

November 15, 2016

Surajit Pal
surajitpal@plindia.com
+91-22-66322259

Rating	BUY
Price	Rs733
Target Price	Rs943
Implied Upside	28.6%
Sensex	26,305
Nifty	8,108

(Prices as on November 15, 2016)

Trading data

Market Cap. (Rs bn)	428.9
Shares o/s (m)	585.2
3M Avg. Daily value (Rs m)	2101

Major shareholders

Promoters	53.79%
Foreign	26.12%
Domestic Inst.	7.96%
Public & Other	12.13%

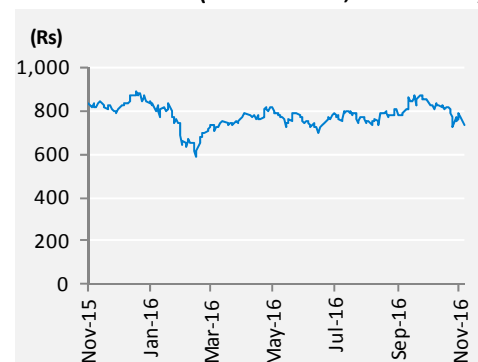
Stock Performance

(%)	1M	6M	12M
Absolute	(11.0)	(6.8)	(11.7)
Relative	(6.1)	(10.0)	(14.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	42.9	42.2	1.7
2018	51.1	50.2	1.7

Price Performance (RIC: ARBN.BO, BB: ARBP IN)



Source: Bloomberg

Aurobindo reported 12% growth in sales and 33% growth in PAT to Rs37.2bn and Rs6bn respectively with 23.4% adj.EBITDA margin in Q2FY17. Sales were in line with our estimates with launches of 20 ANDAs in US in H1FY17. With guidance of major injectable launches (6-7 drugs), we expect major growth is due in H2FY17 especially from the launches of Meropenem and Vancomycin in injectable and gNexium in oral segment. With a large portfolio of niche injectable overdue for approvals, we expect the company's revenues to increase at a CAGR of 14.6% in FY16-18E once these approvals are received. Management expects EBITDA margin to be above 24% in FY17E on the back of better revenue mix. Net debt decreased by US\$50m to US\$484m in Q2FY17. With increased approval of key drugs, there is strong visibility in earnings in FY17E and FY18E. We maintain 'BUY' and retain TP at Rs943.

■ **Natrol, ARV to maintain growth in FY17:** With sales of US\$27m, Aurobindo's acquired OTC brand Natrol is expected to have annual sales of US\$120m in FY17E vs US\$110m in FY16. Natrol's operating margin was higher than average margin of the company and expected to maintain the same in FY17E-18E. ARV tender business is expected to maintain 11% growth in FY17E-18E and margin profile to improve with better product mix of ARV drugs including in-license drug Dolutegravir in global and PEPFAR tender business.

■ **US pipeline remain robust:** With revenues from injectables at US\$38.3m in Q2FY17, management expects more than 40% growth in revenues from US Injectables along with strong flow of approvals and launches resulting in strong earnings growth in H2FY17E. Currently, Aurobindo is ranked 7th in volume in US injectables and we expect US\$170m injectable sales in FY17E and US\$280m in FY18E on the back of key launches such as Pantoprazole, Vancomycin and Eesomeprazole IV. Isosulfane Blue and Eptifibatide will also boost US injectable sales in H2FY17E post expansion of capacity in Unit-IV.

■ **Valuation:** The stock currently trades at 17.1x and 14.4x FY17E and FY18E. We expect growth in the valuation will be triggered with launches and approvals of key products and higher contribution from injectable in FY17E-18E. At the TP of Rs943, the stock trades at a PER of 18.5x of FY18E earnings. We maintain "BUY".

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	121,205	138,961	159,035	176,579
Growth (%)	49.6	14.6	14.4	11.0
EBITDA (Rs m)	25,636	32,056	38,327	44,410
PAT (Rs m)	16,354	20,480	25,097	29,887
EPS (Rs)	27.9	35.0	42.9	51.1
Growth (%)	18.9	25.2	22.5	19.1
Net DPS (Rs)	2.2	4.5	4.5	4.5

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	21.2	23.1	24.1	25.2
RoE (%)	36.7	33.5	31.5	29.4
RoCE (%)	19.6	19.6	20.5	21.7
EV / sales (x)	3.9	3.4	2.9	2.6
EV / EBITDA (x)	18.3	14.6	12.2	10.2
PE (x)	26.2	20.9	17.1	14.4
P / BV (x)	8.3	6.1	4.8	3.7
Net dividend yield (%)	0.3	0.6	0.6	0.6

Source: Company Data; PL Research

Key takeaways from Q2FY16 Conference call

- Aurobindo has been in the process of launching 32 approved ANDAs in H2FY17E. The company has been prioritising launches among its approved ANDAs to optimise existing capacities as they are facing capacity constraints issues in key drugs. This has resulted in delayed launches and limited supply in key launches such as Valcyte, Patanol, Tricor, Suprax, Tramadol ER, Voriconazole and Celecoxib. Management expects approval in Meropenem in the near term and launch of Nexium and shortage injectable Vancomycin in Q3FY17E and Q4FY17E respectively. The expected revenues in gCrestor and gAbilify for Aurobindo has been reduced significantly due to strong competition and price erosion
- The product rationalisation in EU Actavis has improved the overall profitability in Q2FY17. Currently, EU Actavis's operating (EBITDA) margin is more than 5% with positive PAT. With newly commissioned EU-dedicated formulation plant (Unit-15) in Vizag to begin product transfer from Europe, it will commence production and supply of 42 products in January 2017 and plans to ramp up to 114 products in FY18E. With conclusion of mandatory sourcing from third party manufacturers in FY18E, EU Actavis generics will be able to reduce manufacturing costs and improve headline margins.
- Management expects to continue ramp up in sales of Eptifitabine and Isosulfane Blue along with gAbilify and gRaloxifen in H2FY17E.
- The company filed 412 ANDAs, of which 169 ANDAs are pending with USFDA. Its injectable portfolio has 35 pending ANDAs and will add filing of 20 products in near to medium term. Management expects overall launch to reach 30-40 products in US in FY17E.
- Natrol's revenues were US\$27m and added 20 new clients in Q2FY17. Management expects the current sales from AuroHealth to reach critical size in FY18E from US\$10m sales in FY16.
- With additional prepayment of debt of US\$50m in Q2FY17, the current net debt is US\$484m in September 2016. Current Cash/bank is US\$107m.
- Capex was US\$40m in Q2FY17 and US\$96m in H1FY17. Management has guided for capex of Rs12-13bn in FY17E and Rs6.75bn (US\$100m) in FY18E

Exhibit 1: Q2FY17 Result Overview (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Net Sales	37,136	33,118	12.1	37,046	74,182	65,540	13.2
Raw Material	16,299	15,121	7.8	16,777	33,075	30,245	9.4
<i>% of Net Sales</i>	<i>43.9</i>	<i>45.7</i>		<i>45.3</i>	<i>44.6</i>	<i>46.1</i>	
Personnel Cost	4,266	3,730	14.4	4,321	8,587	7,342	16.9
<i>% of Net Sales</i>	<i>11.5</i>	<i>11.3</i>		<i>11.7</i>	<i>11.6</i>	<i>11.2</i>	
Others	7,898	7,009	12.7	7,679	15,577	14,013	11.2
<i>% of Net Sales</i>	<i>21.3</i>	<i>21.2</i>		<i>20.7</i>	<i>21.0</i>	<i>21.4</i>	
Total Expenditure	28,462	25,861	10.1	28,776	57,239	51,600	10.9
EBITDA	8,673	7,257	19.5	8,270	16,943	13,941	21.5
<i>Margin (%)</i>	<i>23.4</i>	<i>21.9</i>		<i>22.3</i>	<i>22.8</i>	<i>21.3</i>	
Depreciation	1,102	926	19.0	1,062	2,164	1,816	19.2
EBIT	7,571	6,330	19.6	7,207	14,779	12,125	21.9
Other Income	702	656	7.0	779	1,480	1,516	(2.3)
Interest	(27)	680	(103.9)	136	110	994	(89.0)
PBT	8,299	6,306	31.6	7,850	16,150	12,646	27.7
Extra-Ord. Inc./Exps.	4	4		(8)	(2)	(15)	
Total Taxes	2,240	1,767	26.8	2,008	4,248	3,401	24.9
<i>ETR (%)</i>	<i>27.0</i>	<i>28.0</i>		<i>25.6</i>	<i>26.3</i>	<i>26.9</i>	
Reported PAT	6,055	4,536	33.5	5,850	11,903	9,260	28.5
Other Comprehensive Income	(30)	(11)		(4)	(34)	(11)	
Total Comprehensive Income	6,025	4,525	33.2	5,846	11,869	9,249	28.3

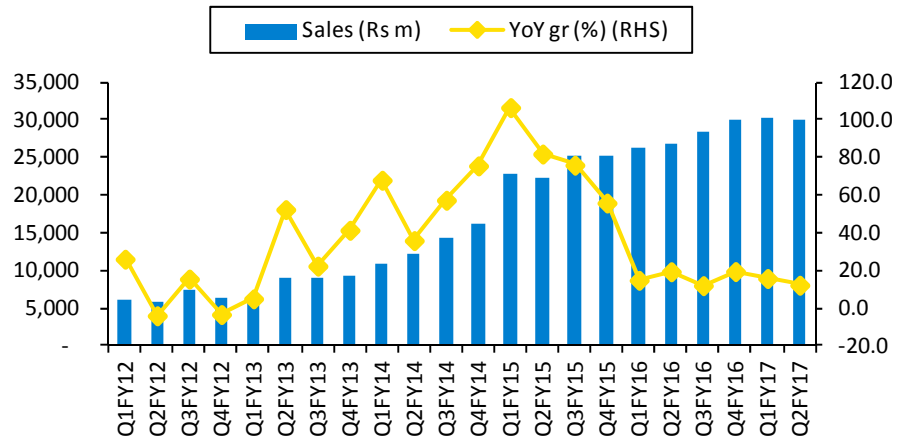
Source: Company Data, PL Research

Exhibit 2: Major Sources of revenues (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Formulations	30,038	26,732	12.4	30,321	60,359	52,889	14.1
<i>% of Net Sales</i>	79.6	79.4		80.5	80.0	78.9	
USA	17,351	14,727	17.8	17,039	34,390	28,864	19.1
<i>% of Net Sales</i>	46.0	43.8		45.2	45.6	43.1	
Europe & ROW	9,902	9,203	7.6	10,252	20,154	18,270	10.3
<i>% of Net Sales</i>	26.2	27.3		27.2	26.7	27.3	
ARV	2,785	2,802	(0.6)	3,030	5,815	5,755	1.0
<i>% of Net Sales</i>	7.4	8.3		8.0	7.7	8.6	
Natrol	-	-	NA	-	-	-	NA
<i>% of Net Sales</i>	0.0	0.0		0.0	0.0	0.0	
API	7,688	6,911	11.2	7,346	15,034	14,140	6.3
<i>% of Net Sales</i>	20.4	20.5		19.5	19.9	21.1	
SSPs	5,113	1,981	158.1	4,950	10,063	6,759	48.9
<i>% of Net Sales</i>	13.5	5.9		13.1	13.3	10.1	
Cephalosporins	-	2,294	NA	-	-	2,294	NA
<i>% of Net Sales</i>	0.0	6.8		0.0	0.0	3.4	
ARV & Others (NPNC)	2,575	2,636	(2.3)	2,396	4,971	5,087	(2.3)
<i>% of Net Sales</i>	6.8	7.8		6.4	6.6	7.6	
Dossier Income	28	9	211.1	-	28	9	211.1
Gross Sales	37,754	33,652	12.2	37,667	75,421	67,038	12.5

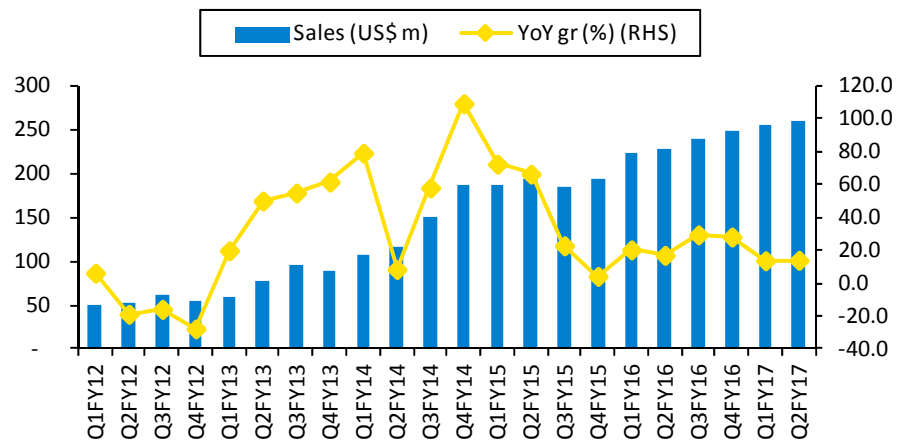
Source: Company Data, PL Research

Exhibit 3: Formulation sales, growth



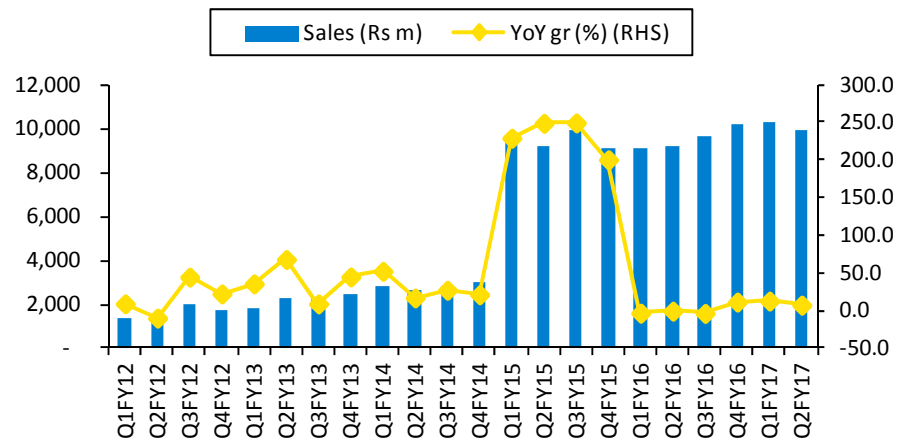
Source: Company Data, PL Research

Exhibit 4: US generic sales (US\$ m), growth



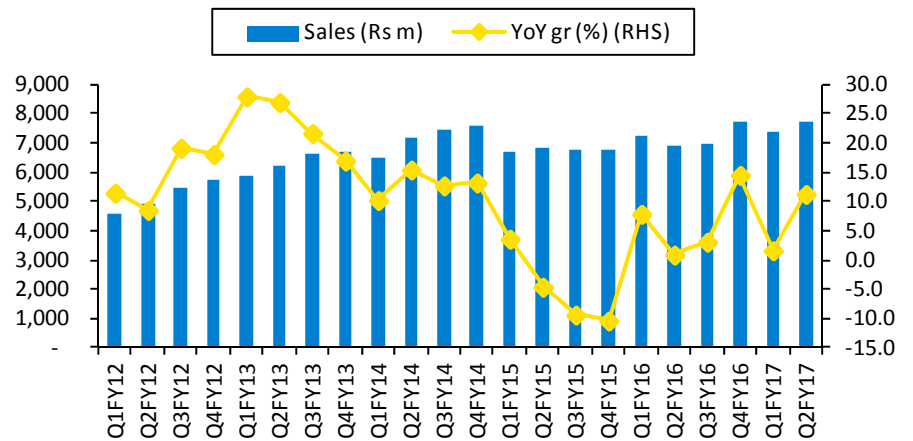
Source: Company Data, PL Research

Exhibit 5: EU & ROW sales, growth



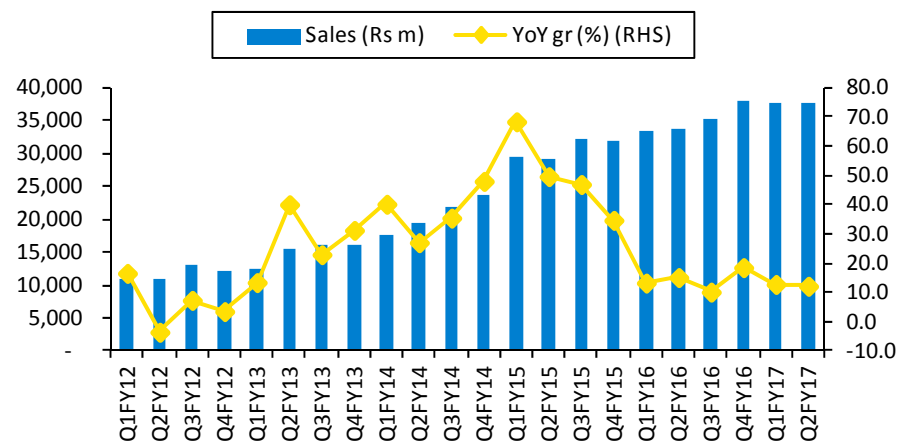
Source: Company Data, PL Research

Exhibit 6: API sales, growth



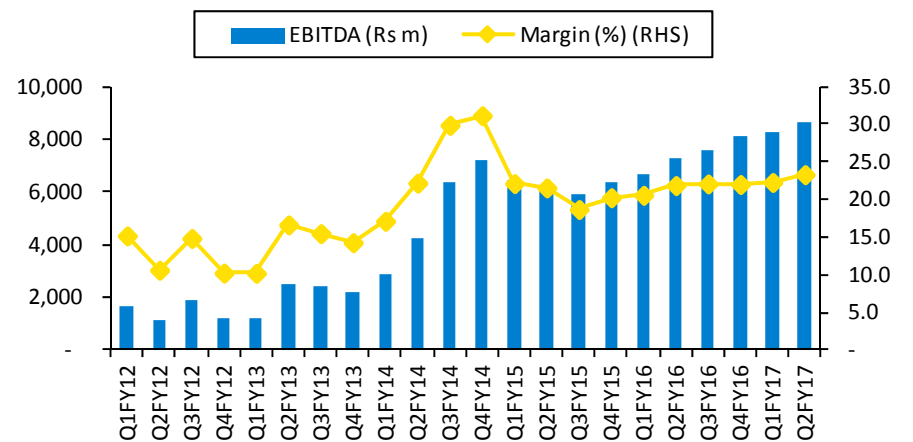
Source: Company Data, PL Research

Exhibit 7: Overall sales, growth



Source: Company Data, PL Research

Exhibit 8: EBITDA, margin



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	121,205	138,961	159,035	176,579
Raw Material Expenses	55,056	61,575	69,498	74,958
Gross Profit	66,149	77,385	89,537	101,621
Employee Cost	13,023	15,508	16,699	17,658
Other Expenses	27,490	29,821	34,511	39,554
EBITDA	25,636	32,056	38,327	44,410
Depr. & Amortization	3,326	3,926	4,035	4,920
Net Interest	843	927	677	448
Other Income	808	682	723	767
Profit before Tax	22,275	27,885	34,339	39,809
Total Tax	5,966	7,444	9,271	9,952
Profit after Tax	16,309	20,441	25,067	29,857
Ex-Od items / Min. Int.	(596)	(660)	(693)	(728)
Adj. PAT	16,354	20,480	25,097	29,887
Avg. Shares O/S (m)	585.2	585.2	585.2	585.2
EPS (Rs.)	27.9	35.0	42.9	51.1

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	12,368	17,596	13,517	28,090
C/F from Investing	(14,085)	(13,801)	(9,896)	(9,894)
C/F from Financing	947	(201)	(9,675)	(13,833)
Inc. / Dec. in Cash	(770)	3,594	(6,055)	4,363
Opening Cash	5,275	4,652	8,246	2,191
Closing Cash	4,506	8,246	2,191	6,554
FCFF	(3,361)	8,930	1,784	19,428
FCFE	3,610	11,431	(4,431)	11,190

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	49.6	14.6	14.4	11.0
EBITDA (%)	20.1	25.0	19.6	15.9
PAT (%)	18.9	25.2	22.5	19.1
EPS (%)	18.9	25.2	22.5	19.1
Profitability				
EBITDA Margin (%)	21.2	23.1	24.1	25.2
PAT Margin (%)	13.5	14.7	15.8	16.9
RoCE (%)	19.6	19.6	20.5	21.7
RoE (%)	36.7	33.5	31.5	29.4
Balance Sheet				
Net Debt : Equity	0.8	0.6	0.4	0.2
Net Wrkng Cap. (days)	210	202	202	197
Valuation				
PER (x)	26.2	20.9	17.1	14.4
P / B (x)	8.3	6.1	4.8	3.7
EV / EBITDA (x)	18.3	14.6	12.2	10.2
EV / Sales (x)	3.9	3.4	2.9	2.6
Earnings Quality				
Eff. Tax Rate	26.8	26.7	27.0	25.0
Other Inc / PBT	3.6	2.4	2.1	1.9
Eff. Depr. Rate (%)	6.1	6.3	5.1	5.5
FCFE / PAT	22.1	55.8	(17.7)	37.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	51,559	70,567	88,601	114,679
Total Debt	44,754	47,255	41,040	32,802
Other Liabilities	2,316	2,959	1,899	675
Total Liabilities	98,629	120,782	131,540	148,155
Net Fixed Assets	41,253	52,635	58,601	64,181
Goodwill	—	—	—	—
Investments	198	2	2	2
Net Current Assets	52,323	63,803	67,761	77,502
<i>Cash & Equivalents</i>	<i>4,691</i>	<i>8,344</i>	<i>2,191</i>	<i>6,554</i>
<i>Other Current Assets</i>	<i>78,100</i>	<i>91,671</i>	<i>106,709</i>	<i>115,439</i>
<i>Current Liabilities</i>	<i>30,468</i>	<i>36,211</i>	<i>41,139</i>	<i>44,491</i>
Other Assets	4,855	4,341	5,176	6,470
Total Assets	98,629	120,782	131,539	148,155

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	34,321	36,747	37,046	37,136
EBITDA	7,596	8,103	8,270	8,673
<i>% of revenue</i>	<i>22.1</i>	<i>22.1</i>	<i>22.3</i>	<i>23.4</i>
Depr. & Amortization	995	1,113	1,062	1,102
Net Interest	227	251	206	175
Other Income	832	972	849	903
Profit before Tax	7,206	7,711	7,850	8,299
Total Tax	1,860	2,097	2,008	2,240
Profit after Tax	5,350	5,629	5,850	6,055
Adj. PAT	5,350	5,629	5,846	6,025

Key Operating Metrics (Rs m)

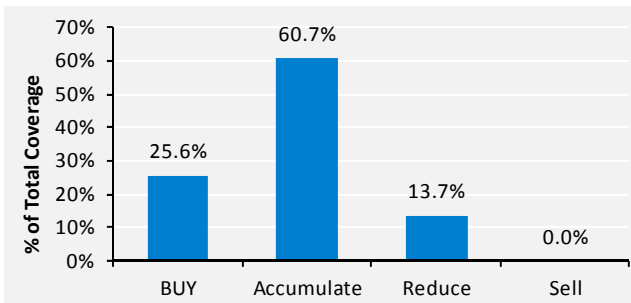
Y/e March	2015	2016	2017E	2018E
US Formulations	48,317	61,440	79,076	89,836
EU & ROW	37,630	38,218	40,134	43,796
ARV formulations	9,639	11,999	12,503	13,702
APIs	27,062	28,837	29,211	31,255

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage**PL's Recommendation Nomenclature**

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

DISCLAIMER/DISCLOSURES**ANALYST CERTIFICATION**

We/I, Mr. Surajit Pal (PGDBA, CFA, M.Com), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal (PGDBA, CFA, M.Com), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)**ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.