

Aurobindo Pharma

BSE SENSEX	S&P CNX
33,192	10,294
Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	445 / 6.9
52-Week Range (INR)	809 / 504
1, 6, 12 Rel. Per (%)	4/17/-18
Avg Val, INRm	1,893.2
Free float (%)	48.1

CMP: INR759
TP: INR900(+19%)
Buy
Continues to surprise positively; sustenance of growth key

- Net sales grew 17.5% YoY to INR44.4b (9% beat). Gross margin expanded 330bp YoY and 90bp QoQ to 60.1%. EBITDA increased by ~20% YoY to INR11.2b (~1% beat); EBITDA margin expanded 60bp YoY and 2.3pp QoQ to 25.2%. PAT grew 32% YoY to INR781m (10% beat). The significant beat is attributed to lower tax rate at 20.2% against 27% in 2QFY17.
- **US business shines; EU surprises positively:** US business sales grew 25% YoY and 24% QoQ to USD327m. The strong sequential growth is attributed to Renvela ramp-up (USD50m-55m), growth in injectables business (up USD11m QoQ on the back of launches and benefits from shortage of few drugs), ramp-up of other key launches including Nexium OTC, Strattera, Meropenem, Mucinex, and Ebzicom. We expect gRenvela tablet sales to decline, as it has become a 5-player market. The lower gRenvela tablet sales will be partially offset by ramp-up in injectables business (quarterly run rate in 2H will increase to ~USD60m from ~USD40m in 1H) on launches like Fondaparinux. Vancomycin and Etanercept are other key launches we expect by 4QFY18/early FY19. EU business grew ~37% YoY. Adjusted for Generis acquisition, EU business grew >20% YoY.
- **Key conference call takeaways:** (1) Net debt to fall to USD475m by the end of FY18 from USD616m at the end of 1HFY18; (2) 10-11% YoY and ~5% QoQ price erosion in US; (3) R&D expenditure to be ~4.5% of sales in FY18; (4) DTG- received Global Funds contract of USD80m for two years (starting April 2018).
- **Valuations attractive; one of our top picks in the sector:** We continue to believe that ARBP is well poised to outperform its peers in the current circumstances because of strong US pipeline, diversified product mix (top-25 products account for ~35% of sales), and no pending regulatory issues. ARBP remains one of our top picks in the sector. Our target price is now INR900 (17x 1HFY20E EPS), up from INR850 (17x FY19E EPS).

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	150.9	166.9	185.7
EBITDA	34.3	39.7	44.6
PAT	23.0	26.1	29.5
EPS (INR)	39.3	44.6	50.3
Gr. (%)	13.5	13.5	12.8
BV/Sh (INR)	160.0	202.1	249.9
RoE (%)	27.6	24.6	22.3
RoCE (%)	19.0	19.6	18.7
P/E (x)	19.3	17.0	15.1
P/BV (x)	4.7	3.8	3.0

Estimate change

TP change

Rating change

Quarterly performance (Consolidated)

Y/E March	FY17				FY18E				FY17	FY18E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	vs Est
Net Sales	37,666	37,755	39,062	36,417	36,788	44,359	42,646	43,110	150,897	166,868	43,201	2.7%
YoY Change (%)	14.2	12.2	11.7	-2.8	-2.3	17.5	9.2	18.4	8.1	10.6	14.4	
EBITDA	8,890	9,293	8,948	7,713	8,417	11,173	10,022	10,138	34,341	39,715	11,016	1.4%
Margins (%)	23.6	24.6	22.9	21.2	22.9	25.2	23.5	23.5	22.8	23.8	25.5	
Depreciation	1,062	1,102	1,111	1,001	1,312	1,321	1,315	1,299	4,276	5,246	1,315	
Interest	206	175	143	143	169	173	175	162	667	679	175	
Other Income	159	83	79	218	221	103	150	276	538	750	150	
PBT before EO expense	7,780	8,098	7,774	6,787	7,157	9,782	8,682	8,954	29,936	34,540	9,676	
Extra-Ord expense	-70	-202	-158	310	77	4	0	0	-621	0	0	
PBT	7,851	8,300	7,932	6,477	7,080	9,778	8,682	8,954	30,557	34,540	9,676	
Tax	2,008	2,240	2,177	1,172	1,910	1,980	2,301	2,272	7,596	8,462	2,564	
Rate (%)	25.6	27.0	27.4	18.1	27.0	20.2	26.5	25.4	24.9	24.5	26.5	
Minority Interest	-8	3	-31	-19	-15	-13	0	0	-55	-55	0	
Reported PAT	5,850	6,057	5,785	5,325	5,186	7,812	6,381	6,682	23,015	26,133	7,112	9.8%
Adj PAT	5,790	5,913	5,640	5,560	5,226	7,802	6,381	6,682	22,552	26,133	7,112	9.7%
YoY Change (%)	21.0	21.8	7.4	-0.4	-9.7	32.0	13.1	20.2	13.6	13.5	20.3	
Margins (%)	15.4	15.7	14.4	15.3	14.2	17.6	15.0	15.5	14.9	15.7	16.5	

E: MOSL Estimates

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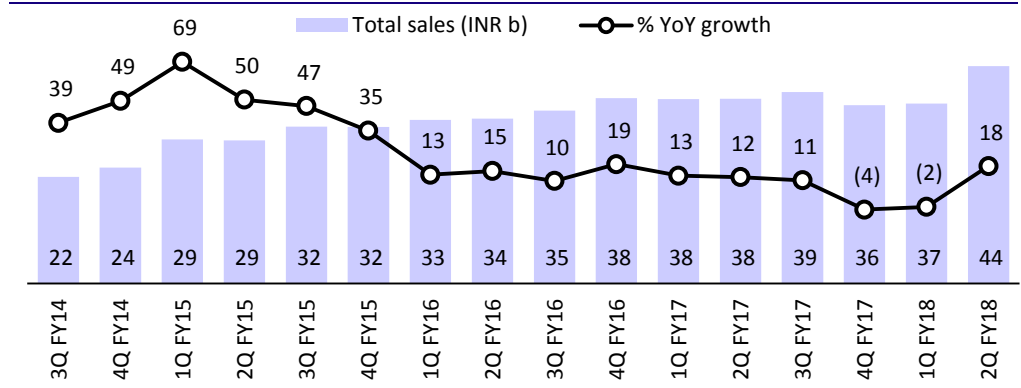
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Business highlights

In 2QFY18, overall sales increased 17.5%YoY to INR44.4b, primarily due to launch of gRenvela and increase in volumes. Formulation business (~83% of total sales) posted strong numbers, increasing 22% YoY to INR36.6b on back of robust growth in the US business (+21% YoY) and significant growth in Europe and RoW market (+37% YoY). ARV business declined ~26% YoY due to delay in off-take from customers. Company received two year contract from Global Funds of USD80m starting April-18. API business (~17% of sales) sales were flat at INR7.7b.

Exhibit 1: Revenue increased 18% in 2QFY18



Source: Company, MOSL

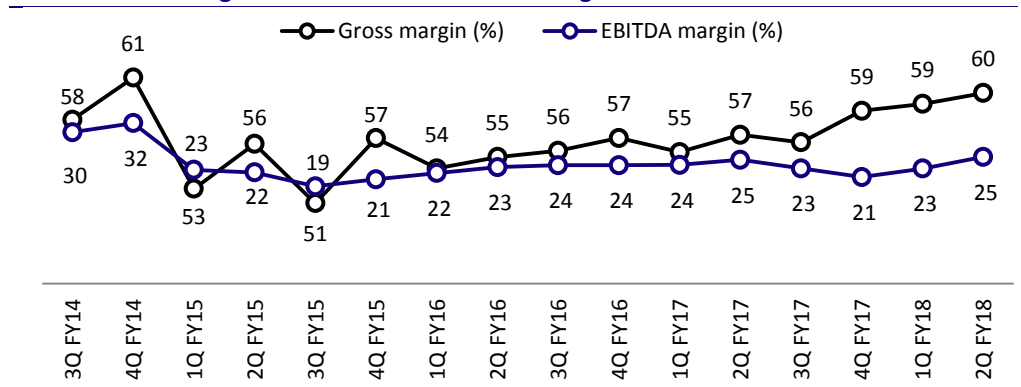
Sequential improvement in EBITDA margin

EBITDA increased 20% YoY to INR11.1b (est. of INR 11b). EBITDA margins increased 60bp YoY and 230bp QoQ. Gross margins too saw improvement of ~330bp YoY to 60.1%.

Pricing risk lowest among peers

No single product for ARBP contributes more than 3% of sales (unlike SUNP, LPC and DRRD, where the top three products account for >20-25% of sales). Also, no single ANDA has any meaningful disproportionate contribution to margins, as ARBP has a matured product basket with all ~190 launched ANDAs facing competition from multiple players (typically 4-5 or more).

Exhibit 2: Increasing trend in Gross and EBITDA margin

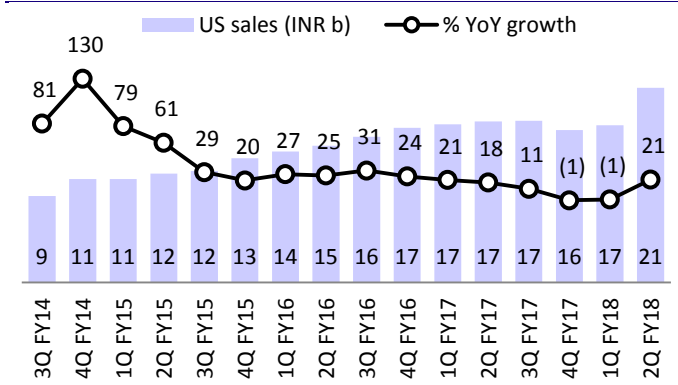


Source: Company, MOSL

US (47% of sales): As compared to its peers which saw decline in US business ARBP US business revenues posted strong result, owing to stable pricing sequentially ramp-up of gRenvela. During the quarter company filed 21 ANDAs including 11 in orals and 10 in injectable. Company launched 8 products including 2 injectable and

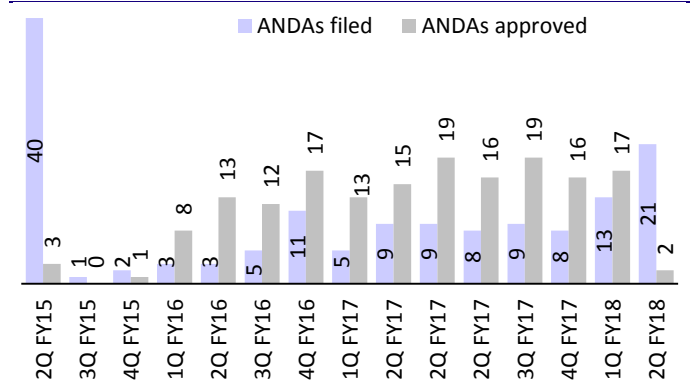
received 2 final approvals and 3 tentative approvals. Cumulatively, Aurobindo has filed 463 ANDAs in the US and has received approvals for 3334 products (includes 40 tentative approvals).

Exhibit 3: US business saw robust growth of 21% YoY



Source: Company, MOSL

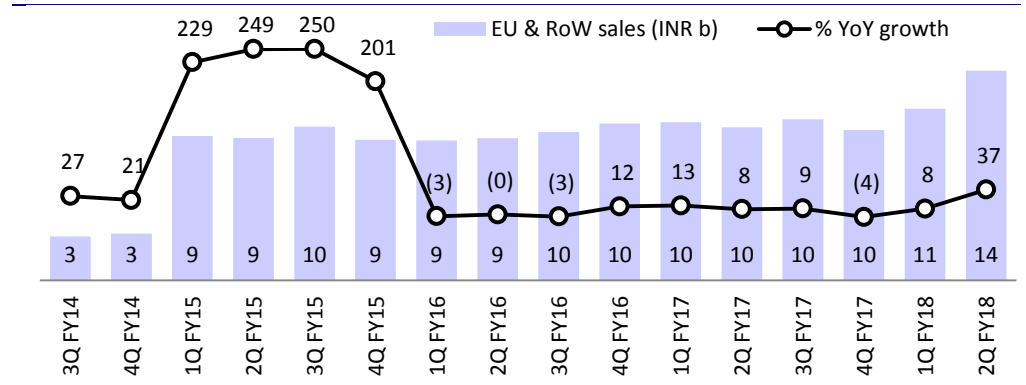
Exhibit 4: ANDA filed v/s approved (quarterly trend)



Source: Company, MOSL

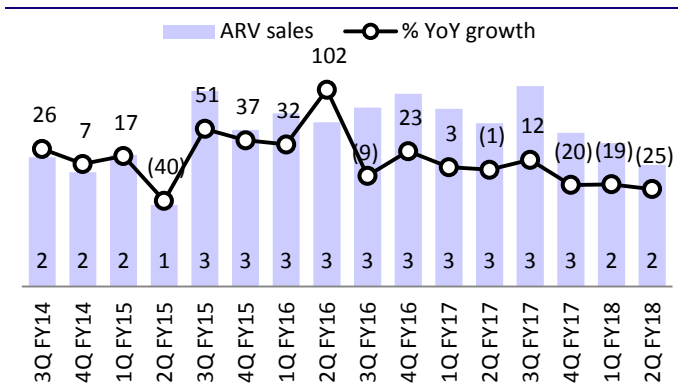
Europe & RoW (30% of sales): In 2QFY18, Europe and RoW combined increased 37% YoY to INR13.6b on back of improved profitability in Actavis. Europe business grew ~37% YoY to INR11.1b while RoW market grew ~38%YoY to INR2.4b. Aurobindo Pharma transferred manufacturing of 74 products from Europe to India. Europe market increased on back of high growth across all countries and expects growth momentum to continue in key Europe markets like UK, Germany and France going forward.

Exhibit 5: EU & RoW increased significantly by ~37% YoY



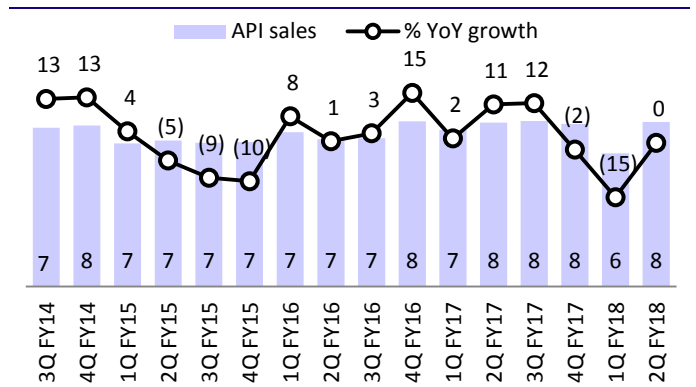
Source: Company, MOSL

Exhibit 6: ARV sales declined 25%YoY



Source: Company, MOSL

Exhibit 7: API sales were flat



Source: Company, MOSL

Key conference call takeaways

- Debt increased from USD516m in 1QFY18 to USD616m, primarily due to increase in working capital on launch of new product. ARBP has guided reduction in debt to USD475m by the end of FY18.
- Gross margin expanded sequentially due to certain provisions.
- The management has guided capex of USD120m-130m for FY18.
- Tax rate for FY18 would be in the range of 25-26%.
- Other expenses increased by ~INR1.8b during the quarter due to high settlement charges and launch of new product.

Exhibit 1: Key operating metrics

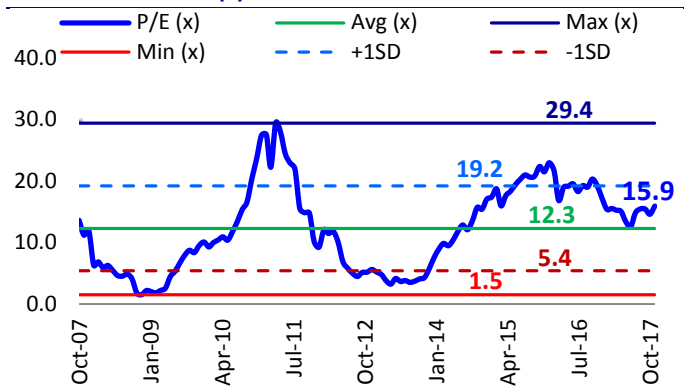
	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Revenue Mix (%)													
Formulations	76.6	79.0	78.8	78.3	79.5	80.3	79.5	80.5	79.6	80.1	79.1	83.0	82.6
ARV form.	4.8	10.4	8.4	8.8	8.3	8.6	8.7	8.0	7.4	8.8	7.2	6.7	4.7
US generic form.	40.2	37.5	42.0	42.3	43.8	44.5	44.0	45.2	46.0	44.7	45.1	46.1	47.3
EU and ROW form.	31.6	31.0	28.5	27.2	27.4	27.2	26.8	27.2	26.2	26.7	26.8	30.2	30.6
APIs	23.4	21.0	21.2	21.7	20.5	19.7	20.5	19.5	20.4	18.7	20.9	17.0	17.4
Betalactum	15.4	14.1	13.8	14.3	12.7	12.7	13.3	13.1	13.6	11.8	14.1	11.1	11.6
Non Betalactum	8.0	6.9	7.4	7.3	7.8	7.0	7.2	6.4	6.8	6.9	6.9	5.9	5.8
Revenue Growth (%)													
Formulations	50.1	46.9	34.9	13.4	15.2	10.2	18.5	12.8	12.1	10.6	(3.8)	(2.4)	17.6
ARV form.	(40.4)	51.5	37.0	31.7	101.7	(8.5)	23.0	2.6	(0.6)	12.0	(20.2)	(19.3)	(25.5)
US generic form.	60.7	29.0	20.1	26.7	25.4	30.8	24.3	20.5	17.8	11.1	(1.4)	(0.5)	21.0
EU and ROW form.	249.2	249.6	200.7	(3.0)	(0.3)	(3.4)	11.7	13.1	7.6	8.6	(4.1)	8.4	37.0
APIs	(4.6)	(9.4)	(10.4)	7.8	0.9	3.1	14.5	1.6	11.2	11.6	(1.5)	(14.9)	0.4
Betalactum	0.1	(4.9)	(9.9)	6.1	(5.0)	(0.8)	13.9	3.6	19.6	2.2	2.0	(17.4)	0.6
Non Betalactum	(12.4)	(17.5)	(11.2)	11.5	12.2	10.9	15.7	(2.2)	(2.3)	10.0	(8.1)	(9.8)	0.0
As % of sales													
Raw material	43.9	48.6	43.4	45.8	44.9	44.4	43.4	44.5	43.2	43.8	41.3	40.7	39.9
Staff cost	11.7	11.6	11.8	10.9	11.1	11.5	10.9	11.5	11.3	11.4	12.7	13.3	11.7
Other expenses	22.3	20.4	24.0	18.1	17.8	17.4	17.8	17.2	17.0	21.5	20.8	18.7	19.7
Tax Rate	27.4	29.0	27.6	25.8	28.0	25.8	27.2	25.6	27.0	27.4	18.1	27.0	26.5
Margins (%)													
Gross Margins	56.1	51.4	56.6	54.2	55.1	55.6	56.6	55.5	56.8	56.2	58.7	59.3	60.1
EBITDA Margins	22.1	19.3	20.7	22.0	23.2	23.5	23.5	23.6	24.6	22.9	21.2	22.9	25.2
PAT margins	13.9	12.5	12.7	14.4	14.4	15.0	14.9	15.4	15.7	14.4	15.2	14.2	17.6

Source: Company; MOSL

Valuation and view

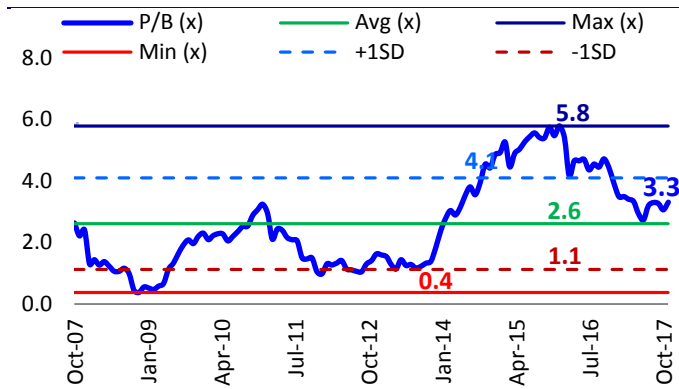
At CMP, ARBP trades at ~15x FY19E and ~14x FY20E, which is at >15-20% discount to its peers. We continue to believe that ARBP is well poised to Outperform its peers in the current circumstances because of strong US pipeline, diversified product mix (top-25 products accounts for ~35% of sales) and no pending regulatory issues. ARBP remains one of our top picks in the sector, with a target price of INR900 @ 17x 1H FY20E PER (vs INR850 @ 17x FY19E PER).

Exhibit 2: PE Band (x)



Source: Company, MOSL

Exhibit 3: PB Band



Source: Company, MOSL

Story in charts

Exhibit 1: Formulation led sales growth

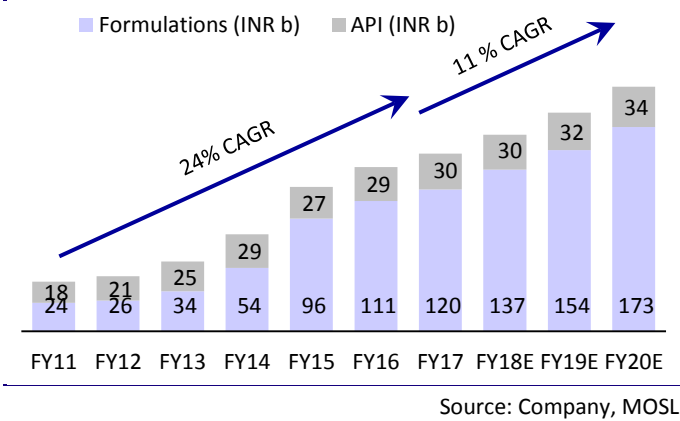


Exhibit 2: US Sales to grow at 12% CAGR over FY17-19E

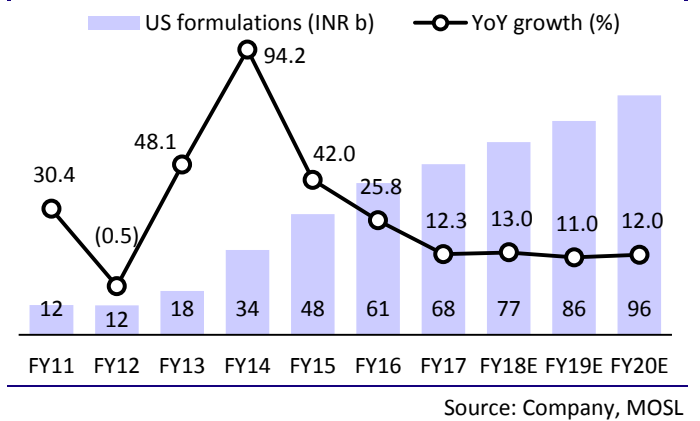


Exhibit 3: EBITDA margin to remain in range of 24-25% in FY18/19

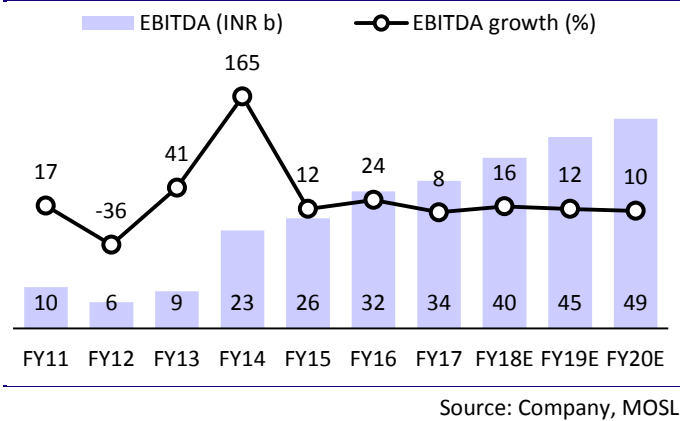


Exhibit 4: EBITDA margin to sustain in FY17-20E

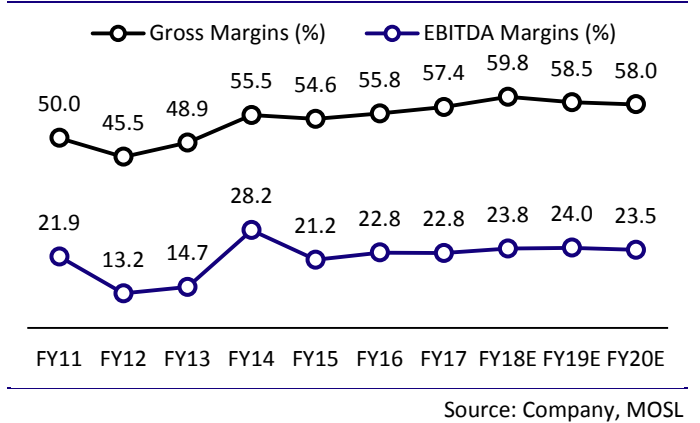


Exhibit 5: EPS growth to sustain at 12% over FY17-20E

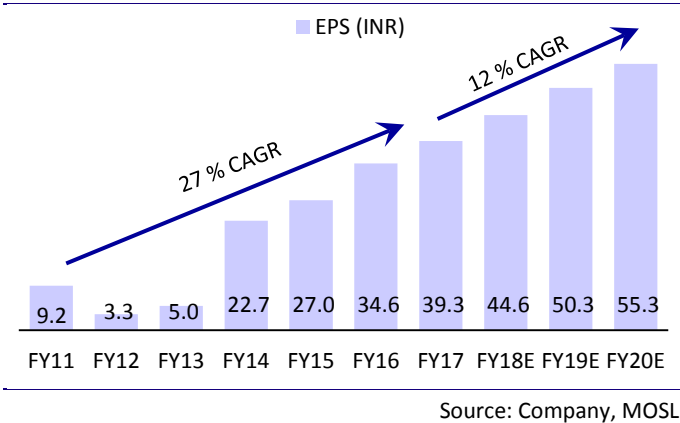
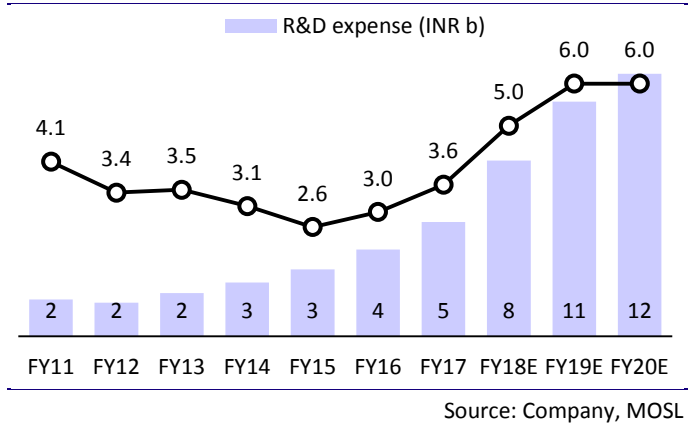


Exhibit 6: R&D expense to increase going ahead



Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	58,553	80,998	121,205	139,553	150,897	166,868	185,678	207,749
Change (%)	26.5	38.3	49.6	15.1	8.1	10.6	11.3	11.9
EBITDA	8,610	22,828	25,636	31,882	34,341	39,715	44,563	48,821
EBITDA Margin (%)	14.7	28.2	21.2	22.8	22.8	23.8	24.0	23.5
Depreciation	2,487	3,125	3,326	3,924	4,276	5,246	5,665	6,132
EBIT	6,122	19,703	22,310	27,958	30,065	34,468	38,897	42,689
Interest	1,313	1,079	843	927	667	679	697	642
Other Income	285	232	808	701	538	750	500	500
Extraordinary items	-1,353	-2,031	-596	-304	621	0	0	0
PBT	3,741	16,825	21,679	27,429	30,557	34,540	38,700	42,547
Tax	827	3,635	5,966	7,207	7,596	8,462	9,288	10,211
Tax Rate (%)	22.1	21.6	27.5	26.3	24.9	24.5	24.0	24.0
Min. Int. & Assoc. Share	-25	-38	-45	-30	-55	-55	-55	-55
Reported PAT	2,939	13,228	15,758	20,252	23,015	26,133	29,467	32,390
Adjusted PAT	2,939	13,228	15,758	20,251	23,015	26,133	29,467	32,390
Change (%)	51.6	350.1	19.1	28.5	13.6	13.5	12.8	9.9
Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	582	583	584	585	586	586	586	586
Reserves	25,475	36,919	50,975	72,288	93,133	117,801	145,804	176,729
Net Worth	26,058	37,502	51,559	72,873	93,719	118,387	146,390	177,315
Debt	34,355	36,339	38,636	44,155	30,841	28,936	27,217	25,652
Deferred Tax	680	2,054	2,058	-1,823	-1,185	-1,208	-1,232	-1,257
Total Capital Employed	61,202	76,151	92,511	115,230	123,397	146,136	172,396	201,733
Gross Fixed Assets	37,080	41,066	53,821	41,312	53,650	61,650	71,650	81,650
Less: Acc Depreciation	11,246	14,613	17,405	3,455	7,168	12,414	18,079	24,211
Net Fixed Assets	25,834	26,453	36,416	37,856	46,482	49,236	53,571	57,439
Capital WIP	2,185	3,097	4,196	8,359	12,374	12,374	12,374	12,374
Investments	223	198	198	1,230	2,459	2,459	2,459	2,459
Current Assets	43,982	64,386	87,647	105,631	95,439	115,372	140,254	169,954
Inventory	19,236	23,675	36,113	40,561	43,305	45,946	52,778	59,763
Debtors	15,970	26,366	35,392	46,067	35,042	50,289	55,958	62,609
Cash & Bank	2,085	1,786	4,691	8,003	5,135	8,137	20,518	36,582
Loans & Adv, Others	6,692	12,559	11,451	11,001	11,957	11,000	11,000	11,000
Curr Liabs & Provns	11,576	18,747	36,587	41,909	37,420	37,367	40,324	44,556
Curr. Liabilities	10,685	17,389	34,161	40,346	36,297	36,742	39,699	43,931
Provisions	891	1,358	2,426	1,563	1,123	625	625	625
Net Current Assets	32,406	45,640	51,060	63,722	58,019	78,005	99,930	125,399
Total Assets	61,202	76,151	92,511	115,230	123,397	146,136	172,396	201,733

Financials and Valuations

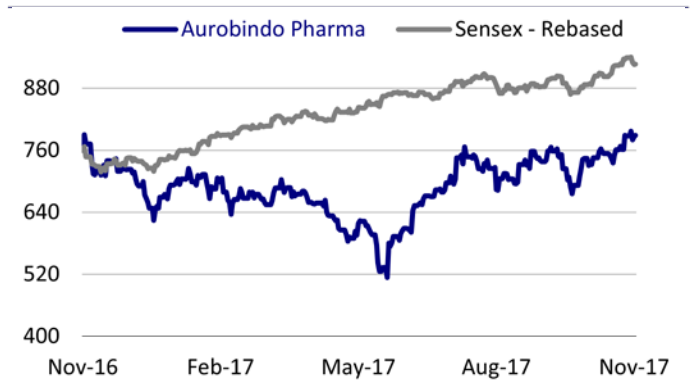
Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	5.0	22.7	27.0	34.6	39.3	44.6	50.3	55.3
Cash EPS	9.3	28.1	32.7	41.3	46.6	53.6	60.0	65.7
Book Value	44.7	64.3	88.3	124.5	160.0	202.1	249.9	302.6
DPS	0.8	1.5	2.3	2.0	2.5	2.5	2.5	2.5
Payout (incl. Div. Tax.)	14.9	6.6	8.3	5.8	6.4	5.6	5.0	4.5
Valuation(x)								
P/E				21.9	19.3	17.0	15.1	13.7
Price / Book Value				6.1	4.7	3.8	3.0	2.5
EV/Sales				3.6	3.2	2.9	2.5	2.2
EV/EBITDA				15.6	14.2	12.2	10.5	9.2
Dividend Yield (%)				0.3	0.3	0.3	0.3	0.3
Profitability Ratios (%)								
RoE	11.9	41.6	35.4	32.5	27.6	24.6	22.3	20.0
RoCE	8.7	23.3	20.4	20.4	19.0	19.6	18.7	17.4
RoIC	9.2	24.2	20.9	22.8	22.5	23.0	22.7	22.6
Turnover Ratios (%)								
Asset Turnover (x)	1.0	1.1	1.3	1.2	1.2	1.1	1.1	1.0
Debtors (No. of Days)	97	116	105	120	85	110	110	110
Inventory (No. of Days)	120	107	109	106	105	101	104	105
Creditors (No. of Days)	118	137	136	146	141	135	131	134
Leverage Ratios (%)								
Net Debt/Equity (x)	1.2	0.9	0.7	0.5	0.2	0.2	0.0	-0.1
Cash Flow Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	8,610	22,828	25,636	31,882	34,341	39,715	44,563	48,821
Non cash opr. exp (inc)	285	232	808	174	927	750	500	500
(Inc)/Dec in Wkg. Cap.	-5,374	-13,533	-2,515	-10,794	6,110	-16,983	-9,544	-9,405
Tax Paid	-132	-3,635	-5,966	-7,326	-7,737	-8,462	-9,288	-10,211
Other operating activities	-1,353	-2,031	-596	262	-856	0	0	0
CF from Op. Activity	2,036	3,863	17,367	14,198	32,786	15,019	26,230	29,705
(Inc)/Dec in FA & CWIP	-2,106	-4,656	-14,389	-14,475	-16,942	-8,000	-10,000	-10,000
Free cash flows	-70	-793	2,978	-277	15,844	7,019	16,230	19,705
(Pur)/Sale of Invt	-163	-25	0	23	-929	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-2,269	-4,681	-14,388	-14,452	-17,870	-8,000	-10,000	-10,000
Inc/(Dec) in Net Worth	159	-910	-386	72	67	0	0	0
Inc / (Dec) in Debt	3,403	2,131	2,298	6,033	-17,279	-1,904	-1,718	-1,565
Interest Paid	-1,313	-1,079	-843	-835	-568	-679	-697	-642
Divd Paid (incl Tax) & Others	-641	379	-1,142	-1,704	-3	-1,433	-1,434	-1,434
CF from Fin. Activity	1,608	520	-73	3,566	-17,784	-4,016	-3,849	-3,641
Inc/(Dec) in Cash	1,376	-298	2,905	3,312	-2,868	3,003	12,381	16,063
Add: Opening Balance	709	2,085	1,786	4,691	8,003	5,135	8,137	20,518
Closing Balance	2,084	1,786	4,691	8,003	5,134	8,137	20,518	36,582

Corporate profile

Company description

A well integrated pharma company, Aurobindo Pharma (ARBP) features among the top 10 companies in India in terms of consolidated revenues. ARBP exports to over 125 countries across the globe with more than 70% of its revenues derived out of international operations. With multiple facilities approved by leading regulatory agencies such as USFDA, EU GMP, UK MHRA, South Africa-MCC, Health Canada and Brazil ANVISA, ARBP makes use of in-house R&D for rapid filing of patents, Drug Master Files (DMFs), Abbreviated New Drug Applications (ANDAs) and formulation dossiers across the world. ARBP is among the largest filers of DMFs and ANDAs from India.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	51.9	51.9	53.8
DII	15.4	14.2	7.7
FII	18.8	19.6	26.7
Others	14.0	14.3	11.8

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HDFC SMALL CAP FUND	6.2
SBI ARBITRAGE OPPORTUNITIES FUND	2.1
BIRLA SUN LIFE TRUSTEE COMPANY PRIVATE LIMITED AC BIRLA SUN LIFE BALANCED 95 FUND	2.0
RELIANCE ETF-NIFTY BEES INVESTMENT A/C	1.5
STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
K Raganathan	Chairman
K Nithyananda Reddy	Vice Chairman & Whole Time Dir
N Govindarajan	Managing Director
B Adi Reddy	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
P V Ramprasad Reddy	Avnit Bimal Singh
D Rajagopala Reddy	M Sitarama Murthy
M Madan Mohan Reddy	M Sivakumaran
P Sarath Chandra Reddy	

*Independent

Exhibit 6: Auditors

Name	Type
B S R & Associates LLP	Statutory
D V Rao & Associates	Secretarial Audit
S R Batliboi & Associates LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	44.6	45.5	-1.9
FY19	50.3	50.2	0.2
FY20	55.3	53.7	3.0

Source: Bloomberg

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