

Institutional Equity Research

Aurobindo Pharma

Pharmaceuticals | India

1QFY18 Result Update | August 10, 2017

CMP* (Rs)	696
Upside/ (Downside) (%)	14.9
Bloomberg Ticker	ARBP IN
Market Cap. (Rs bn)	407
Free Float (%)	48
Shares O/S (mn)	585.2

BUY 

Target Price: Rs800

Injectable Portfolio, New Launches to Drive US Biz; Maintain BUY

Aurobindo Pharma (ARBP) has delivered a better performance compared to its peers in 1QFY18. Its sales, EBITDA and net profit stood at Rs36.8bn, Rs8.4bn and Rs5.3bn, respectively. Despite challenging environment, its US revenue increased by 3.5% YoY and 7.0% QoQ (in CC term), which albeit declined by 0.5% YoY in INR terms due to adverse currency. Led by weak performance in ARV (down 19.3% YoY) and API business (down 14.9% YoY), ARBP's revenue declined 2.3% YoY. Gross margin rose by 274bps YoY and 59bps QoQ to 59.3% owing to better product mix. Despite 11% QoQ rise in R&D spend, EBITDA margin rose by 170bps QoQ due to lower other expenditure. Despite healthy operating performance, PAT declined by 6.6% YoY to Rs5.3bn owing to higher depreciation (+31% QoQ) and higher tax rate of 27% vs. 17% in 4QFY17.

We reiterate our BUY recommendation on the stock with a revised Target Price of Rs800.

Conference Call – Key Highlights

- ▶ **US Biz (46% of Sales):** The Management expects the US business to see price erosion in high single digit to low teens over next 4-6 quarters vs. 7-8% in FY17. ARBP has seen flat price erosion sequentially vis-à-vis peers, which is positive in our view. The Company launched 15 products (including 3 injectables) out of 17 approvals in 1QFY18. As per the Management, product diversification (oral solids: 70% of the US sales) and lack of product concentration have been the major competitive advantage for ARBP compared to its peers (Top-25 Products: 36% of US revenues in 1QFY18 vs. 45% in 1QFY17). Unit-10 received EIR from the US FDA in 1QFY18, following which it has started shipment from this facility.
- ▶ **Injectable Biz:** The Management expects significant ramp-up in injectable business led by new product launches with >50% YoY growth over FY17-19 (US\$157mn in FY17).
- ▶ **Europe Biz (25% of Sales):** EBITDA margins came in at double-digit for combined European business (vs. earlier guidance of 7-8% by FY18E). The Management expects the European business to deliver double-digit sales growth (ex-Generis) vs earlier guidance of 5-8%.
- ▶ **Debt:** Net debt rose to US\$560mn from US\$439mn in 4QFY17 due to acquisition of Generis. However, ARBP expects the net debt to come down to <US\$475mn by FY18-end.
- ▶ **Key Guidance for FY18E:** Pegging the capex at ~US\$120-130mn (ex-vaccine and biosimilar), the Management expects the effective tax rate at ~27% and R&D at 6% of sales in FY18.

Outlook & Valuation

Looking ahead, we expect strong ramp-up in Europe business' operating performance as well as healthy sales growth in the US (backed by new launches and injectable portfolio) and ARV business. We expect ARBP's sales and PAT to witness 11.4% & 14.4% CAGR through FY17-19E, respectively with healthy return ratios (RoE/ RoCE at 19.9%/24.5%). **We reiterate our BUY recommendation on the stock with a revised Target Price of Rs800 (from Rs700 earlier).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	139,553	150,899	167,325	187,372
EBITDA	31,882	34,343	40,491	44,965
Adj. PAT	20,539	22,392	25,932	29,291
EPS (Rs)	35.1	38.2	44.3	50.0
P/E (x)	19.8	18.2	15.7	13.9
EV/Sales (x)	3.2	2.9	2.5	2.1
EV/EBITDA (x)	13.9	12.6	10.3	8.9
ROE (%)	28.2	23.7	21.8	19.9
ROCE (%)	24.2	24.8	25.2	24.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(2.2)	12.4	(9.5)
Relative to Nifty	(3.1)	7.7	(23.0)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	51.9	51.9
Public	48.1	48.1

1 Year Stock Price Performance



Note: * CMP as on Aug. 10, 2017

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Risks to view

Downward risks

- ▶ Any inordinate delay in getting approval for new products in the US.
- ▶ Higher-than-expected price erosion in existing product portfolio.

Exhibit 1: Segment-wise sales performance

(Rs mn)	1QFY18	1QFY17	YoY, %	4QFY17	QoQ, %
US	16,949	17,039	(0.5)	16,432	3.1
ARV	2,446	3,030	(19.3)	2,619	(6.6)
EU	9,176	8,312	10.4	7,772	18.1
ROW	1,939	1,940	(0.1)	1,971	(1.6)
Total Formulations	30,510	30,321	0.6	28,794	6.0
SSP+Cephalosporin	4089	4950	(17.4)	5121	(20.2)
ARV & others	2162	2396	(9.8)	2506	(13.7)
Total API	6251	7346	(14.9)	7627	(18.0)
Licensing income	28	0	-	-6	
Total	36,789	37,667	(2.3)	36,415	1.0
US (USD mn)	263	254	3.5	246	7.0

Source: Company, RSec Research

Exhibit 2: Quarterly Performance

Y/E March (Rs mn)	1QFY18	1QFY17	YoY, %	4QFY17	QoQ, %
Net Sales	36,788	37,666	(2.3)	36,416	1.0
Cost of Revenues	14,978	16,370	(8.5)	15,028	(0.3)
Gross Profit	21,809	21,296	2.4	21,388	2.0
% of net sales	59.3	56.5	274	58.7	55
Employee expenses	4,902	4,321	13.4	4,635	5.8
Other Expenses	8,492	8,086	5.0	9,041	(6.1)
Total operating expenses	28,372	28,776	(1.4)	28,704	(1.2)
EBITDA	8,416	8,890	(5.3)	7,712	9.1
EBITDA margin (%)	22.9	23.6	(72)	21.2	170
Depreciation	1,312	1,062	23.5	1,001	31.1
EBIT	7,104	7,827	(9.2)	6,712	5.8
Other Income	221	159	39.0	218	1.6
Interest	169	206	(18.3)	143	18.1
PBT	7,156	7,780	(8.0)	6,787	5.4
Total tax	1,910	2,008	(4.9)	1,172	63.0
Tax Rate (%)	26.7	25.8		17.3	
Minority Interest	(15)	(8)	92.4	(19)	(20.4)
Adj PAT before extraordinary	5,262	5,779	(9.0)	5,634	(6.6)
Extraordinary items	76.6	(70.4)		309.7	
Reported PAT	5,185	5,850	(11.4)	5,325	(2.6)
Adj. EPS (Rs)	9.0	9.9	(9.1)	9.6	(6.6)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	139,553	150,899	167,325	187,372
% yoy change	15.1	8.1	10.9	12.0
Adjusted RM cost	61,621	64,343	68,603	76,823
Employee expenses	15,426	17,678	18,406	19,674
Other expenses	30,624	34,536	39,824	45,911
Total operating expenditure	107,671	116,556	126,833	142,408
EBIDTA	31,882	34,343	40,491	44,965
EBIDTA margin (%)	22.8	22.8	24.2	24.0
Depreciation	3,924	4,276	5,030	5,657
EBIT	27,958	30,067	35,462	39,307
Other income	701	538	490	516
Interest costs	927	667	511	338
PBT	27,732	29,938	35,441	39,484
Taxes	7,207	7,597	9,569	10,266
Tax rate (%)	26.0	25.4	27.0	26.0
Minority interest	(15)	(50)	(60)	(72)
Adjusted PAT	20,539	22,392	25,932	29,291
% yoy change	25.6	9.0	15.8	13.0
Exceptional item	660	0	0	0
Reported PAT	20,236	23,012	25,932	29,291
% yoy change	28.4	13.7	12.7	13.0
Adjusted EPS	35.1	38.2	44.3	50.0

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Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	585	586	586	586
Reserves& Surplus	72,288	93,932	118,454	146,334
Shareholders Funds	72,873	94,518	119,040	146,920
Minority Interest	26	21	(39)	(112)
Total Loans	44,155	30,841	23,641	15,641
Deferred tax liability	240	493	493	493
Total Liabilities	117,293	125,873	143,135	162,943
APPLICATION OF FUNDS				
Gross Block	41,757	54,499	64,099	72,099
Less: Acc. Depreciation	3,901	8,018	13,048	18,705
Net Block	37,856	46,481	51,051	53,394
Capital Work-in-Progress	8,359	12,374	14,774	16,774
Goodwill on consolidation	4,063	4,063	4,063	4,063
Investments	1,229	2,459	2,705	2,976
Current Assets	102,998	92,119	104,010	122,119
Cash	8,003	5,135	12,468	21,985
Loans & Advances	158	166	184	206
Other	94,838	86,818	91,358	99,928
Current liabilities	41,909	37,420	39,678	43,046
Net Current Assets	61,089	54,699	64,332	79,073
Deferred tax asset	2,063	1,678	1,678	1,678
Other non-current assets	2,634	4,120	4,532	4,985
Total Assets	117,293	125,873	143,135	162,943

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Profit before tax	27,443	30,608	35,441	39,484
Depreciation	3,924	4,276	5,030	5,657
Interest provided	793	545	511	338
Change in Working Capital	(10,794)	7,479	(2,712)	(5,677)
Tax Paid	(7,326)	(7,737)	(9,569)	(10,266)
Others	158	(1,017)	-	-
Cash Flow from Operations	14,198	34,155	28,701	29,537
(Inc.)/ Dec. in Fixed Assets	(14,475)	(16,942)	(12,000)	(10,000)
(Inc.)/ Dec. in Investments	(311)	(1,179)	(246)	(271)
Others	334	250	-	-
Cash Flow from Investing	(14,452)	(17,870)	(12,246)	(10,271)
Issue of Equity	72	67	-	-
Inc./(Dec.) in loans	6,033	(17,279)	(7,200)	(8,000)
Dividend Paid (Incl. Tax)	(1,616)	(1,372)	(1,411)	(1,411)
Interest provided	(835)	(568)	(511)	(338)
Others	(8)	-	-	-
Cash Flow from Financing	3,646	(19,153)	(9,122)	(9,749)
Inc./(Dec.) in Cash	3,392	(2,868)	7,333	9,518
Opening Cash balances	4,611	8,003	5,135	12,468
Closing Cash balances	8,003	5,135	12,468	21,985

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Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E	19.8	18.2	15.7	13.9
P/CEPS	16.6	15.3	13.2	11.7
P/BV	5.6	4.3	3.4	2.8
Dividend yield (%)	0.3	0.3	0.3	0.3
EV/Sales	3.2	2.9	2.5	2.1
EV/EBITDA	13.9	12.6	10.3	8.9
EV / Total Assets	3.8	3.4	2.9	2.5
Per Share Data (Rs)				
Adj EPS	35.1	38.2	44.3	50.0
Cash EPS	41.8	45.5	52.8	59.6
DPS	2.3	1.9	2.0	2.0
Book Value	124.5	161.3	203.2	250.8
Returns (%)				
RoCE	24.2	24.8	25.2	24.5
RoE	28.2	23.7	21.8	19.9
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.3	2.8	2.6	2.6
Inventory / Sales (days)	107	105	105	105
Receivables (days)	109	67	70	70
Payables (days)	83	78	78	78

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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