

Aurobindo Pharma

Performance Highlights

Y/E march (` cr)	3QFY19	2QFY19	% chg (QoQ)	3QFY18	% chg (yoy)
Net sales	5,175	4,667	10.9	4,269	21.2
Other income	161	111	45.2	100	60.4
Operating profit	992	875	13.3	958	3.5
Interest	48	35	34.8	19	152.9
Adj. Net profit	732	632	15.7	595	23.0

Source: Company, Angel Research

For 3QFY2019, Aurobindo Pharma (APL), the company posted sales of `5,175cr v/s. `4,269cr in 3QFY2018, a yoy growth of 21.2%. On the operating front, the EBITDA margin came in at 19.2% v/s. 22.5% in 3QFY2018. YoY decline is on the back of sales of certain high margin products in 3QFY18. Sequentially EBDITA margins expanded by ~40bp. Consequently, the Adj. PAT came in at `732cr v/s. `595cr in 3QFY2018, a yoy growth of 23.0%. **We recommend our buy rating on the stock.**

EBDITA Margins expands QoQ: On sales front, the company posted sales of 5,175cr v/s. `4,269cr in 3QFY2018, a yoy growth of 21.2%. The formulation sales (`4,348cr) posted a yoy growth of 21.8%, while API (`922cr) posted a yoy growth of 20.8%. Europe & ROW (`1,633cr) posted a yoy growth of 14.9%, while company's key market USA (`2,434cr) posted a growth of 27.4% yoy. On the operating front, the EBITDA margin came in at 19.2% v/s. 22.5% in 3QFY2018. YoY decline is on the back of sales of certain high margin products in 3QFY18. Sequentially EBDITA margins expanded by ~40bp. Consequently, the Adj. PAT came in at `732cr v/s. `595cr in 3QFY2018, a yoy growth of 23.0%.

Outlook and valuation: We expect Aurobindo to report net revenue CAGR of ~22% & net profit to grow at ~19% CAGR during FY2018-21E, due to inorganic growth. Valuations of the company at 12.9x FY2020E are cheap V/s its peers and own fair multiples of 17-18x. **We recommend a Buy rating on the stock.**

Key financials (Consolidated)

Y/E March (` cr)	FY2018	FY2019E	FY2020E	FY2021E
Net sales	16,233	18,799	24,234	27,188
% chg	9.4	15.8	28.9	12.2
Adj. Net profit	2,423	2,575	3,438	3,856
% chg	5.3	6.3	33.5	12.2
EPS (`)	41.5	44.1	58.9	66.0
EBITDA margin (%)	21.6	19.6	21.9	21.8
P/E (x)	18.3	17.3	12.9	11.5
RoE (%)	23.0	20.1	22.2	20.6
RoCE (%)	20.6	17.0	22.1	22.3
P/BV (x)	3.8	3.2	2.6	2.2
EV/Sales (x)	2.9	2.5	1.9	1.7
EV/EBITDA (x)	13.6	12.9	8.8	7.6

Source: Company, Angel Research; Note: CMP as of February 8, 2019

BUY

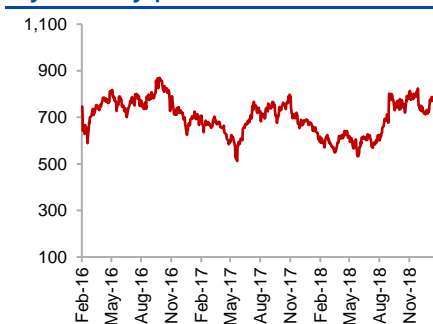
CMP	`761
Target Price	`890
Investment Period	12 months
Sector	Pharmaceutical
Market Cap (` cr)	45,715
Net debt (` cr)	3,277
Beta	1.0
52 Week High / Low	830/527
Avg. Daily Volume	180,352
Face Value (`)	1
BSE Sensex	35,457
Nifty	10,682
Reuters Code	ARBN.BO
Bloomberg Code	ARBP@IN

Shareholding Pattern (%)

Promoters	51.9
MF / Banks / Indian FIs	17.7
FII / NRIs / OCBs	20.6
Indian Public / Others	9.8

Abs. (%)	3m	1yr	3yr
Sensex	4.4	7.2	50.5
Aurobindo	(2.6)	23.4	1.9

3-year daily price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2019 performance (Consolidated)

Y/E March (₹ cr)	3QFY2019	2QFY2019	% chg (QoQ)	3QFY2018	% chg (yoy)	9MFY2019	9MFY2018	% chg (yoy)
Net sales	5,175	4,667	10.9	4,269	21.2	14,024	12,244	14.5
Other income	161	111	45.2	100	60.4	273	267	2.3
Total income	5,336	4,778	11.7	4,369	22.1	14,297	12,511	14.3
Gross profit	2,785	2,624	6.1	2,451	13.6	7,684	7,161	7.3
Gross margins	53.8	56.2		57.4		54.8	58.5	
Operating profit	992	875	13.3	958	3.5	2,644	2,778	(4.8)
OPM (%)	19.2	18.8	2.2	22.5		18.9	22.7	
Interest	48	35	34.8	19	152.9	113	53	112.5
Dep & amortisation	163	164	(0.4)	138	18.1	481	401	19.9
PBT	942	787	19.7	902	4.5	2,324	2,591	(10.3)
Provision for taxation	205	175	16.7	307	(33.3)	496	696	(28.8)
Net profit	737	611	20.6	595	23.9	1,828	1,895	(3.5)
Less : Exceptional items (gains)/loss	25	-		-		52	-	-
MI & share in associates	(0)	0		(0)		3	(1)	-
PAT after Exceptional items	712	611	16.5	595	19.7	1,779	1,894	(6.1)
Adjusted PAT	732	632	15.7	595	23.0	1,820	1,894	(3.9)
EPS (₹)	12.5	10.8		10.2		31.1	32.3	

Source: Company, Angel Research

Revenue up 21.2% yoy; driven by both API & Formulations: On sales front, the company posted sales of 5,175cr v/s. 4,269cr in 3QFY2018, a yoy growth of 21.2%. The formulation sales (4,348cr) posted a yoy growth of 21.8%, while API (922cr) posted a yoy growth of 20.8%. Europe & ROW (1,633cr) posted a yoy growth of 14.9%, while company's key market USA (2,434cr) posted a growth of 27.4% yoy. Overall, formulations now contribute around 82.5% of sales, while the balance is accounted by APIs.

The formulation sales (4,348cr) posted a yoy growth of 21.8%. Within which US business contributed 46.2% to the gross sales. On a constant currency basis, sales grew by 14.7% YoY. The company filed 10 ANDAs with USFDA including 4 ANDAs for injectable products. Received final approval for 14 ANDAs and tentative approval for 1 ANDAs. The company has 519 approved ANDAs including 28 tentative approvals. EU sales, inched up by 10.3% YoY. The business accounted for 24.5% of revenues. In Euro terms, sales increased by 2.5% yoy.

ARV business sales increased by 17.8% YoY to 281cr compared to 239cr in 3QFY18 and accounted for 5.3% of revenues. Sales from growth markets formulations posted a strong growth of 36.1% yoy to 341cr in 3QFY2019 and accounted for ~6.5% of revenues.

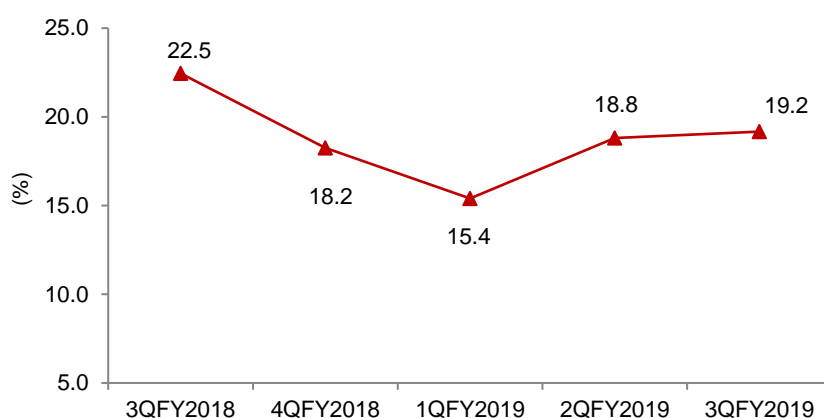
API business posted a growth of 20.4% to 922cr & contributed 17.5% of the total revenue during the quarter. The growth was on the back of increase in Non-Betalactum segment. The company filed 1 DMFs with USFDA during the quarter taking total DMFs filing to 236 as on 31st Dec 2018.

Exhibit 2: Sales break-up (Consolidated)

(` cr)	3QFY2019	2QFY2019	% chg (qoq)	3QFY2018	% chg (yoy)	9MFY2019	9MFY2018	% chg
Formulations	4348	3935	10.5	3570	21.8	11784	10284.3	14.6
US	2434	2227	9.3	1910	27.4	6550	5704	14.8
Europe & ROW	1633	1464	11.6	1422	14.9	4553	3890	17.1
ARV	281	244	15.3	239	17.7	681	691	(1.4)
API	922	817	12.9	766	20.4	2486	2163	14.9
SSP	558	513	8.6	537	3.9	1563	1460	7.1
Cephs	364	303	20.1	229	58.9	923	703	31.3
Total Sales	5270	4751	10.9	4336	21.5	14270	12447	14.6

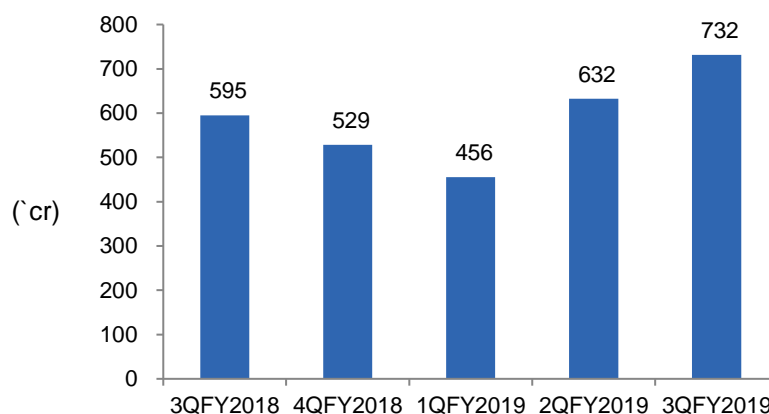
Source: Company, Angel Research

OPM comes in at 19.2%; QoQ expansion: On the operating front, the EBITDA margin came in at 19.2% v/s. 22.5% in 3QFY2018. YoY decline is on the back of sales of certain high margin products in 3QFY18. Sequentially EBDITA margins expanded by ~40bp. Research & Development (R&D) spend at `255cr, 4.8% of sales.

Exhibit 3: OPM Trend


Source: Company, Angel Research

Net profit inches up: In spite of moderate rise in operating profit, Adj. PAT came in at `732cr v/s. `595cr in 3QFY2018, a yoy growth of 23.0%; mainly aided by growth of other income. Other income rose by 60.4% yoy. In addition, there was a 33.3% yoy dip in the tax expenses of the company.

Exhibit 4: Adj. net profit


Source: Company, Angel Research

Recommendation rationale

- Well placed for challenging times in USA:** Aurobindo has a robust pipeline (has filed 519 ANDA's; second highest amongst Indian companies) & is investing to enhance its foray into complex generic (mainly injectables, ophthalmic etc.) & biosimilar, which will drive its next leg of growth. In the current price competitive market, company is well placed; given it is vertically integrated with 70% of raw material requirements being met through internally. In addition, almost no single product of the company contributes than 3% of sales; unlike others peers, who have high product concentration. This is also evident from the performance of the company in USA in FY2018. Company expects pricing pressure to stabilize at +/- 5% yoy over the medium term. The company expects to launch ~30-40 products in the US, which will aid growth in the US business.

During 2QFY2019, Aurobindo Pharmaceuticals (APL) has acquired dermatology and oral solids businesses from Sandoz Inc., USA for an upfront purchase price of US\$0.9bn in cash. With this acquisition, Aurobindo adds sales of US\$0.9bn and would become the 2nd largest generic player in the US by number of prescriptions. Acquisition is funded by debt and values the acquired company at 1.0xEV/sales, which we believe given the size and scope of the business acquired is very attractive. The transaction will lead to net debt to Equity reaching almost 0.6x FY2020E numbers and fully reflect in the FY2021 financials. The acquired business, as guided by the Management has EBDITA margins in line with APL (20-22%), making the deal attractive in terms of payback also. Transaction is expected to be accretive to normalized EPS from first full year of ownership.

In 3QFY2019, APL acquired portfolio of seven marketed oncology injectable products from Spectrum Pharmaceuticals. Aurobindo Pharma Limited will be acquiring the portfolio on a debt free and cash free basis. The acquisition will help Aurobindo to enter the branded oncology market with a range of products, which are well recognized by the oncology industry. The portfolio is expected to generate a revenue of around US\$100mn for the first 12 months after completion of the transaction for Aurobindo. Acquisition will

be for an upfront purchase price of US\$160mn in cash plus up to US\$140mn on achieving regulatory and sales-based milestones. Acquisition values the acquired company at 1.6xMarketCap/sales (on upfront payment), which we believe is attractive. The acquired business, as guided by the Management has EBDITA margins better than APL (20-22%), making the deal attractive in terms of payback also. Transaction is expected to be accretive to normalized EPS from first full year of ownership and will augment the net profit growth by 3% on a full year basis (as the acquired entity).

Overall, on back of these acquisitions, USA will grow at 21.4% CAGR over FY2018-21E.

- Europe to grow steady, while ARV could provide extra boost:** Europe, which is another key region for the company, is expected to post CAGR of 20.0% during FY2018-21E, while ROW is expected to post a CAGR of 18.0% during same period. However, growth during the period would be more predominate in the ARV segment, where company has confirmed tenders of US\$80-100mn to be executed over next two years.

Outlook and valuation

We expect Aurobindo to report net revenue CAGR of ~22% & net profit to grow at ~19% CAGR during FY2018-21E, due to acquisitions. Valuations of the company at 12.9x FY2020E are cheap V/s its peers and own fair multiples of 17-18x. **We recommend a buy rating on the stock.**

Exhibit 5: Key assumptions

	FY2020E	FY2021E
Sales Growth (%)	28.9	12.2
Operating Margins (%)	21.7	21.6
Capex (`cr)	1,200	1,200

Source: Company, Angel Research

Company background

Aurobindo Pharma manufactures generic pharmaceuticals and APIs. The company's manufacturing facilities are approved by several leading regulatory agencies like the USFDA, UK MHRA, WHO, Health Canada, MCC South Africa and ANVISA Brazil among others. The company's robust product portfolio is spread over six major therapeutic/product areas encompassing antibiotics, antiretrovirals, CVS, CNS, gastroenterological, and anti-allergics. The company has acquired the generic business of Actavis, which has made it a US\$2bn company and a leading company in Europe. With this acquisition, formulations now contribute around 83% to the company's sales (as in FY2018).

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Profit & loss statement (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Gross sales	13,937	15,084	16,493	19,085	24,604	27,602
Less: Excise duty	227	239	260	286	369	414
Net Sales	13,710	14,845	16,233	18,799	24,234	27,188
Other operating income	245	245	267	267	267	267
Total operating income	13,955	15,090	16,500	19,066	24,501	27,455
% chg	15.1	8.1	9.3	15.6	28.5	12.1
Total Expenditure	10,931	11,656	12,728	15,119	18,934	21,257
Net Raw Materials	6,162	6,434	6,753	8,178	10,251	11,229
Other Mfg costs	1,371	1,484	1,623	1,880	2,423	2,719
Personnel	1,543	1,768	2,131	2,493	2,992	3,590
Other	1,386	1,426	1,555	1,710	1,881	2,069
EBITDA	2,486	2,779	3,189	3,505	3,901	4,890
(% of Net Sales)	20.3	21.5	21.6	19.6	21.9	21.8
Depreciation& Amort.	392	428	558	678	879	975
EBIT	2,386	2,762	2,947	3,002	4,422	4,956
(% of Net Sales)	17.4	18.6	18.2	16.0	18.2	18.2
Interest & other Charges	93	67	78	156	149	116
Other Income	205	121	105	105	105	105
Recurring PBT	2,744	3,061	3,241	3,217	4,646	5,213
Tax	720.7	759.6	818.3	643.5	1,207.9	1,355.4
(% of PBT)	26.3	24.8	25.2	20.0	26.0	26.0
PAT after MI (reported)	2,025	2,302	2,423	2,575	3,438	3,856
ADJ. PAT	2,025	2,302	2,423	2,575	3,438	3,856
% chg	25.1	13.7	5.3	6.3	33.5	12.2
Basic EPS (`)	34.6	39.3	41.4	44.0	58.7	65.9
% chg	25.1	13.7	5.3	6.3	33.5	12.2

Balance sheet (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
SOURCES OF FUNDS						
Equity Share Capital	59	59	59	59	59	59
Share Application Money	-	-	-	-	-	-
Reserves & Surplus	7,229	9,313	11,622	13,895	16,931	20,336
Shareholders Funds	7,287	9,372	11,680	13,954	16,989	20,394
Minority Interest	3	2	2	1	1	2
Long-term provisions	23	22	56	56	56	56
Total Loans	4,415	3,084	4,483	5,000	4,000	3,000
Deferred Tax Liability	(182)	(118)	76	76	76	76
Total Liabilities	11,546	12,362	16,297	19,031	21,067	23,473
APPLICATION OF FUNDS						
Gross Block	6,093	7,625	8,998	10,386	11,586	12,786
Less: Acc. Depreciation	2,186	2,614	3,172	3,850	4,729	5,704
Net Block	3,907	5,011	5,826	6,535	6,856	7,082
Capital Work-in-Progress	310	310	310	310	310	310
Goodwill	812	971	1,968	1,968	1,968	1,968
Investments	123	246	312	312	312	312
Long-term loans and adv.	269	338	343	343.32	397.59	512.55
Current Assets	10,294	9,206	12,188	14,948	18,165	21,077
Cash	834	513	1,262	2,296	1,858	2,783
Loans & Advances	831	409	10	10	10	11
Other	8,629	8,284	10,916	12,642	16,297	18,283
Current liabilities	4,168	3,720	4,649	5,384	6,941	7,786.93
Net Current Assets	6,127	5,487	7,539	9,563	11,224	13,290
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	11,546	12,362	16,297	19,031	21,067	23,473

Cash flow statement (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Profit before tax	2,744	3,061	3,241	3,217	4,646	5,213
Depreciation	392	428	558	678	879	975
(Inc)/Dec in Working Capital	(1,333)	388	(1,298)	(990)	(2,044)	(1,026)
Less: Other income	205	121	105	105	105	105
Direct taxes paid	(721)	(760)	(818)	(643)	(1,208)	(1,355)
Cash Flow from Operations	877	2,996	1,577	2,157	2,167	3,701
(Inc.)/Dec.in Fixed Assets	3	(1,532)	(1,374)	(1,388)	(1,200)	(1,200)
(Inc.)/Dec. in Investments	103	123	66	-	-	-
Other income	205	121	105	105	105	105
Cash Flow from Investing	311	(1,288)	(1,203)	(1,282)	(1,095)	(1,095)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	552	(1,331)	1,398	517	(1,000)	(1,000)
Dividend Paid (Incl. Tax)	(171)	(171)	(171)	(301)	(402)	(451)
Others	(1,204)	(527)	(854)	(56)	(109)	(230)
Cash Flow from Financing	(823)	(2,030)	373	160	(1,511)	(1,681)
Inc./(Dec.) in Cash	365	(321)	748	1,035	(439)	925
Opening Cash balances	469	834	513	1,262	2,296	1,858
Closing Cash balances	834	513	1,262	2,296	1,858	2,783

Key ratios

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Valuation Ratio (x)						
P/E (on FDEPS)	22.0	19.3	18.4	17.3	13.0	11.5
P/CEPS	18.4	16.3	14.9	13.7	10.3	9.2
P/BV	6.1	4.8	3.8	3.2	2.6	2.2
Dividend yield (%)	0.3	0.3	0.3	0.6	0.8	0.9
EV/Sales	3.5	3.2	2.9	2.5	1.9	1.6
EV/EBITDA	17.3	14.8	13.6	12.9	8.8	7.6
EV / Total Assets	4.2	3.8	2.9	2.5	2.2	1.9
Per Share Data (₹)						
EPS (Basic)	34.6	39.3	41.4	44.0	58.7	65.9
EPS (fully diluted)	34.6	39.3	41.4	44.0	58.7	65.9
Cash EPS	41.3	46.6	50.9	55.6	73.8	82.6
DPS	2.5	2.5	2.5	4.4	5.9	6.6
Book Value	124.5	160.1	199.6	238.4	290.3	348.5
Dupont Analysis						
EBIT margin	17.4	18.6	18.2	16.0	18.2	18.2
Tax retention ratio	73.7	75.2	74.8	80.0	74.0	74.0
Asset turnover (x)	1.4	1.3	1.2	1.2	1.4	1.4
ROIC (Post-tax)	18.3	18.7	16.7	15.3	18.4	18.6
Cost of Debt (Post Tax)	1.7	1.3	1.5	2.6	2.4	2.4
Leverage (x)	0.6	0.4	0.3	0.2	0.2	0.1
Operating ROE	27.9	25.4	20.8	18.3	21.0	19.7
Returns (%)						
ROCE (Pre-tax)	22.9	23.1	20.6	17.0	22.1	22.3
Angel ROIC (Pre-tax)	26.5	27.4	25.3	22.1	28.2	28.0
ROE	32.5	27.6	23.0	20.1	22.2	20.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	2.2	2.0	2.0	2.2	2.3
Inventory / Sales (days)	100	101	113	120	113	117
Receivables (days)	107	89	65	65	65	65
Payables (days)	126	119	114	111	114	114
WC cycle (ex-cash) (days)	124	124	124	130	124	132
Solvency ratios (x)						
Net debt to equity	0.5	0.3	0.3	0.2	0.1	0.0
Net debt to EBITDA	1.3	0.8	0.9	0.7	0.4	0.0
Interest Coverage (EBIT / Int.)	25.8	41.4	37.9	19.2	29.8	42.9

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Disclosure of Interest Statement	Aurobindo Pharma
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

*Accumulate (5% to 15%)
Reduce (-5% to -15%)*

*Neutral (-5 to 5%)
Sell (< -15)*