

## Aurobindo Pharmaceuticals

Aurobindo Pharmaceuticals is an India-based leading global generic company. It's predominately formulations export company, with USA & Europe contributing ~70% of sales (FY2018). Amongst the Indian Pharmaceutical companies, we believe that Aurobindo Pharmaceuticals is well placed to face the challenging generic markets, given its focus on achieving growth through productivity.

**Well placed for challenging times in USA:** Aurobindo has a robust pipeline (has filed 478 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's 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, over the next six months, which will aid growth in the US business. Overall USA will grow at 12.7% CAGR over FY2018-20E.

**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 12.0% during FY2018-20E, while ROW is expected to post a CAGR of 20% 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 ~13% & net profit to grow at ~5% CAGR during FY2018-20E, due to increased R&D expenditure. However, valuations of the company are cheap V/s its peers and own fair multiples of 17-18x. **We recommend BUY rating.**

### Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
<b>Net sales</b>	<b>14,845</b>	<b>16,233</b>	<b>18,871</b>	<b>20,646</b>
% chg	8.3	9.4	16.3	9.4
<b>Adj. Net profit</b>	<b>2,302</b>	<b>2,423</b>	<b>2,685</b>	<b>2,650</b>
% chg	13.7	5.3	10.8	(1.3)
EBITDA margin (%)	21.5	21.6	21.0	19.2
<b>EPS (₹)</b>	<b>39.4</b>	<b>41.5</b>	<b>46.0</b>	<b>45.4</b>
P/E (x)	15.4	14.6	13.2	13.4
P/BV (x)	3.8	3.0	2.5	2.2
RoE (%)	27.6	23.0	20.9	17.4
RoCE (%)	23.1	20.6	19.6	17.8
EV/Sales (x)	2.6	2.4	2.0	1.8
EV/EBITDA (x)	11.9	11.1	9.6	9.3

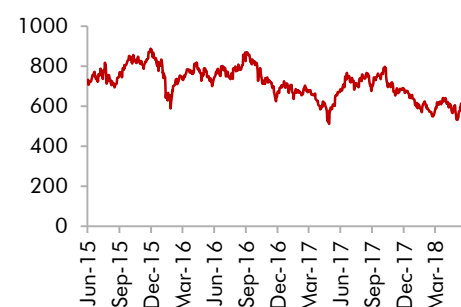
Source: Company, Angel Research Note: CMP as of July 02, 2018

## BUY

CMP	₹619
Target Price	₹770
Investment Period	12 Months

Stock Info			
Sector	Pharmaceuticals		
Market Cap (₹ cr)	35,286		
Net Debt (₹ cr)	3,277		
Beta	1.1		
52 Week High / Low	809/527		
Avg. Daily Volume	54,388		
Face Value (₹)	1		
BSE Sensex	35,038		
Nifty	10,589		
Reuters Code	ARBN.BO		
Bloomberg Code	ARBN.IN		
Shareholding Pattern (%)			
Promoters	51.9		
MF / Banks / Indian FIs	15.6		
FII / NRIs / OCBs	18.6		
Indian Public / Others	13.9		
Abs.(%)			
	3m	1yr	3yr
Sensex	6.3	13.6	26.0
Aurobindo Pharma	8.1	(10.2)	(15.9)

### 3-year price chart



Source: Company, Angel Research

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**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Total operating income</b>	<b>13,955</b>	<b>15,090</b>	<b>16,500</b>	<b>19,138</b>	<b>20,913</b>
% chg	15.1	8.1	9.3	16.0	9.3
<b>Total Expenditure</b>	<b>10,931</b>	<b>11,656</b>	<b>12,728</b>	<b>14,917</b>	<b>16,674</b>
Net Raw Materials	6,162	6,434	6,753	7,737	8,362
Other Mfg costs	1,371	1,484	1,623	1,887	2,065
Personnel	1,543	1,768	2,131	2,450	2,818
Other	1,386	1,426	1,555	1,710	1,881
R&D	470	543	667	1,132	1,548
<b>EBITDA</b>	<b>2,779</b>	<b>3,189</b>	<b>3,505</b>	<b>3,954</b>	<b>3,972</b>
% chg	11.8	14.8	9.9	12.8	0.5
<b>(% of Net Sales)</b>	<b>20.3</b>	<b>21.5</b>	<b>21.6</b>	<b>21.0</b>	<b>19.2</b>
Depreciation & Amortisation	392	428	558	672	756
<b>EBIT</b>	<b>2,386</b>	<b>2,762</b>	<b>2,947</b>	<b>3,282</b>	<b>3,216</b>
% chg	10.8	15.7	6.7	11.4	(2.0)
<b>(% of Net Sales)</b>	<b>17.4</b>	<b>18.6</b>	<b>18.2</b>	<b>17.4</b>	<b>15.6</b>
Interest & other Charges	93	67	78	75	55
Other Income	205	121	105	105	105
(% of PBT)	7.5	4.0	3.2	2.9	3.0
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	<b>2,744</b>	<b>3,061</b>	<b>3,241</b>	<b>3,579</b>	<b>3,533</b>
% chg	23.2	11.5	5.9	10.4	(1.3)
Extraordinary Expense/(Inc.)	-	-	-	-	-
<b>PBT (reported)</b>	<b>2,744</b>	<b>3,061</b>	<b>3,241</b>	<b>3,579</b>	<b>3,533</b>
Tax	720.7	759.6	818.3	894.8	883.3
(% of PBT)	26.3	24.8	25.2	25.0	25.0
<b>PAT (reported)</b>	<b>2,024</b>	<b>2,301</b>	<b>2,423</b>	<b>2,684</b>	<b>2,650</b>
<b>PAT after MI (reported)</b>	<b>2,025</b>	<b>2,302</b>	<b>2,423</b>	<b>2,685</b>	<b>2,650</b>
<b>Basic EPS (Rs)</b>	<b>34.6</b>	<b>39.3</b>	<b>41.4</b>	<b>45.9</b>	<b>45.3</b>
% chg	25.1	13.7	5.3	10.8	(1.3)

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	59	59	59	59	59
Reserves & Surplus	7,229	9,313	11,622	13,993	16,333
<b>Shareholders Funds</b>	<b>7,287</b>	<b>9,372</b>	<b>11,680</b>	<b>14,051</b>	<b>16,391</b>
Total Loans	4,415	3,084	4,483	3,000	2,500
Deferred Tax Liability	(182)	(118)	76	76	76
<b>Total Liabilities</b>	<b>11,546</b>	<b>12,362</b>	<b>16,297</b>	<b>17,129</b>	<b>18,969</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block					
Less: Acc. Depreciation	6,093	7,625	8,998	10,198	11,398
Net Block	2,186	2,614	3,172	3,844	4,600
Capital Work-in-Progress	3,907	5,011	5,826	6,354	6,799
Investments	310	310	310	310	310
Current Assets	812	971	1,968	1,968	1,968
Inventories	123	246	312	312	312
Sundry Debtors	269	338	343	343.32	399.12
Cash	10,294	9,206	12,188	13,247	15,096
Loans & Advances	834	513	1,262	547	1,202
Other Assets	831	409	10	10	10
Current liabilities	8,629	8,284	10,916	12,690	13,884
<b>Net Current Assets</b>	<b>4,168</b>	<b>3,720</b>	<b>4,649</b>	<b>5,405</b>	<b>5,913</b>
<b>Deferred Tax Asset</b>	<b>6,127</b>	<b>5,487</b>	<b>7,539</b>	<b>7,842</b>	<b>9,182</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>11,546</b>	<b>12,362</b>	<b>16,297</b>	<b>17,129</b>	<b>18,969</b>

**Consolidated Cashflow Statement**

Y/E March (₹ cr)	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	2,744	3,061	3,241	3,579	3,533
Depreciation	392	428	558	672	756
Change in Working Capital	(1,333)	388	(1,298)	(1,018)	(629)
Interest / Dividend (Net)	205	121	105	105	105
Direct taxes paid	(721)	(760)	(818)	(895)	(883)
<b>Cash Flow from Operations</b>	<b>877</b>	<b>2,996</b>	<b>1,577</b>	<b>2,233</b>	<b>2,671</b>
(Inc.)/ Dec. in Fixed Assets	3	(1,532)	(1,374)	(1,200)	(1,200)
(Inc.)/ Dec. in Investments	103	123	66	-	-
Other Income	205	121	105	105	105
<b>Cash Flow from Investing</b>	<b>311</b>	<b>(1,288)</b>	<b>(1,203)</b>	<b>(1,095)</b>	<b>(1,095)</b>
Issue of Equity					
Inc./(Dec.) in loans	552	(1,331)	1,398	(1,483)	(500)
Dividend Paid (Incl. Tax)	(171)	(171)	(171)	(314)	(310)
Interest / Dividend (Net)	(1,204)	(527)	(854)	(56)	(111)
<b>Cash Flow from Financing</b>	<b>(823)</b>	<b>(2,030)</b>	<b>373</b>	<b>(1,853)</b>	<b>(921)</b>
Inc./(Dec.) in Cash	365	(321)	748	(715)	655
<b>Opening Cash balances</b>	<b>469</b>	<b>834</b>	<b>513</b>	<b>1,262</b>	<b>547</b>
<b>Closing Cash balances</b>	<b>834</b>	<b>513</b>	<b>1,262</b>	<b>547</b>	<b>1.202</b>

**Key Ratios**

Y/E March	FY2016	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	17.5	15.4	14.6	13.2	13.4
P/CEPS	14.7	13.0	11.9	10.6	10.4
P/BV	4.9	3.8	3.0	2.5	2.2
Dividend yield (%)	0.4	0.4	0.4	0.8	0.7
EV/Sales	2.9	2.6	2.4	2.0	1.8
EV/EBITDA	14.1	11.9	11.1	9.6	9.3
EV / Total Assets	3.4	3.1	2.4	2.2	1.9
<b>Per Share Data (₹)</b>					
EPS (Basic)	34.6	39.3	41.4	45.9	45.3
EPS (fully diluted)	34.6	39.3	41.4	45.9	45.3
Cash EPS	41.3	46.6	50.9	57.4	58.2
DPS	2.5	2.5	2.5	4.6	4.5
Book Value	124.5	160.1	199.6	240.1	280.1
<b>Returns (%)</b>					
ROCE	22.9	23.1	20.6	19.6	17.8
Angel ROIC (Pre-tax)	26.5	27.4	25.3	24.3	21.6
ROE	32.5	27.6	23.0	20.9	17.4
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	2.3	2.2	2.0	2.0	1.9
Inventory / Sales (days)	100	101	113	106	110
Receivables (days)	107	89	65	65	65
Payables (days)	126	119	114	113	110
Working capital cycle (ex-cash) (days)	124	124	124	129	133

Source: Company, Angel Research

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Disclosure of Interest Statement	Aurobindo Pharmaceuticals
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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