

Aurobindo Pharma

Performance Highlights

Y/E march (₹ cr)	1QFY19	4QFY18	% chg (QoQ)	1QFY18	% chg (yoy)
Net sales	4,182	3,989	4.8	3,621	15.5
Other income	112	105	7.2	81	38.6
Operating profit	710	746	(4.7)	784	(9.4)
Interest	98	41	140.4	25	298.3
Adj. Net profit	456	529	(13.8)	518	(12.1)

Source: Company, Angel Research

For 1QFY2019, Aurobindo Pharma (APL) posted decent set of numbers on topline. On sales front, the company posted sales of ₹4,182cr v/s. ₹3,621cr in 1QFY2018, a yoy growth of 15.5%. On the operating front, the EBITDA margin at 17.0% v/s. 21.6% in 1QFY2018. Consequently, the Adj. PAT came in at ₹456cr v/s. ₹518cr in 1QFY2018, a yoy de-growth of 12.1%. **We maintain our Buy rating on the stock.**

OPM under pressure: On sales front, the company a yoy growth of 15.5%. The formulation sales (₹3,501cr) posted a yoy growth of 14.7%, while API (₹748cr) posted a yoy growth of 19.7%. Europe (₹1,199cr) posted a yoy growth of 30.7%, while company's key market USA (₹1,890cr) posted a growth of 11.5% yoy. The business accounted for 28.2% of revenues. In Euro terms, sales grew by 16.0% yoy. On the operating front, the EBITDA margin at 17.0% v/s. 21.6% in 1QFY2018, mainly on back of drop in gross margins, which came in at 54.4% V/s 58.6% in 1QFY2018. Profitability was impacted largely due to certain one-off product related provisions; which amounted to ₹100cr. Consequently, the PAT came in at ₹456cr, a yoy de-growth of 12.1%.

Outlook and valuation: We expect Aurobindo to report net revenue CAGR of ~16% & net profit to grow at ~9% 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 a Buy rating with a target price of ₹780.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	14,845	16,233	18,701	21,829
% chg	8.3	9.4	15.2	16.7
Adj. Net profit	2,302	2,423	2,753	2,877
% chg	13.7	5.3	13.6	4.5
EPS (₹)	39.4	41.5	47.1	49.3
EBITDA margin (%)	21.5	21.6	21.7	19.6
P/E (x)	15.2	14.5	12.7	12.2
RoE (%)	27.6	23.0	21.4	18.7
RoCE (%)	23.1	20.6	20.1	19.6
P/BV (x)	3.9	3.2	2.6	2.2
EV/Sales (x)	2.7	2.5	2.1	1.8
EV/EBITDA (x)	12.4	11.4	9.7	9.0

Source: Company, Angel Research; Note: CMP as of August 09, 2018

BUY

CMP ₹601
Target Price ₹780

Investment Period 12 months

Stock Info

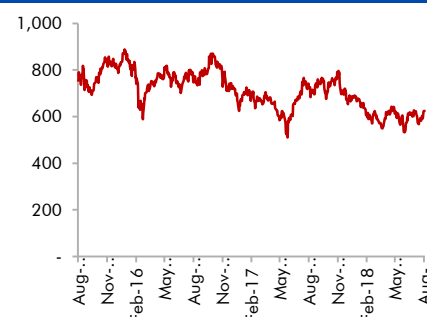
Sector	Pharmaceutical
Market Cap (₹ cr)	35,207
Net debt (₹ cr)	3,277
Beta	1.1
52 Week High / Low	809/527
Avg. Daily Volume	54,388
Face Value (₹)	1
BSE Sensex	38,024
Nifty	11,471
Reuters Code	ARBN.BO
Bloomberg Code	ARBP.IN

Shareholding Pattern (%)

Promoters	51.9
MF / Banks / Indian Fls	17.8
FII / NRIs / OCBs	15.8
Indian Public / Others	14.5

Abs. (%)	3m	1yr	3yr
Sensex	#	19.6	35.3
Aurobindo	#	(12.2)	(22.8)

3-year daily price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2019 performance (Consolidated)

Y/E March (₹ cr)	1QFY2019	4QFY2018	% chg (QoQ)	1QFY2018	% chg (yoy)	FY2018	FY2017	% chg (yoy)
Net sales	4,182	3,989	4.8	3,621	15.5	16,233	14,845	9.4
Other income	112	105	7.2	81	38.6	372	366	1.7
Total income	4,294	3,712	15.7	3,702	16.0	16,605	15,211	9.2
Gross profit	2,274	2,319	(1.9)	2,123	7.1	9,480	8,411	12.7
Gross margins	54.4	58.1		58.6		58.4	56.7	
Operating profit	710	746	(4.7)	784	(9.4)	3,522	3,189	10.4
OPM (%)	17.0	18.7	(9.1)	21.6		21.7	21.5	
Interest	98	41	140.4	25	298.3	94	67	41.6
Dep & amortization	155	157	(1.3)	131	17.8	558	428	30.5
PBT	571	651	(12.4)	709	(19.5)	3,241	3,061	5.9
Provision for taxation	116	122	(5.6)	191	(39.5)	818	760	7.7
Net profit	455	529	(13.9)	518	(12.2)	2,423	2,301	5.3
Less : Exceptional items (gains)/loss	-	-		-		-	-	-
MI & share in associates	0	(0)		(0)		(0)	(0)	-
PAT after Exceptional items	456	529	(13.8)	518	(12.1)	2,423	2,301	5.3
Adjusted PAT	456	529	(13.8)	518	(12.1)	2,423	2,301	5.3
EPS (₹)	7.8	9.0		8.8		41.3	39.3	

Source: Company, Angel Research

Exhibit 2: Sales break-up (Consolidated)

(₹ cr)	1QFY2019	4QFY2018	% chg (QoQ)	1QFY2018	% chg (yoy)	FY2018	FY2017	% chg
Formulations	3,501	3,249	7.8	3051	14.8	13,533	12,045	12.4
US	1890	1739	8.7	1694	11.5	7442	6827	9.0
Europe & ROW	1456	1361	6.9	1112	31.0	5252	4033	30.2
ARV	156	149	4.7	245	(36.4)	840	1185	(29.2)
API	748	800	(6.5)	625	19.7	2,962	3,042	(2.6)
SSP	492	533	(7.7)	409	20.3	1992	204	(2.5)
Cephs	256	267	(4.0)	216	18.5	970	999	(2.9)
Total Sales	4,249	4,048	5.0	3,678	15.5	16,495	15,088	9.3

Source: Company, Angel Research

Result Takeaways

- US has witnessed 11.5% yoy during 1QFY2019; on like-to-like basis, the growth in the business sales grew by 7%; and accounted for 44.5% of sales.
- US Injectable (sales of US\$210mn); will post a growth of 30% yoy, backed by launch of 10-12 pdts. For 1QFY2019, the sales of Injectable business is around US\$36mn.
- R&D as a percent of sales to be 4.0% of sales in 1QFY2019; expected to be 5% of sales in FY2019E.
- Profitability was impacted largely due to certain one-off product related provisions; which amounted to ₹100cr on the gross margins front. Thus, gross margins will move back to 58% in 2QFY2019.

- The company filed 7 ANDAs, including 3 ANDAs for injectable with USFDA during the quarter. Received final approval for 13 ANDAs and tentative approval for 3 ANDAs during the quarter.
- As on 30th Jun 2018, on a cumulative basis, the company filed 487 ANDAs with USFDA and received approval for 375 ANDAs including 33 tentative* approvals.
- Sales from EU formulations in 1QFY18-19 witnessed a strong growth of 30.7% at `1,199cr, driven by strong growth in some of the key markets. The business accounted for 28.2% of revenues. In Euro terms, sales grew by 16.0% yoy.
- Capex was US\$70mn for 1QFY2019; capex guided at US\$170mn in FY2019.
- Debt as on June'2018 was ~`5,298cr & cash is around `1,387cr.

Recommendation rationale

- **Well placed for challenging times in USA:** Aurobindo has a robust pipeline (has filed 487 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 15.7% 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 20.0% during FY2018-20E, 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 ~16% & net profit to grow at ~9% 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 maintain our Buy rating on the stock.**

Exhibit 3: Key assumptions

	FY2019E	FY2020E
Sales Growth (%)	15.2	16.7
Operating Margins (%)	21.7	19..6
Capex (₹cr)	1,388	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.

Profit & loss statement (Consolidated)

Y/E March (` cr)	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
Gross sales	12,221	13,937	15,084	16,493	18,986	22,162
Less: Excise duty	178	227	239	260	285	332
Net Sales	12,043	13,710	14,845	16,233	18,701	21,829
Other operating income	77	245	245	267	267	267
Total operating income	12,121	13,955	15,090	16,500	18,968	22,096
% chg	49.6	15.1	8.1	9.3	15.0	16.5
Total Expenditure	9,557	10,931	11,656	12,728	14,650	17,546
Net Raw Materials	5,506	6,162	6,434	6,753	7,761	9,277
Other Mfg costs	1,204	1,371	1,484	1,623	1,870	2,183
Personnel	1,302	1,543	1,768	2,131	2,450	2,818
Other	1,115	1,386	1,426	1,555	1,710	1,881
R&D	430	470	543	667	858	1,386
EBITDA	2,486	2,779	3,189	3,505	4,051	4,284
% chg	20.1	11.8	14.8	9.9	15.6	5.7
(% of Net Sales)	20.6	20.3	21.5	21.6	21.7	19.6
Depreciation & Amortization	333	392	428	558	678	769
EBIT	2,154	2,386	2,762	2,947	3,373	3,515
% chg	22.5	10.8	15.7	6.7	14.5	4.2
(% of Net Sales)	17.9	17.4	18.6	18.2	18.0	16.1
Interest & other Charges	84	93	67	78	75	50
Other Income	81	205	121	105	105	105
(% of PBT)	3.6	7.5	4.0	3.2	2.9	2.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	2,227	2,744	3,061	3,241	3,670	3,837
% chg	28.4	23.2	11.5	5.9	13.2	4.5
Extraordinary Expense/(Inc.)	59.6	-	-	-	-	-
PBT (reported)	2,168	2,744	3,061	3,241	3,670	3,837
Tax	596.6	720.7	759.6	818.3	917.5	959.2
(% of PBT)	27.5	26.3	24.8	25.2	25.0	25.0
PAT (reported)	1,571	2,024	2,301	2,423	2,753	2,878
PAT after MI (reported)	1,576	2,025	2,302	2,423	2,753	2,877
Basic EPS (Rs)	27.7	34.6	39.3	41.4	47.1	49.2
% chg	21.5	25.1	13.7	5.3	13.6	4.5

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS						
Equity Share Capital	29	59	59	59	59	59
Share Application Money	-	-	-	-	-	-
Reserves & Surplus	5,127	7,229	9,313	11,622	14,053	16,594
Shareholders Funds	5,156	7,287	9,372	11,680	14,112	16,652
Minority Interest	26	3	2	2	1	1
Long-term provisions	24	23	22	56	56	56
Total Loans	3,864	4,415	3,084	4,483	3,000	2,000
Deferred Tax Liability	211	(182)	(118)	76	76	76
Total Liabilities	9,280	11,546	12,362	16,297	17,189	18,730
APPLICATION OF FUNDS						
Gross Block	6,095	6,093	7,625	8,998	10,386	11,586
Less: Acc. Depreciation	1,794	2,186	2,614	3,172	3,850	4,619
Net Block	3,752	3,907	5,011	5,826	6,535	6,966
Capital Work-in-Progress	310	310	310	310	310	310
Goodwill	64	812	971	1,968	1,968	1,968
Investments	20	123	246	312	312	312
Long-term loans and adv.	486	269	338	343	343	395
Current Assets	8,279	10,294	9,206	12,188	13,078	15,031
Cash	469	834	513	1,262	492	342
Loans & Advances	8	831	409	10	10	10
Other	7,802	8,629	8,284	10,916	12,576	14,679
Current liabilities	3,634	4,168	3,720	4,649	5,356	6,252
Net Current Assets	4,645	6,127	5,487	7,539	7,722	8,779
Total Assets	9,280	11,546	12,362	16,297	17,189	18,730

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	2,168	2,744	3,061	3,241	3,670	3,837
Depreciation	333	392	428	558	678	769
(Inc)/Dec in Working Capital	(757)	(1,333)	388	(1,298)	(953)	(1,155)
Less: Other income	81	205	121	105	105	105
Direct taxes paid	(597)	(721)	(760)	(818)	(918)	(959)
Cash Flow from Operations	1,066	877	2,996	1,577	2,373	2,386
(Inc.)/Dec.in Fixed Assets	(1,989)	3	(1,532)	(1,374)	(1,388)	(1,200)
(Inc.)/Dec. in Investments	-	103	123	66	-	-
Other income	81	205	121	105	105	105
Cash Flow from Investing	(1,908)	311	(1,288)	(1,203)	(1,282)	(1,095)
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	94	552	(1,331)	1,398	(1,483)	(1,000)
Dividend Paid (Incl. Tax)	(171)	(171)	(171)	(171)	(322)	(337)
Others	1,209	(1,204)	(527)	(854)	(56)	(91)
Cash Flow from Financing	1,133	(823)	(2,030)	373	(1,861)	(1,428)
Inc./Dec.) in Cash	291	365	(321)	748	(770)	(137)
Opening Cash balances	179	469	834	513	1,262	492
Closing Cash balances	469	834	513	1,262	492	342

Key ratios

Y/E March	FY2015	FY2016	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)						
P/E (on FDEPS)	21.7	17.4	15.3	14.5	12.8	12.2
P/CEPS	9.2	14.5	12.9	11.8	10.2	9.6
P/BV	3.4	4.8	3.8	3.0	2.5	2.1
Dividend yield (%)	0.7	0.4	0.4	0.4	0.8	0.8
EV/Sales	1.7	2.8	2.5	2.4	2.0	1.7
EV/EBITDA	8.4	14.0	11.8	11.0	9.3	8.6
EV / Total Assets	2.3	3.4	3.1	2.4	2.2	2.0
Per Share Data (₹)						
EPS (Basic)	27.7	34.6	39.3	41.4	47.1	49.2
EPS (fully diluted)	27.7	34.6	39.3	41.4	47.1	49.2
Cash EPS	65.4	41.3	46.6	50.9	58.6	62.3
DPS	4.5	2.5	2.5	2.5	4.7	4.9
Book Value	176.6	124.5	160.1	199.6	241.1	284.6
Dupont Analysis						
EBIT margin	17.9	17.4	18.6	18.2	18.0	16.1
Tax retention ratio	72.5	73.7	75.2	74.8	75.0	75.0
Asset turnover (x)	1.5	1.4	1.3	1.2	1.2	1.3
ROIC (Post-tax)	19.2	18.3	18.7	16.7	16.2	15.2
Cost of Debt (Post Tax)	1.6	1.7	1.3	1.5	1.5	1.5
Leverage (x)	0.8	0.6	0.4	0.3	0.2	0.1
Operating ROE	33.4	27.9	25.4	20.8	19.5	17.1
Returns (%)						
ROCE (Pre-tax)	25.3	22.9	23.1	20.6	20.1	19.6
Angel ROIC (Pre-tax)	27.6	26.5	27.4	25.3	24.8	23.0
ROE	36.4	32.5	27.6	23.0	21.4	18.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.4	2.3	2.2	2.0	2.0	2.0
Inventory / Sales (days)	90	100	101	113	105	104
Receivables (days)	93	107	89	65	65	65
Payables (days)	98	126	119	114	114	111
WC cycle (ex-cash) (days)	119	124	124	124	130	129
Solvency ratios (x)						
Net debt to equity	0.7	0.5	0.3	0.3	0.2	0.1
Net debt to EBITDA	1.4	1.3	0.8	0.9	0.6	0.4
Interest Coverage (EBIT / Int.)	25.5	25.8	41.4	37.9	45.1	70.3

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	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)