

Divestiture of dietary supplement business 'Natrol'

In an important development, Aurobindo Pharma signed a definitive agreement on October 25, 2020 with New Mountain Capital and its affiliate Jarrow Formulas to sell its 'Natrol' business (wholly owned step-down subsidiary) as a going concern with related assets, liabilities, products, brands and employees for a cash consideration of US\$550 million (₹ 4048 crore). Net worth of the company as on March 31, 2020 was at US\$82.41 million. The transaction is expected to be closed by January 2021 subject to customary closing conditions and regulatory approvals.

Natrol background & history

Natrol, manufactures and sells nutritional supplements in the US and select international markets. It offers branded products including vitamins, minerals and supplements; diet and weight management products; sports nutrition products; products and formulas for hair, skin, and nails. Natrol's portfolio of brands includes Natrol, MRI, Prolab, Laci Le Beau, Promensil, Trinovin, Nu Hair and Shen Min.

Aurobindo Pharma US, a wholly owned subsidiary of Aurobindo Pharma, had acquired Natrol in December 2014 for US\$132.5 million under the auction process by the US Bankruptcy Court to create a fully-integrated OTC platform and get access to certain well established brands, an extensive distribution network consisting of retail pharmacy chains and specialty health food stores, thereby helping tactically position itself in the US nutraceuticals space and offer an effective growth strategy to expand market penetration.

Valuation & Outlook

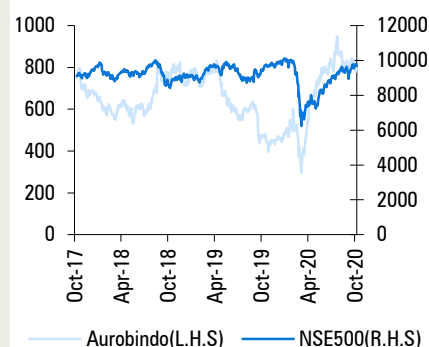
Natrol had annual sales of US\$157 million (4.8% of consolidated sales) in FY20. Hence, this transaction values the business at 3.5x sales, a compelling deal by any standards. The company will utilise proceeds to reduce debt and other new strategic initiatives. We believe a significant portion of the company's current debt (₹ 4777 crore as of Q1FY21) is working capital based. Therefore, a major portion of cash generated through this deal is likely to be utilised for strategic investments. The sale of this non-core segment is likely to improve focus on new and complex ventures such as biosimilars, vaccines and complex injectables where capital requirements are higher and precise. Structurally, we remain positive on the company as it possesses one of the best, enduring generics ecosystems among peers (vertically integrated model, lower product concentration) to withstand volatility in the US and other generics space. We maintain **BUY** recommendation and ascribe a target price of ₹ 1025 valuing it 14x FY23E EPS of ₹ 73.3.



Particulars

Particular	Amount
Market Capitalisation	₹46433 crore
Debt (FY 20)	₹5826 crore
Cash (FY 20)	₹2842 crore
EV	₹49417 crore
52 week H/L (₹)	968/281
Equity capital	₹58.6 crore
Face value	₹1

Price Performance



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Key Financial Summary

(Year End March)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E) %
Revenues (₹crore)	23098.5	25864.3	27816.3	30079.9	9.2
EBITDA (₹crore)	4815.7	5518.2	6077.7	6691.5	11.6
EBITDA margins (%)	20.8	21.3	21.8	22.2	
Net Profit (₹crore)	2857.1	3420.1	3834.5	4297.4	14.6
EPS (₹)	48.8	58.4	65.4	73.3	
PE (x)	16.4	7.2	12.1	10.8	
EV/EBITDA (%)	10.1	8.3	7.5	6.6	
ROE (%)	17.0	15.0	14.5	14.2	
ROCE (%)	17.2	18.2	18.0	17.9	

Source: ICICI Direct Research; Company

Financial Summary

Exhibit 1: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenues	23,098.5	25,864.3	27,816.3	30,079.9
Growth (%)	18.1	12.0	7.5	8.1
Raw Material Expenses	9,735.2	10,666.4	11,265.6	12,122.2
Employee Expenses	3,219.2	3,579.8	3,894.3	4,211.2
Other Manufacturing Expenses	5,328.4	6,100.0	6,578.7	7,055.1
Total Operating Expenditure	18,282.8	20,346.2	21,738.6	23,388.5
EBITDA	4,815.7	5,518.2	6,077.7	6,691.5
Growth (%)	25.3	14.6	10.1	10.1
Interest	159.8	71.4	59.0	45.5
Depreciation	966.7	1,022.1	1,100.8	1,188.3
Other Income	99.9	213.8	219.2	296.3
PBT before Exceptional Item	3,789.1	4,638.4	5,137.0	5,753.9
Less: Forex & Exceptional Item	26.1	-4,084.0	0.0	0.0
PBT	3,763.0	8,722.4	5,137.0	5,753.9
Total Tax	913.5	2,210.2	1,284.3	1,438.5
PAT before MI	2,849.5	6,512.2	3,852.8	4,315.4
Minorities and Associates	-18.5	-29.1	-18.3	-18.1
PAT	2,831.0	6,483.1	3,834.5	4,297.4
Adjusted PAT	2,857.1	3,420.1	3,834.5	4,297.4
Growth (%)	16.5	19.7	12.1	12.1
EPS (Diluted)	48.3	110.6	65.4	73.3
EPS (Adjusted)	48.8	58.4	65.4	73.3

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	3,013.2	6,483.1	3,834.5	4,297.4
Add: Depreciation & Amortization	966.7	1,022.1	1,100.8	1,188.3
Net Increase in Current Assets	-43.9	-2,187.8	-1,195.8	-1,376.1
Net Increase in Current Liabilities	320.8	1,256.7	550.5	615.8
CF from operating activities	4,381.3	6,645.6	4,349.0	4,770.9
(Purchase)/Sale of Fixed Assets	-1,401.7	-1,500.0	-1,500.0	-1,250.0
(Inc)/dec in Investments	-179.1	-2,000.0	-2,000.0	-2,000.0
Others	31.7	321.5	-1.9	-1.1
CF from investing activities	-1,549.2	-3,178.5	-3,501.9	-3,251.1
Issue of Equity Shares	0.2	0.0	0.0	0.0
Inc / (Dec) in Debt	-1,632.4	-3,139.7	-500.0	-500.0
Dividend & Dividend Tax	-188.4	-472.4	-279.4	-313.1
Others	-126.6	-71.4	-59.0	-45.5
CF from financing activities	-1,947.2	-3,683.5	-838.5	-858.7
Net Cash flow	885.0	-216.5	8.7	661.1
Opening Cash	1,957.2	2,842.2	2,625.6	2,634.3
Closing Cash	2,842.2	2,625.6	2,634.3	3,295.4
Free Cash Flow	2,979.6	5,145.6	2,849.0	3,520.9

Source: ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	58.6	58.6	58.6	58.6
Reserve and Surplus	16,751.8	22,762.5	26,317.6	30,301.8
Total Shareholders funds	16,810.4	22,821.1	26,376.2	30,360.4
Total Debt	5,826.4	2,686.7	2,186.7	1,686.7
Deferred Tax Liability	302.5	332.7	366.0	402.6
Minority Interest	0.1	0.1	0.2	0.2
Long term Provisions	74.7	83.7	93.7	105.0
Other Non Current Liabilities	87.49	91.9	96.5	101.3
Source of Funds	23,101.6	26,016.2	29,119.2	32,656.1
Gross Block - Fixed Assets	11,525.3	13,625.3	15,725.3	16,975.3
Accumulated Depreciation	3,044.8	4,066.9	5,167.6	6,355.9
Net Block	8,480.5	9,558.5	10,557.7	10,619.4
Capital WIP	1,985.9	1,385.9	785.9	785.9
Net Fixed Assets	10,466.5	10,944.4	11,343.6	11,405.3
Goodwill on Consolidation	915.9	591.9	591.9	591.9
Investments	554.7	2,554.7	4,554.7	6,554.7
Inventory	7,699.9	9,566.3	10,288.2	11,125.5
Cash	2,842.2	2,625.6	2,634.3	3,295.4
Debtors	4,315.2	4,513.3	4,853.9	5,248.9
Loans & Advances & Other	1,555.3	1,678.6	1,811.8	1,955.7
Total Current Assets	16,412.5	18,383.8	19,588.2	21,625.4
Creditors	2,545.0	3,539.4	3,806.5	4,116.2
Provisions & Other CL	3,279.8	3,542.2	3,825.5	4,131.6
Total Current Liabilities	5,824.8	7,081.5	7,632.0	8,247.8
Net Current Assets	10,587.7	11,302.3	11,956.2	13,377.6
LT L&A, Other Assets	413.6	446.6	482.4	521.0
Deferred Tax Assets	163.2	176.3	190.4	205.6
Application of Funds	23,101.6	26,016.2	29,119.2	32,656.1

Source: ICICI Direct Research

Exhibit 4: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	48.8	58.4	65.4	73.3
BV per share	286.9	389.4	450.1	518.1
Dividend per share	3.5	8.1	4.8	5.3
Cash Per Share	48.5	44.8	45.0	56.2
Operating Ratios (%)				
Gross Profit Margins	57.9	58.8	59.5	59.7
EBITDA margins	20.8	21.3	21.8	22.2
Net Profit margins	12.4	13.2	13.8	14.3
Inventory days	121.7	135.0	135.0	135.0
Debtor days	68.2	63.7	63.7	63.7
Creditor days	40.2	49.9	49.9	49.9
Asset Turnover	2.2	2.0	1.8	1.8
EBITDA Conversion Rate	91.0	120.4	71.6	71.3
Return Ratios (%)				
RoE	17.0	15.0	14.5	14.2
RoCE	17.2	18.2	18.0	17.9
RoIC	21.5	20.8	19.7	19.6
Valuation Ratios (x)				
P/E	16.4	7.2	12.1	10.8
EV / EBITDA	10.1	8.3	7.5	6.6
EV / Net Sales	2.1	1.8	1.6	1.5
Market Cap / Sales	2.0	1.8	1.7	1.5
Price to Book Value	2.8	2.0	1.8	1.5
Solvency Ratios				
Debt / Equity	0.3	0.1	0.1	0.1
Debt / EBITDA	1.2	0.5	0.4	0.3
Current Ratio	2.3	2.2	2.2	2.2

Source: ICICI Direct Research

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