)	405/5,371
6m avg traded value (Rs mn)	3,273
52 Week high / low	Rs 751/281

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.8	57.8	(7.7)
Relative (%)	51.3	80.1	8.6

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	51.87	51.87
FIs & Local MFs	13.18	12.56
FPIs	21.42	22.26
Public & Others	13.53	13.31
Pledged Shares	0.00	0.00

Source : BSE

Bansi Desai, CFA

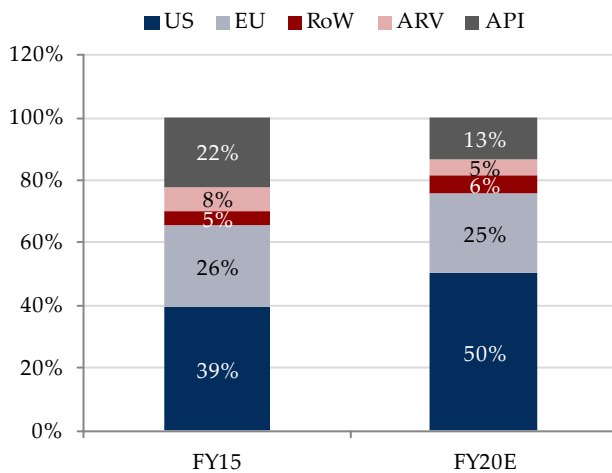
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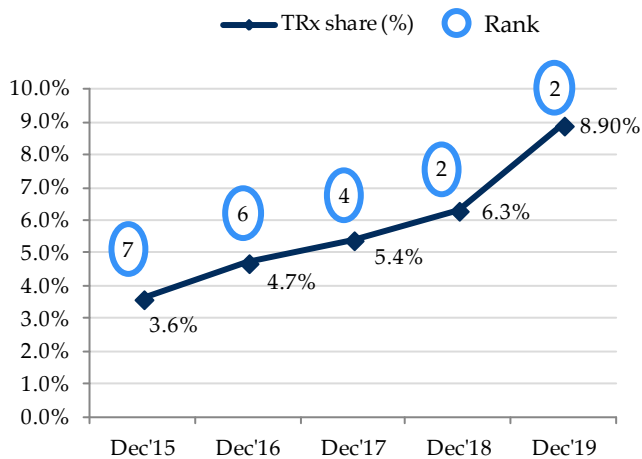
Focus Charts

Formulations account for ~87% of revenues in FY20



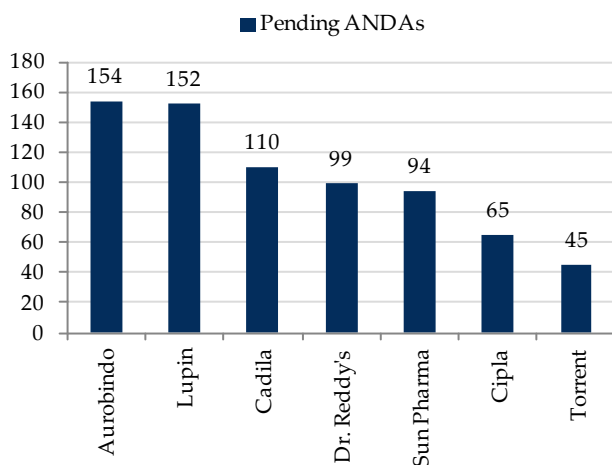
Source: Company, HSIE Research

Steady gain in TRx share in US generics



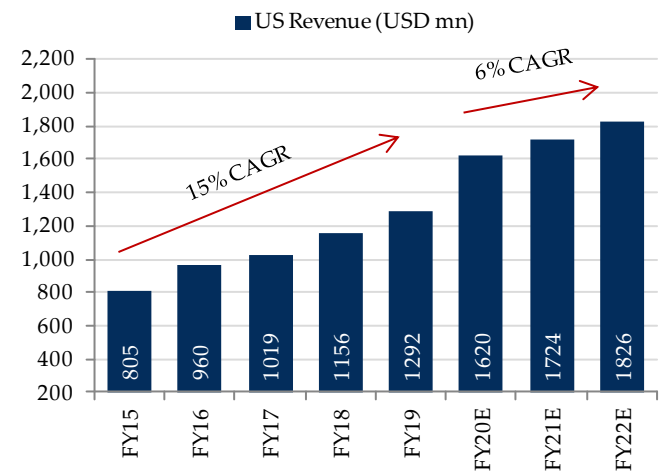
Source: Company, HSIE Research

Big R&D pipeline: Augurs well for future growth



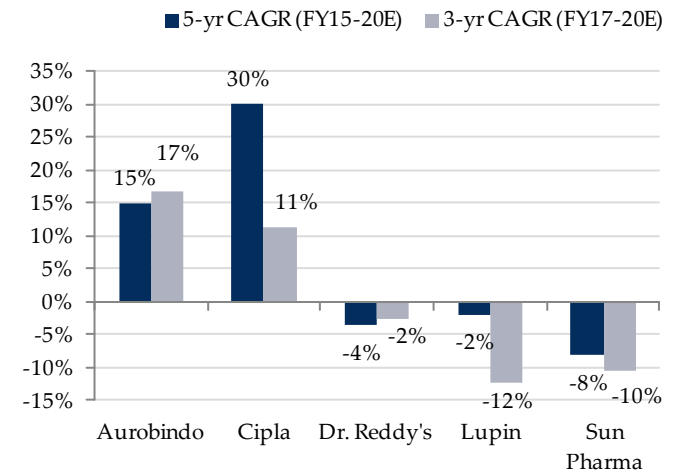
Source: Company, HSIE Research, Dec-19

Strong growth in the US: largely organic



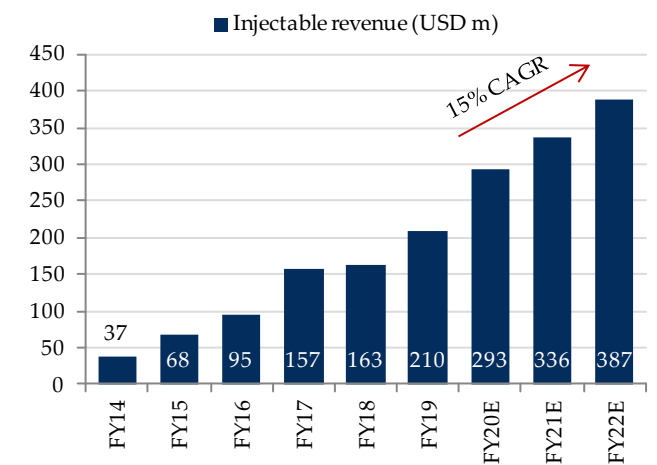
Source: Company, HSIE Research

US growth has consistently outperformed peers



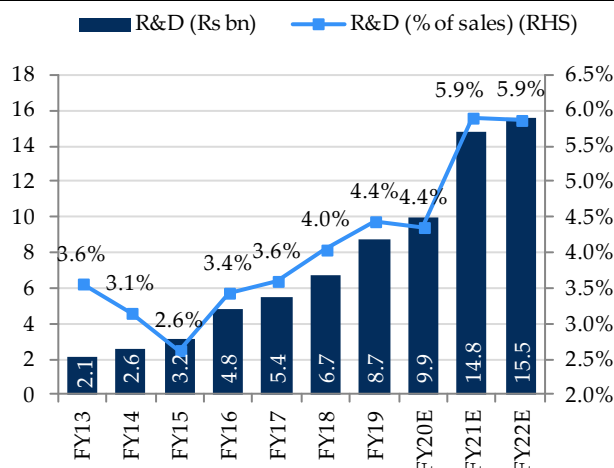
Source: Company, HSIE Research

Injectables is the key growth driver in US



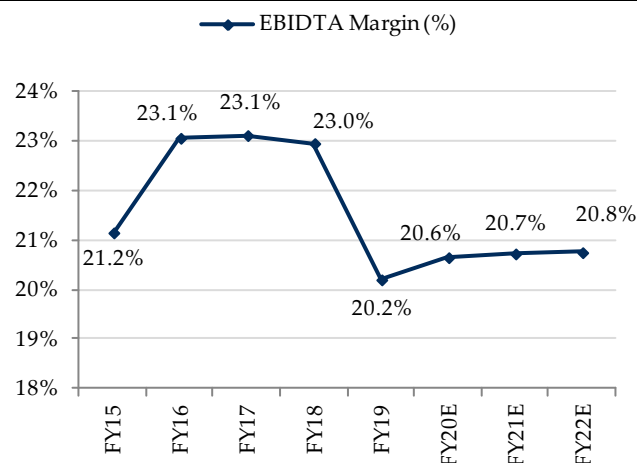
Source: Company, HSIE Research

R&D investments to intensify as complex filings continues to rise



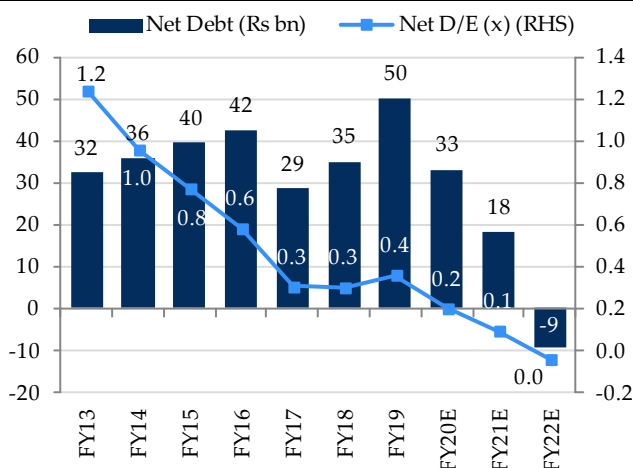
Source: Company, HSIE Research

EBIDTA margins to improve as currency tailwinds, EU margin expansion offsets higher R&D



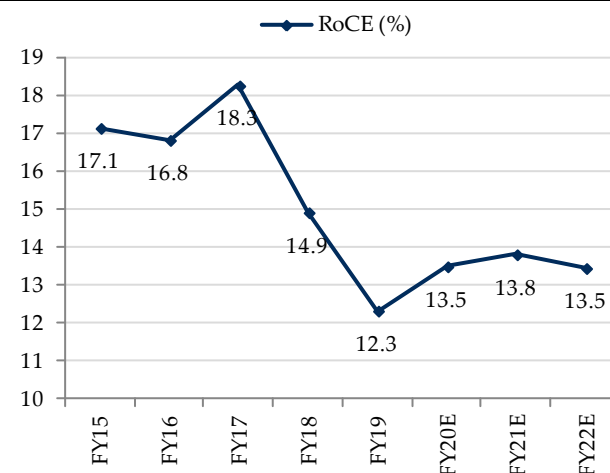
Source: Company, HSIE Research

B/S comfortable: Net debt free by FY22e



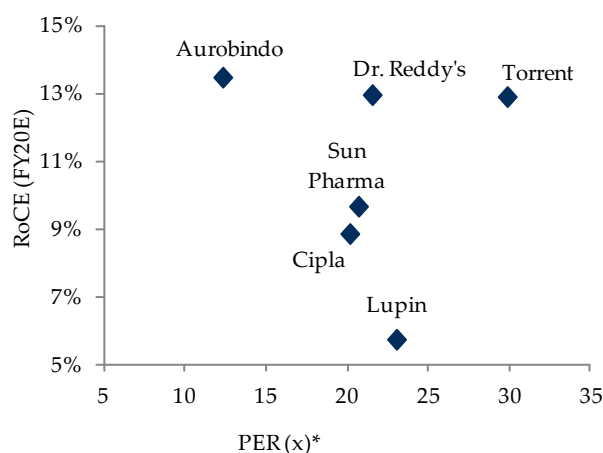
Source: Company, HSIE Research

ROCE to remain stable over FY20-22e



Source: Company, HSIE Research

Return ratios are superior to large cap peers, compares favorably in terms of valuations



Source: Company, HSIE Research, *based on FY22e

At ~12x one year forward PE, it is trading at 20% discount to its hist. avg.



Source: Bloomberg, HSIE Research

Resuming coverage with a Buy rating

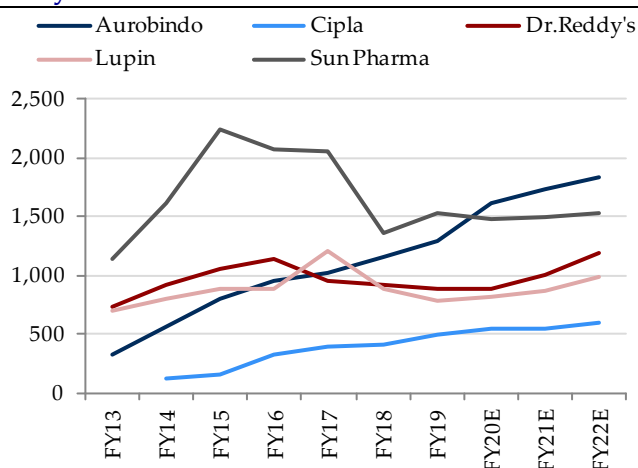
Market share gain aided by large product portfolio and cost competitiveness

Low product concentration limits price erosion risk. Top 25 products accounts for less than 40% of revenues

Among the leaders in US generics

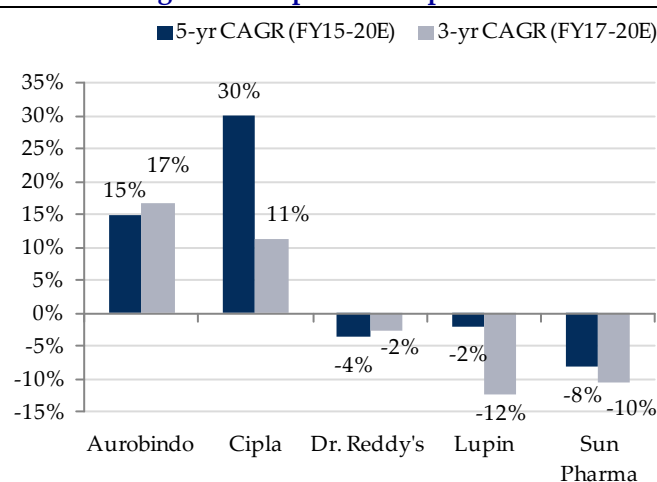
- Aurobindo is the second largest generic company in the US with 8.9% prescription share (Dec 19). Despite challenging environment in the US, Aurobindo gained ~530bps market share over the last four years. We believe its large manufacturing infrastructure, vertically integrated portfolio and a diversified product basket/pipeline places it in a better position to not only sustain growth but also capitalize on new business opportunities led by drug shortages and/or exits by large generic players in the US market.

Steady trend in US revenues



Source: Company, HSIE Research

US business growth outperformed peers

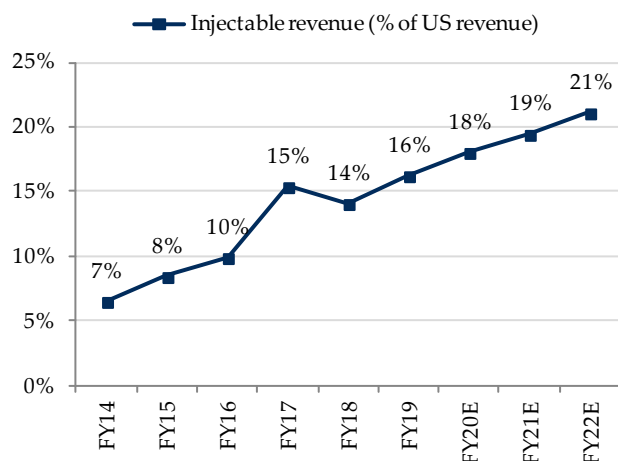


Source: Company, HSIE Research, Cipla – led by Invagen acquisition

Leading injectables franchise

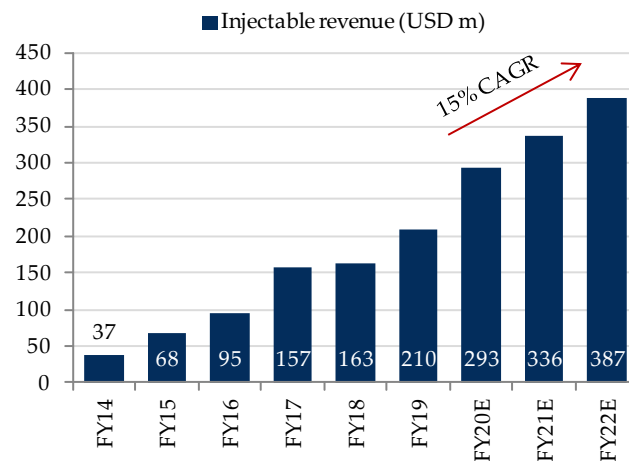
- Injectables revenues account for 18% of overall US revenues today. Aurobindo ranks second in the US generics injectables market in terms of units (eaches) as on Dec 2019. The company has invested significantly in manufacturing infrastructure and regulatory filings. So far, Aurobindo has received 73 approvals of which ~55 products are commercialized.
- The pipeline includes ~49 ANDAs pending approval. Most of these are filed from Unit IV, which is the largest injectables facility. We expect injectable revenues to post 15% CAGR over the next 2 years (excluding Spectrum acquisition) driven by new launches and market share gains in older products.

Injectables contribute ~18% of US revenue as on FY20E



Source: Company, HSIE Research

We forecast ~15% revenue CAGR over next two years



Source: Company, HSIE Research

Drug shortages present potential opportunities

- Of the ~110 products that are currently under drug shortages in the US, Aurobindo has presence in ~4 orals and ~11 injectables products. We believe Aurobindo is better placed to capitalize on such opportunities given it has extensive product basket and large manufacturing infrastructure with vertical integration which allows it to respond quickly to such situations.

Aurobindo's presence in products under shortages

Product	Dosage	Company
Bupivacaine Hydrochloride	Injection	AuroMedics, Fresenius Kabi, Hospira, Areva, Baxter
Dexamethasone Sodium Phosphate	Injection	AuroMedics, Mylan, Somerset, Fresenius Kabi, Hikma
Dexmedetomidine	Injection	Aurobindo, Accord, Baxter, Fresenius Kabi, HQ Specialty, Jiangsu Hengrui, Mylan, Par, Pfizer, Slayback
Etomidate	Injection	AuroMedics, Gland, Hikma, Mylan, Pfizer
Furosemide	Injection	AuroMedics, Fresenius Kabi, Baxter, Heritage, Hospira
Lidocaine Hydrochloride (Xylocaine)	Injection	AuroMedics, Fresenius Kabi, Hospira, Amphastar, American Regent/Luitpold, Hikma, Spectra Medical
Ondansetron Hydrochloride	Injection	AuroMedics, Gland, Baxter, Heritage, Fresenius Kabi, Hikma, Hospira, Apotex, Sagent
Pantoprazole Sodium	Injection	Aurobindo, Sun Pharmaceutical, Pfizer, Hikma
Ropivacaine Hydrochloride	Injection	AuroMedics, Sagent, Akorn, Hospira, Fresenius Kabi
Vecuronium Bromide	Injection	AuroMedics, Teva, Hospira, Mylan, Gland, Sun Pharmaceutical
Dorzolamide Hydrochloride and Timolol Maleate (Cosopt) Ophthalmic	Solution	Aurobindo, Akorn, Sandoz, Bausch Health, Teva
Amphetamine Aspartate; Amphetamine Sulfate; Dextroamphetamine Saccharate; Dextroamphetamine Sulfate	Tablets	Aurobindo, Neshier, Sandoz, Teva, Mylan
Azithromycin	Tablets	Aurobindo, Lupin, Pfizer, Sandoz, Teva, CSPC Ouyi, Wockhardt, Bionpharma, Alembic, HEC
Famotidine	Tablets	Aurobindo, Teva, Alembic, Carlsbad
Levetiracetam Extended-Release	Tablets	Aurobindo, Apotex, Sun Pharmaceutical, Lupin, UCB, Solco, Torrent Pharma, Camber, Mylan

Source: US FDA, HSIE Research

*Acquired for USD300mn:
USD 160m upfront cash
and upto USD 140m upon
achievement of certain
regulatory and sales-based
milestones related to
Marqibo and Khapzory*

*One new product could be
launched over the next two
years*

Branded presence through Spectrum acquisition

- Aurobindo acquired seven brands of Spectrum in oncology segment in Jan 2019. The acquisition provides presence in the branded segment and a platform to launch oncology products in future.
- The seven brands (~USD110mn) account for 7% of US revenues in FY20e. We expect one new launch over the next two years. We have factored 5% decline in revenues over FY20-22e.

Injectable portfolio acquired from Spectrum

Brand	Drug	Dosage	Patents expiry	Revenues*	Comments
Fusilev	Levoleucovorin Calcium	Powder	March'22	2.4	The product is off patent. Revenues have declined from USD35mn in 2015 to USD2.5mn. The market is expected to shift to Khapzory.
Khapzory	Levoleucovorin	Powder	-	0.9	Launched in Dec 2018. The product should ramp up gradually. There are sales based milestone based on this product.
Folotyn	Pralatrexate	Solution	July'22; May'25	48	This is the biggest product in the portfolio. The product is settled with Teva, Fresenius, Dr. Reddy's and Sandoz until Nov 2022.
Zevalin	Ibritumomab Tiuxetan	Injectable	-	7	This is the only monoclonal antibody product in the portfolio. Approval for new indication can increase the addressable market share manifold. The opportunity is beyond FY23.
Marqibo	Vincristine Sulphate	Injectable	March'20; Sept'20	5.5	There are regulatory and sales based milestone based on this product.
Beleodaq	Belinostat	Powder	Sept'21; Oct'27	12.3	Data exclusivity expires in July 2021
Evomela	Melphalan Hydrochloride	Powder	March'29; Feb'33; Jan'34	28.3	Data exclusivity expires in March 2023

Source: Company, HSIE Research, * USD mn, 2018

Strong US pipeline augurs well for future growth

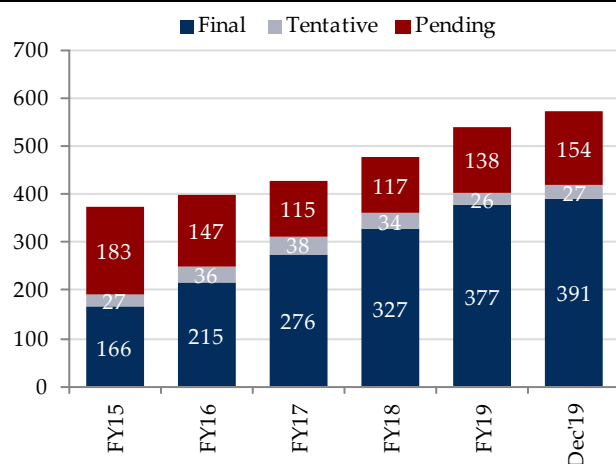
- Aurobindo has a large basket of products in the US with 391 ANDA approvals and 154 ANDAs awaiting approval, including 27 tentatively approved. The addressable market size of pending ANDAs is ~USD74.1bn. We estimate c.40% of the filings are complex in nature.
- We expect Aurobindo's R&D costs to increase by ~150bps to 5.9% of sales in FY22 as it continues to invest in complex/niche products like oncology/hormones, peptides, topicals, transdermals and also in differentiated technology platforms of depot injectables, inhalers, patches and films.

Large filings across the markets

Category	Mar'14	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19	Dec'19
Formulations							
US*	336	376	398	429	478	541	572
Europe**	1,542	1,756	2,224	2,521	2,848	3,003	3,197
SA**	334	345	376	401	415	430	436
Canada***	72	83	105	121	137	150	158
Total	2,284	2,560	3,103	3,472	3,878	4,124	4,363
API							
US***	181	192	205	220	227	242	253
Europe**	1,504	1,601	1,689	1,735	1,814	1,834	1,857
CoS	106	114	118	125	131	139	143
Others**	627	681	715	749	803	932	1,072
Total	2,418	2,588	2,727	2,829	2,975	3,147	3,325

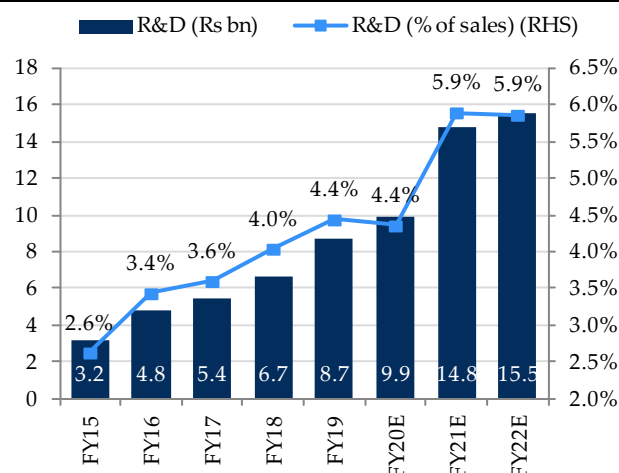
Source: Company, HSIE Research, *Includes filings made from AuroLife Pharma LLC, USA (net of ANDAs withdrawn); **includes multiple registration; ***excludes withdrawn

Filing momentum continues to remain strong with 154 ANDAs pending approval in the US



Source: Company, HSIE Research

R&D cost to increase to 5.9% of sales driven by complex filings and products under development



Source: Company, HSIE Research

Increasing focus on specialty/complex portfolio

Specialty	Under development	Market size*	Region	Filed	Approved	Revenue timeline	Comment
Oncology & Hormones	75+	45	US/EU	Oncology -22, Hormones -9	9	Q1FY20	Plans to file all products over next 3-4 years
Topicals	24	4.4	US/EU	3	0	FY21	Plans to file all products in next 3-4 years
Nasals	7	1.4	US/EU	2	0	FY20/FY21	Plans to file all products by FY21 end
Peptides	14	12	Global	2-3	0	FY21	One oral product is settled but not in near term
Depot Inj.	4	3.6	US	FY21	0	FY22	Plans to file all products by FY23
Transdermal Patches	8	3.3	US	FY21	0	FY22	Plans to file all products over next 3 years
Inhalers	9	13.3	US	FY21	0	FY22/FY23	Plans to file all products in next 3-4 years
Biologics	6	35	Global	FY21	0	FY22	First set of products to be filed by FY22
Vaccines	1	6.2	EM	FY21	0	FY22	Phase-II completed

Source: Company, HSIE Research, *USD bn

Apotex turnaround will drive Europe margins higher

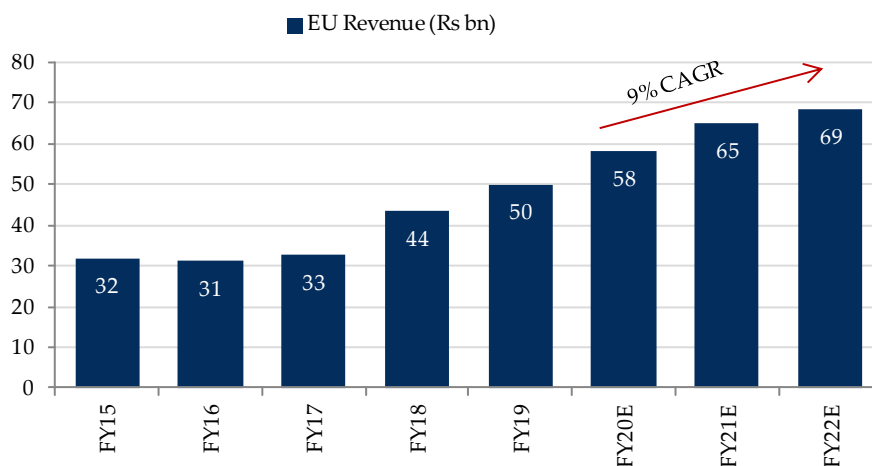
- Aurobindo has been expanding its European footprint since 2006 both organically and via acquisitions. The company has presence in generics, tender business, branded generics and hospitals segments. It ranks among the top 10 generics companies in four out of the top 5 EU countries. France and Germany are the top 2 markets.
- The recent acquisition of the Apotex business deepens Aurobindo's presence in existing markets of Spain, the Netherlands and Belgium and provides entry into newer markets of Poland and Czech Republic. The portfolio includes 200 Rx and 88 OTC products. The pipeline includes 20 launches in the next two years.
- We expect the business to post 9% CAGR over FY20-22e driven by increased market access, market share gains in own and acquired portfolio and new launches.
- We expect EBITDA margins to expand led by: 1) lowering COGS by transferring products to Aurobindo's own manufacturing in India; 2) operational synergies through combined business infrastructure; and 3) ramp-up in own filings and day-one launches.

France and Germany are the key markets

Market	Products	Rank	Comments
France	268	Hospital - Rank 1, Retail market - Rank 5	Strong foothold through 'Arrow Generiques' brand via Actavis acquisition
Germany	239	Rank 7	Substantial presence through Actavis
Portugal	285	Generic - Rank 2	Actavis and Generis acquisitions
UK	98	Generic - Rank 7	Acquired Milpharm in 2006
Italy	164	Rank 8	Established presence through Actavis
Romania	42	Generic - Rank 16	Small market
Spain	182	Generic - Rank 10, OTC - 7	Actavis, Apotex adds to the base
Netherlands	306	Generic - Rank 3, OTC - Rank 1	Apotex portfolio is complimentary, Leading OTC company in the Netherlands by volume
Belgium	90	Generic - Rank 5	Supplements & Medical Devices, Large pipeline of complimentary products ready for launch, Focus on non-reimbursed products through pharmacy/physician sales force
Poland	62	Generic - Rank 15	Leading position in urology, strong base in CNS and transplant medicines, Large sales force and broad coverage of doctors, pharmacy chains and individual pharmacies
Czech Republic	76	Generic - Rank 10, OTC - 7	Focused on Food Supplements and Medical Devices, Strong relationships with key players in the market

Source: Company, HSIE Research

EU revenues to grow at 9% CAGR over FY20-22E

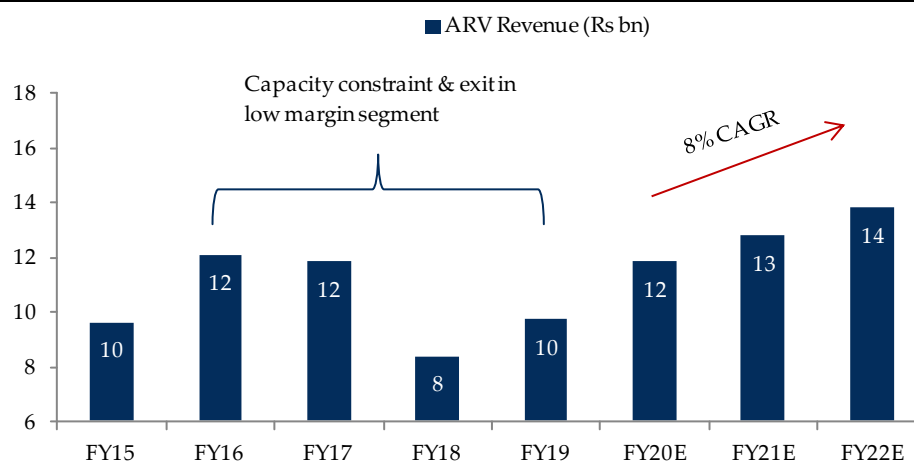


Source: Company, HSIE Research

ARV business to report steady growth

- Aurobindo is one of the largest players in the ARV segment (32 products) catering to over 125 countries. It is well integrated in terms of supply chain. It has filed more than 1,100 ARV dossiers across the globe. However, the business declined by 1% over FY16-20 owing to capacity constraints and exits in low margin business. We expect the ARV business to register 8% CAGR in FY20-22e driven by a ramp-up in DTG sales.

ARV business is expected to post 8% CAGR over FY20-22E



Source: Company, HSIE Research

Improving regulatory compliance adds growth visibility

Aurobindo has 29 manufacturing facilities – 4 in US, 2 in Europe, 1 in Brazil and 22 in India

- In 2019, FDA carried out 15 inspections at Aurobindo's plants and most went well without any hiccups. Four facilities have outstanding FDA issues and ~20 approvals are impacted from these four facilities over the next two years.
- Unit I, IX and XI are API and Intermediates plant. Unit I and IX have OAI status and Unit XI has a warning letter. Aurobindo has completed remediation activities and was expecting re-inspection in March 2020.
- Unit VII is a formulations plant and has an OAI status. The facility has received 7 observations in Sep 2019. There 29 pending ANDAs (including tentative and excluding 3 PEPFAR products) from this facility.

Compliance status of key plants

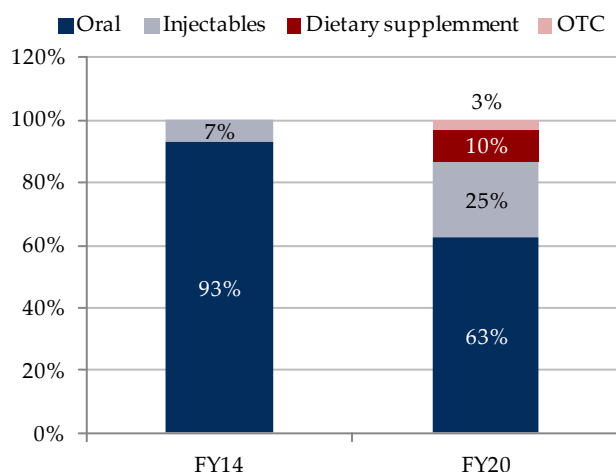
Formulation Plant	Product capabilities	Last inspected	Status
Unit III	Non antibiotics, ARVs / Orals	May-19	EIR received
Unit IV	Injectables(Non-antibiotics) & Ophthalmics	Nov-19	EIR received
Unit VI B	Cephalosporin / Orals	Sep-17	EIR received
Unit VII	Non antibiotics, ARVs / Orals	Sep-19	7 observations, OAI status
Unit XII	Antibiotics, injectables, Orals	Feb-20	EIR received
AuroNext	Penem formulations	Feb-18	EIR received
Eugia*	Oncology & Hormones	Aug-19	EIR received
AuroLife	Non-antibiotic & Controlled substances	Oct-19	VAI status
Unit X*	Non antibiotics, Solid Orals	Feb-20	EIR received
Unit XV (For Europe)	Non antibiotics, Solid & Liquid Orals (EU)	Oct-16	Approved
Unit XVI*	Antibiotics, Injectables	Mar-19	EIR received
APL Healthcare	Pharma OTC, Solid Orals	Dec-18	EIR received

API plants	Product capabilities	Last inspected	Status
Unit I	CVS, CNS, Anti-Allergics, Non-Sterile	Feb-19	6 observations, OAI status
Unit V	Antibiotics (Sterile & Non-sterile)	Oct-19	EIR received
Unit VIII	ARV, CVS, CNS (Non-sterile)	Oct-19	EIR received
Unit IX	Intermediates	Feb-19	5 observations, OAI status
Unit XI	Non antibiotics	Feb-19	3 observations, Warning Letter
Silicon LS	Penems(Non-sterile)	Mar-18	EIR received
AuroNext	Penems(Sterile)	Feb-18	EIR received
AuroPeptide	Peptides	Aug-16	EIR received
Unit XIV	Non-antibiotics	Jul-19	EIR received

Source: Company, HSIE Research

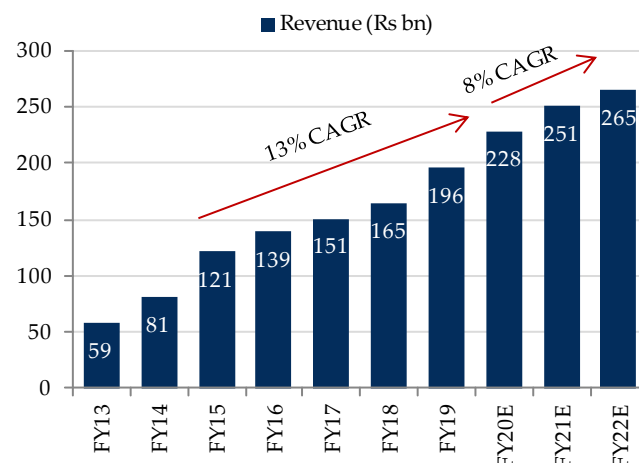
Financials

Improving product mix to drive margins higher



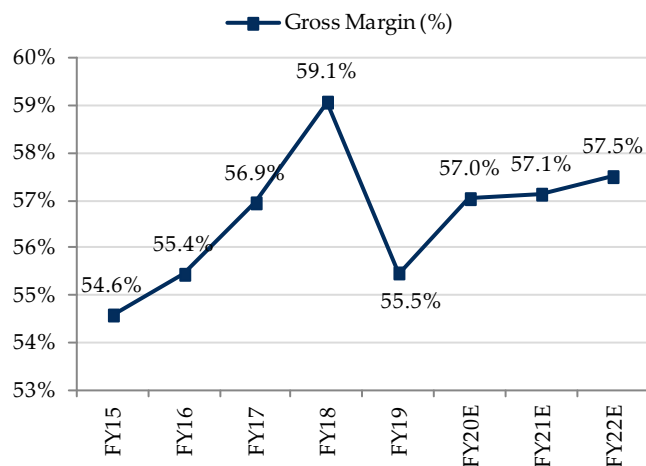
Source: Company, HSIE Research

Revenues to post 8% CAGR over FY20-22e



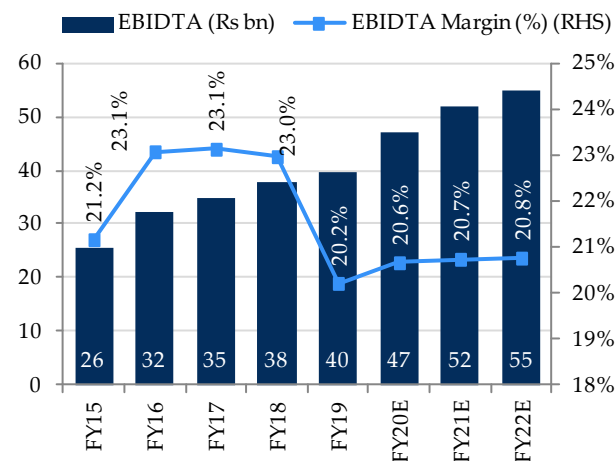
Source: Company, HSIE Research

Gross Margin to expand by ~50bps over FY20-22e



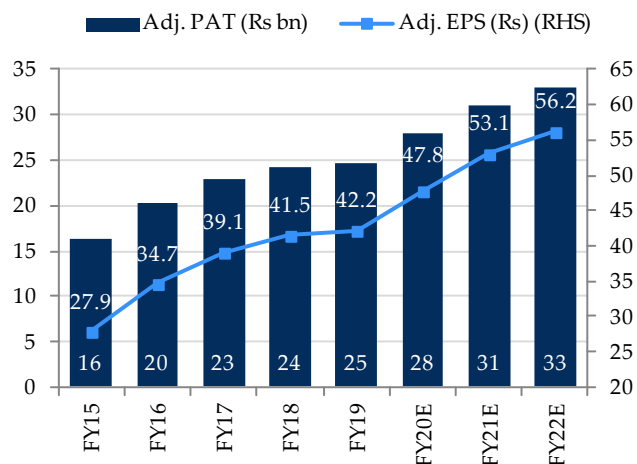
Source: Company, HSIE Research

EBIDTA margins to expand by 20bps over FY20-22e



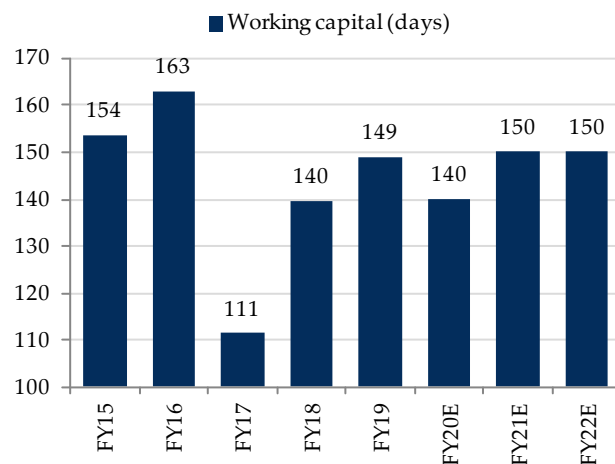
Source: Company, HSIE Research

PAT to grow at 9% CAGR over FY20-22e



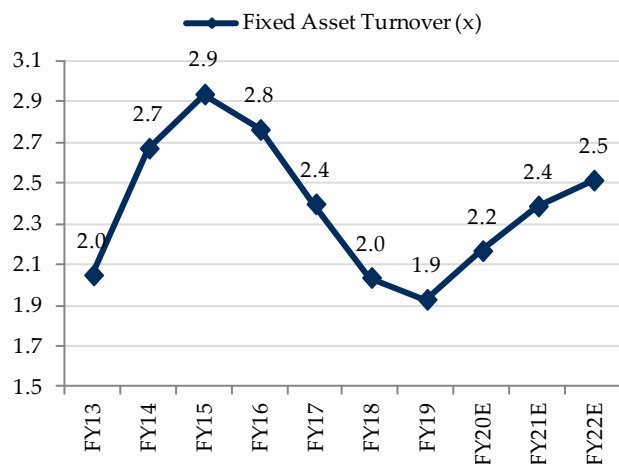
Source: Company, HSIE Research

Working capital days to inch up with higher US revenues



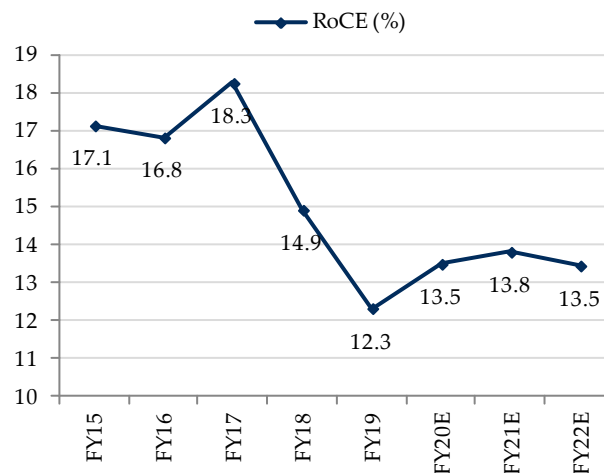
Source: Company, HSIE Research

Fixed Asset Turnover is likely to improve



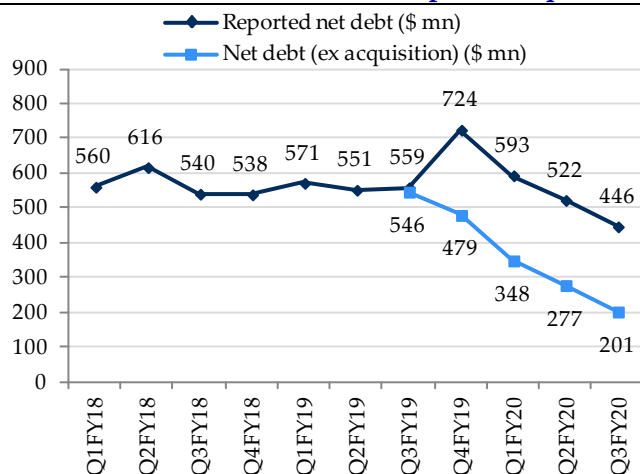
Source: Company, HSIE Research

ROCE to remain stable over FY20-22e



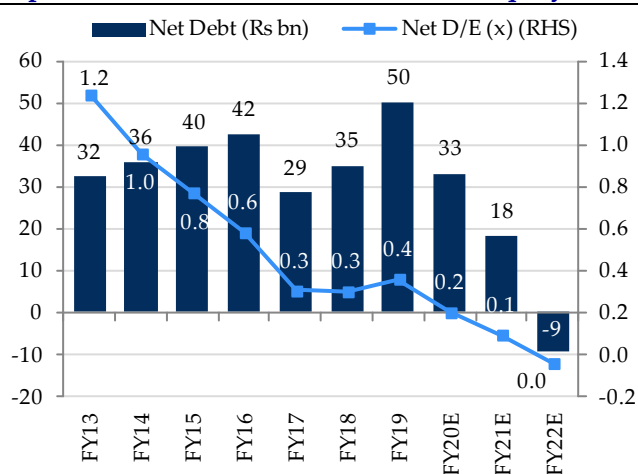
Source: Company, HSIE Research

Continuous reduction in debt since past few quarters



Source: Company, HSIE Research

B/S position is comfortable with net/debt equity at 0.2x



Source: Company, HSIE Research

Valuation and risks

- We rate Aurobindo Buy with a target price of Rs 790, based on a target PER of 14x FY22e EPS in line with its 5-year average PER. In terms of scale and financial parameters, Aurobindo compares favorably to large cap peers. Aurobindo ranks second in the US generics market with ~9% TRx share. It has rapidly grown its US sales from USD120mn in FY09 to c.USD1.3bn in FY19 (largely organic) on the back of several product launches and market share gains in the base portfolio. In EU, which is the second biggest market, Aurobindo has expanded significantly largely via inorganic acquisitions. We believe an improving pipeline in the US, turnaround in Apotex acquisition in EU and currency tailwind will drive margin expansion over the next two years.

Aurobindo is trading at ~12x 1-year forward PE



Source: Bloomberg, HSIE Research

Risks

- Key downside risks: higher erosion in the US; delay in plant resolution (Unit I, IX, XI and VII); slower margin improvement in Apotex business and lower debt reduction.

Peer set Comparison

Domestic	M.Cap (Rs bn)	CMP (Rs./ Sh)	RECO	TP	EV/ EBITDA (X)			ROE			PER(X)			CAGR (FY20E-22E)	
					20E	21E	22E	20E	21E	22E	20E	21E	22E	EPS	Revenue
Aurobindo	405	691	BUY	790	9.3	8.1	7.2	17.0	16.0	14.6	14.5	13.0	12.3	8.4%	7.8%
Cipla	460	570	BUY	600	14.7	12.9	10.8	10.3	10.5	11.4	27.2	24.4	20.1	16.4%	8.0%
Dr. Reddy's	627	3,773	REDUCE	3,330	19.3	15.6	13.0	14.6	13.8	14.8	28.3	26.5	21.5	14.8%	12.8%
Lupin	386	852	ADD	720	17.0	14.9	11.8	7.2	8.1	10.0	36.8	30.8	23.0	26.6%	7.0%
Sun	1,113	464	ADD	450	14.7	13.6	11.2	10.5	10.1	10.8	25.7	25.0	20.7	11.4%	8.3%
Torrent	414	2,445	ADD	2,405	20.7	18.7	16.3	17.9	19.4	21.3	44.3	36.9	29.8	21.8%	8.3%
Alkem	308	2,578	NR	NA	20.8	18.0	15.6	19.3	18.9	18.7	26.7	23.4	20.3	14.6%	12.2%
Cadila	331	324	NR	NA	15.0	13.3	12.5	12.4	13.4	13.3	23.9	20.3	18.7	13.1%	7.6%
Glenmark	94	332	NR	NA	7.4	6.4	5.8	12.0	12.3	12.6	13.1	11.4	9.9	15.0%	8.8%
Ipca Labs	195	1,546	NR	NA	20.9	17.5	15.0	18.8	19.1	19.0	30.2	24.8	20.7	20.7%	13.6%
Eris Lifesciences	68	498	NR	NA	17.5	15.8	14.5	23.5	21.7	20.1	22.1	19.7	17.3	13.0%	11.0%

Global	M.Cap (USD bn)	CMP (USD/ Sh)	RECO	TP	EV/ EBITDA (X)			ROE			PER(X)			CAGR (CY19-21E)	
					CY19	CY20E	CY21E	CY19	CY20E	CY21E	CY19	CY20E	CY21E	EPS	Revenue
Generic															
Hikma	7.3	30	NR	NA	12.7	11.8	11.1	25.6	16.6	16.7	23.9	19.2	17.5	16.7%	4.2%
Mylan	8.7	17	NR	NA	6.0	6.1	5.3	0.1	18.3	14.5	12.2	3.9	3.7	80.5%	2.1%
Teva	13	11	NR	NA	8.1	8.0	7.8	NA	16.1	16.0	7.8	4.6	4.4	34.3%	0.0%

Source: Bloomberg, HSIE Research

Financials

Consolidated Income Statement

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Revenues	121,205	138,961	150,899	164,998	195,636	228,182	251,017	265,033
Growth (%)	49.6	14.6	8.6	9.3	18.6	16.6	10.0	5.6
Material cost	55,055	61,575	63,793	67,527	87,127	98,039	107,613	112,638
Gross margin (%)	54.3	54.6	56.2	59.1	55.5	57.0	57.1	57.5
Employee Benefits Expense	13,023	15,508	17,678	21,308	25,849	31,484	34,267	36,440
Other Expenses	27,490	29,821	34,536	38,277	43,141	51,541	57,113	60,957
Total expenditure	95,568	106,905	116,006	127,113	156,116	181,063	198,992	210,035
EBITDA	25,637	32,056	34,893	37,885	39,520	47,119	52,025	54,997
Margins (%)	21.2	23.1	23.1	23.0	20.2	20.6	20.7	20.8
Depreciation	3,326	3,926	4,276	5,580	6,680	9,179	10,149	11,049
EBIT	22,311	28,130	30,617	32,305	32,840	37,940	41,876	43,948
EBIT margin (%)	18.4	20.2	20.3	19.6	16.8	16.6	16.7	16.6
Other income	967	682	538	1,020	1,157	1,158	1,301	1,315
Interest	843	927	667	777	1,627	1,785	1,171	777
PBT	21,680	27,225	30,558	32,380	31,137	37,697	42,006	44,486
Extraordinary Items (EO)	-756	-660	71	-168	-1,233	384	-	-
PBT after EO items	20,924	26,565	30,629	32,213	29,904	38,081	42,006	44,486
Tax	5,966	7,444	7,596	8,183	7,269	9,424	10,922	11,566
Tax rate	28.5	28.0	24.8	25.4	24.3	24.7	26.0	26.0
Minority Interest /share of JV	-45	-39	-55	-34	-30	-59	-44	-44
Reported PAT	15,759	19,820	23,017	24,231	23,898	28,332	31,128	32,964
Adj. PAT	16,288	20,282	22,967	24,349	24,761	28,063	31,128	32,964

Source: Company, HSIE Research

Consolidated Balance Sheet

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	292	585	586	586	586	586	586	586
Reserves & Surplus	51,267	72,288	93,133	116,218	138,322	164,545	193,564	224,418
Shareholders' Funds	51,559	72,873	93,719	116,804	138,908	165,131	194,150	225,004
Minority Interest	258	26	21	18	16	9	5	1
Long Term	13,615	7,428	1,814	4,512	1,800	1,800	1,800	1,800
Short Term	30,896	42,983	31,827	43,187	67,862	47,514	32,514	19,389
Total Debt	44,511	50,411	33,641	47,700	69,662	49,313	34,313	21,188
Deferred Tax Liability (net)	2,058	1,060	758	2,353	2,813	2,813	2,813	2,813
Total Equity and Liabilities	98,386	124,369	128,139	166,875	211,399	217,266	231,281	249,006
Net Block	37,181	41,919	50,545	67,042	88,014	91,834	92,935	93,136
Capital WIP	4,072	8,359	12,374	13,995	13,419	13,419	13,419	13,419
Current Assets	87,344	103,981	93,450	123,634	155,389	169,379	188,624	211,349
Inventories	36,113	40,561	43,305	58,584	72,456	81,270	94,905	100,204
Receivables	35,392	46,067	27,653	30,844	34,138	42,511	48,140	50,828
Cash & Bank Balances	4,691	8,003	5,135	12,616	19,572	16,201	15,990	30,516
Other Current Assets & Advances	11,148	9,350	17,357	21,590	29,223	29,397	29,589	29,800
Current Liabilities	30,712	34,833	34,355	44,177	53,145	65,090	71,420	76,620
Sundry Creditors	20,511	24,570	24,883	26,274	26,771	36,259	39,888	42,115
Provisions	10,200	10,263	9,473	17,903	26,374	28,830	31,533	34,505
Net current assets	56,633	69,148	59,095	79,456	102,244	104,290	117,204	134,729
Total Assets	98,386	124,369	128,139	166,875	211,399	217,266	231,281	249,006

Source: Company, HSIE Research

Consolidated Cash Flow

Year to March (INR mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Profit Before Tax	21,679	27,443	30,608	32,412	30,914	37,697	42,006	44,486
Depreciation	3,326	3,924	4,276	5,580	6,680	9,179	10,149	11,049
Other non-cash items	1,315	951	-472	-230	1,428	1,836	1,211	817
Cash flow before WC changes	26,319	32,318	34,413	37,762	39,021	48,713	53,366	56,352
WC changes	-8,995	-10,794	6,110	-10,690	-15,103	-5,417	-13,125	-2,998
Taxes paid	-4,956	-7,326	-7,737	-7,524	-7,698	-9,424	-10,922	-11,566
Cash flow from operations	12,368	14,198	32,786	19,548	16,220	33,871	29,319	41,788
Capex	-7,907	-13,293	-17,037	-18,192	-15,813	-13,000	-11,250	-11,250
Others	-6,178	-1,160	-833	-1,377	-12,955	-	-	-
Cash flow from investing	-14,085	-14,452	-17,870	-19,570	-28,768	-13,000	-11,250	-11,250
Equity capital issues	68	72	67	2	1	-	-	-
Borrowings (net)	3,408	6,033	-17,279	12,022	22,304	-20,349	-15,000	-13,125
Dividends paid	-1,805	-1,616	-1,372	-2,641	-1,599	-2,109	-2,109	-2,109
Interest expense	-739	-835	-568	-742	-1,514	-1,785	-1,171	-777
Others	3,795	41	0	304	0	-0	-	-
Cash flow from financing	4,727	3,695	-19,153	8,945	19,192	-24,242	-18,280	-16,011
Net Increase/(Decrease) in Cash and Equivalents	3,010	3,441	-4,237	8,924	6,643	-3,371	-211	14,527
Opening cash balance	1,480	4,038	7,435	3,196	12,099	19,572	16,201	15,990
Closing cash balance	4,491	7,479	3,198	12,120	18,743	16,201	15,990	30,516
Free cash flow	-3,416	-5,814	-13,839	-6,072	2,930	3,201	4,740	19,266

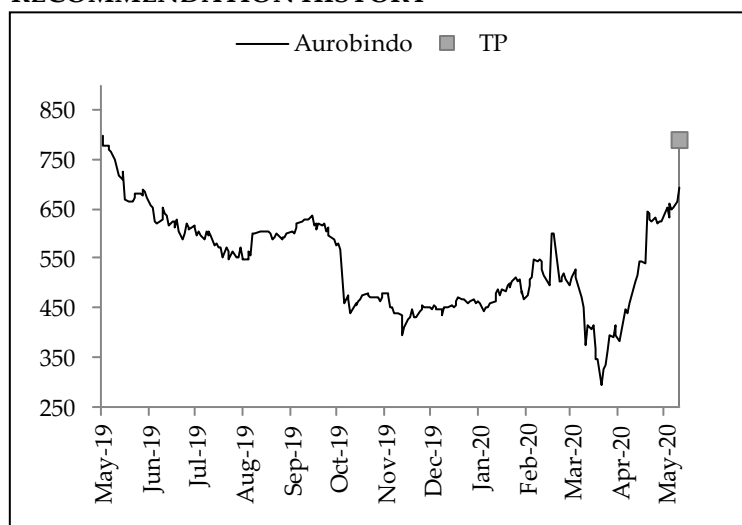
Source: Company, HSIE Research

Key Ratios

Year to March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)								
GPM	54.3	54.6	56.2	59.1	55.5	57.0	57.1	57.5
EBITDA Margin	21.2	23.1	23.1	23.0	20.2	20.6	20.7	20.8
APAT Margin	13.4	14.6	15.2	14.8	12.7	12.3	12.4	12.4
RoAE	36.6	32.6	27.6	23.1	19.4	18.5	17.3	15.7
RoIC (or Core RoCE)	18.4	18.4	18.2	16.4	13.3	13.3	13.8	13.5
RoACE	19.2	18.8	18.5	16.9	13.8	13.7	14.3	14.0
EFFICIENCY								
Tax Rate (%)	27.5	27.3	24.9	25.3	23.3	25.0	26.0	26.0
Fixed Asset Turnover (x)	2.9	2.8	2.4	2.0	1.9	2.2	2.4	2.5
Inventory (days)	109	107	105	130	130	130	138	138
Debtors (days)	107	121	67	68	68	68	70	70
Payables (days)	62	65	60	58	50	58	58	58
Working capital days (X)	154	163	111	140	148	140	150	150
Net Debt/EBITDA (x)	1.6	1.3	0.8	0.9	1.3	0.7	0.4	-0.2
Net D/E (x)	0.8	0.6	0.3	0.3	0.4	0.2	0.1	-0.0
Interest Coverage (x)	26	30	46	42	20	21	36	57
PER SHARE DATA (Rs)								
Adj. EPS	27.9	34.7	39.2	41.6	42.3	47.9	53.1	56.3
Dividend	2	2	3	3	3	3	3	3
Book Value	88	125	160	199	237	282	331	384
VALUATION								
P/E (x)	24.8	19.9	17.7	16.6	16.4	14.5	13.0	12.3
P/BV (x)	7.8	5.5	4.3	3.5	2.9	2.5	2.1	1.8
EV/EBITDA (x)	17.3	13.9	12.4	11.6	11.5	9.3	8.1	7.2
EV/Revenues (x)	3.7	3.2	2.9	2.7	2.3	1.9	1.7	1.5
OCF/EV (%)	2.8	3.2	7.6	4.4	3.6	7.7	6.9	10.6
FCF/EV (%)	-0.8	-1.3	-3.2	-1.4	0.6	0.7	1.1	4.9
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
13-May-20	691	BUY	790

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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