

Aurobindo Pharma

BSE SENSEX	S&P CNX
40,116	11,840
Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USD\$)	253.9 / 3.5
52-Week Range (INR)	838 / 428
1, 6, 12 Rel. Per (%)	-11/-41/-58
12M Avg Val (INR M)	1994
Free float (%)	48.1

CMP: INR433 TP: INR500 (+15%) Buy

Sales uptrend continues led by US/Europe; regulatory headwinds remain

- Superior execution in US/acquisition contribution drive revenues:** Sales were up 18% YoY to INR56b (our estimate: INR54.2b) in 2QFY20, largely led by the US (+27.3% YoY to INR28b) and Europe (+21.2% YoY to INR14b). New launches, higher sales in existing products and also sales from acquired entity provided momentum during the quarter. Growth markets grew at a subdued rate of 3.8% YoY to INR3b, while ARV/API sales were down 2.5%/1.3% YoY to INR2.4b/INR8b.
- Reduced operating leverage hurts margins:** Gross margin expanded 70bp YoY to 57.7% due to a favorable mix (product/geographical). However, EBITDA margin shrank 80bp YoY to 20.8% (in-line) due to higher staff cost/other expenses (+90bp/+100bp YoY). EBITDA grew 14% YoY to INR11.7b (in-line). ARBP incurred a forex loss of INR272m in the quarter. Adj. PAT increased marginally to INR6.7b (our estimate: INR6.3b) due to an increase in the tax rate.
- For 1HFY20, revenue/EBITDA/PAT were up 23%/28%/12% YoY at INR110b/INR23b/INR12b.
- Concall highlights:** (1) Substantial queries related to the Sandoz deal have been addressed. Approval from FTC is likely in the next few weeks. (2) ARBP is yet to get clearance from the USFDA for filing through the CB30 route for Valsartan. (3) It is in process of sending a response with CAPA completion w.r.t units 11, 1 and 9. (4) R&D spend to be 4-4.5% of sales for FY20. (5) Eugia business prospects are likely to improve in FY21 led by new launches.
- Valuation view:** We cut our EPS estimate for FY20 by 5% to INR47 to factor in the delay in the closure of the Sandoz transaction. We reduce our P/E multiple to 8x (prior: 10x) to factor in regulatory headwinds and revise our TP to INR500 (prior: INR590) on a 12M forward earnings basis. While we remain positive on ARBP based on the limited price erosion in the base business and the robust ANDA pipeline (incl. complex generics), regulatory issues may remain an overhang over the near term. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	FY19	FY20E	FY21E
Net Sales	195.6	236.4	296.6
EBITDA	40.2	49.6	63.2
PAT	25.3	27.5	36.1
EPS (INR)	43.2	47.0	61.7
Gr. (%)	1.1	8.9	31.3
BV/Sh (INR)	237.1	281.0	340.2
RoE (%)	19.8	18.1	19.9
RoCE (%)	14.4	12.1	13.3
P/E (x)	10.0	9.2	7.0
P/BV (x)	1.8	1.5	1.3

Estimate change

TP change

Rating change



Quarterly performance (Consolidated)

Y/E March	FY19				FY20E				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY19	FY20E	FY20E	
Net Sales	42,503	47,514	52,697	52,923	54,446	56,005	57,881	68,083	1,95,636	2,36,415	54,195	3.3%
YoY Change (%)	15.5	7.1	21.5	30.7	28.1	17.9	9.8	28.6	18.6	20.8	14.1	
EBITDA	7,792	10,260	10,864	11,304	11,464	11,675	12,097	14,411	40,219	49,647	11,273	3.6%
Margins (%)	18.3	21.6	20.6	21.4	21.1	20.8	20.9	21.2	20.6	21.0	20.8	
Depreciation	1,545	1,637	1,631	1,866	2,409	2,433	2,500	3,592	6,680	10,934	2,500	
Interest	295	354	477	501	499	409	450	886	1,627	2,245	650	
Other Income	437	263	134	323	110	206	190	194	1,157	700	150	
PBT before EO expense	6,389	8,532	8,891	9,259	8,666	9,038	9,337	10,127	33,070	37,169	8,273	9.3%
Forex loss/(gain)	682	397	-505	28	-48	272	0	0	603	224	0	
Exceptional (expenses)/income		-268	-250	-1,062	-127	-128			-1,581	-255		
PBT	5,707	7,866	9,145	8,169	8,587	8,638	9,337	10,127	30,887	36,690	8,273	4.4%
Tax	1,155	1,754	2,048	2,311	2,278	2,244	2,428	2,618	7,269	9,567	2,027	
Rate (%)	20.2	22.3	22.4	28.3	26.5	26.0	26.0	25.9	23.5	26.1	24.5	
Minority Interest	-3	-2	-26	4	-47	-1	-18	12	-29	-54	-20	
Reported PAT	4,555	6,114	7,123	5,854	6,357	6,395	6,928	7,497	23,647	27,177	6,266	2.1%
Adj PAT	5,095	6,632	6,925	6,636	6,415	6,691	6,928	7,497	25,288	27,530	6,266	6.8%
YoY Change (%)	-2.8	-15.1	5.5	22.6	25.9	0.9	0.0	13.0	1.1	8.9	-5.5	
Margins (%)	12.0	14.0	13.1	12.5	11.8	11.9	12.0	11.0	12.9	11.6	11.6	

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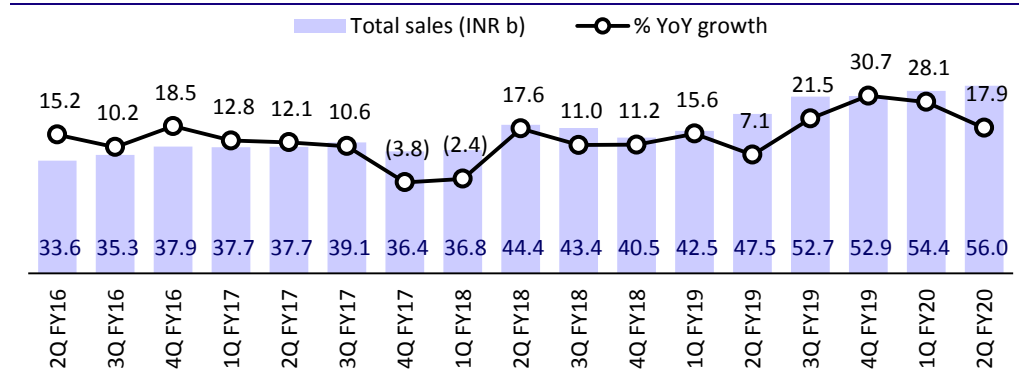
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Other key highlights

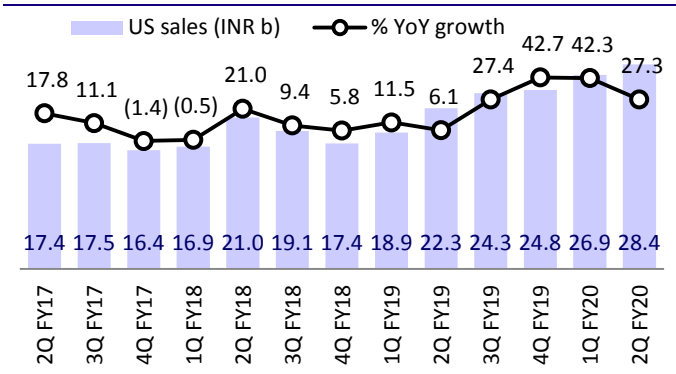
- ARBP filed 20 ANDAs, taking cumulative filings to 569. ARBP launched 10 products in 2QFY20, including three injectables.
- Pricing in Sartans category has been stable over the past two quarters.
- Without Apotex, Europe business grew at 6% YoY in CC terms. With Apotex, Europe business grew at 26% YoY in CC terms.
- With Apotex integration, ARBP is gaining healthy traction in newer markets of Belgium, Poland, and Czech and would be integrating the Netherlands over the near term.
- While R&D spend would be lower at 4-4.5% for FY20, it would increase in coming years to develop complex drugs including biosimilars and depo injectable.
- Net debt for the company decreased QoQ from USD593m to USD522m due to lower working capital requirement. Total debt reduction has been ~USD200m in 1HFY20 and ARBP is on track with its guidance of reducing debt by USD150-200m for FY20.
- Capex for the quarter was USD58m.

Exhibit 1: Overall sales grew 18% YoY



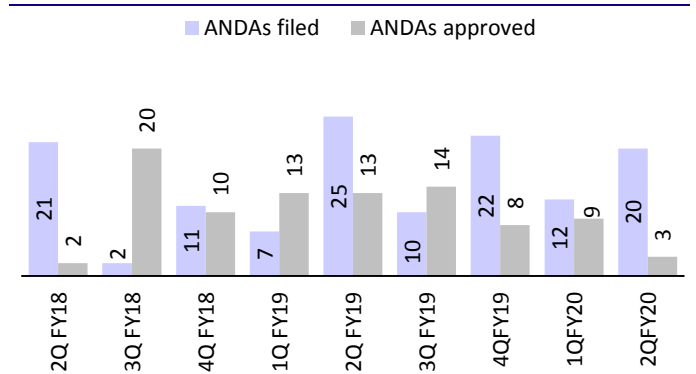
Source: Company, MOFSL

Exhibit 2: US business grew by a strong 27.3% YoY



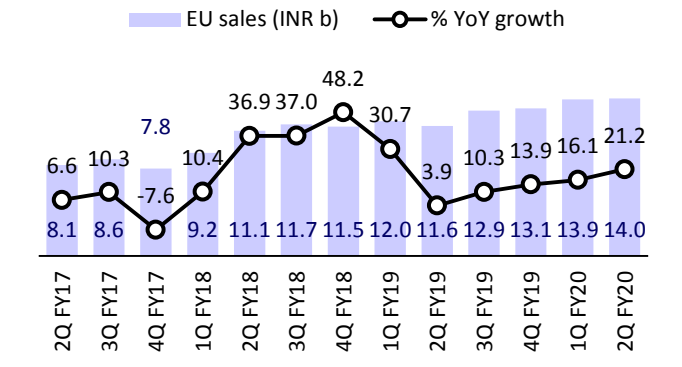
Source: Company, MOFSL

Exhibit 3: ARBP filed for 20 ANDAs during the quarter



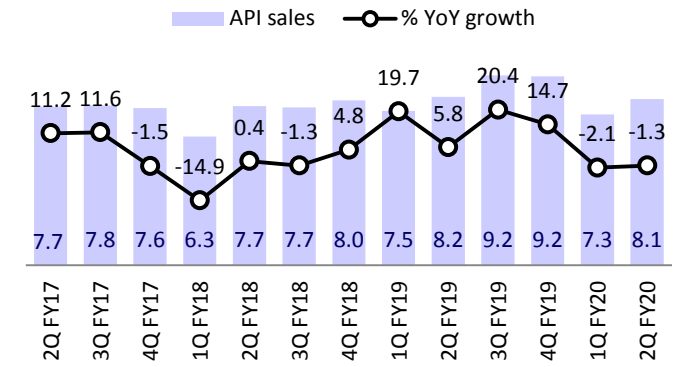
Source: Company, MOFSL

Exhibit 4: Sales run-rate remains on an uptrend



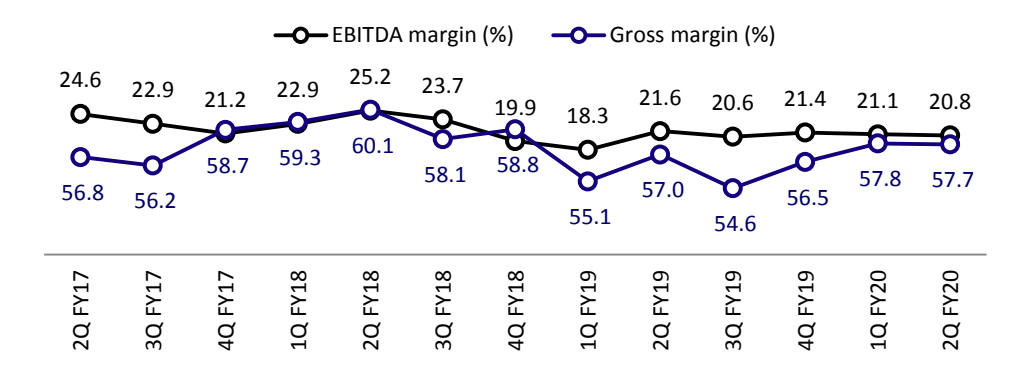
Source: Company, MOFSL

Exhibit 5: API sales down 1.3% YoY



Source: Company, MOFSL

Exhibit 6: Gross margin and EBITDA margins +70bp/-80bp YoY



Source: Company, MOFSL

Operating metrics

Exhibit 7: Operating metrics

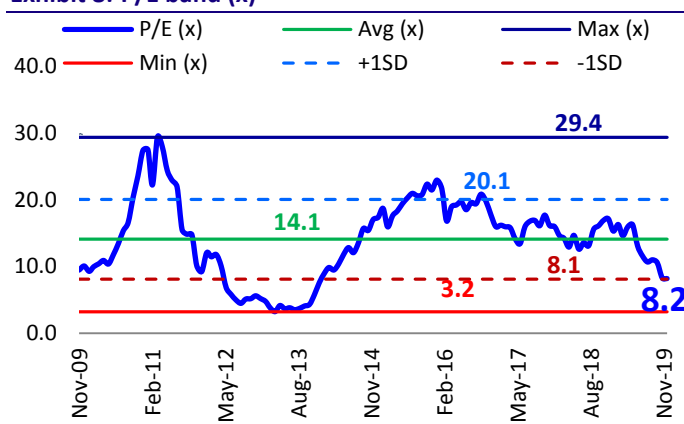
	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Revenue Mix (%)									
Formulations	82.6	82.3	80.2	82.4	82.8	82.5	82.7	86.6	85.6
ARV form.	4.7	5.5	3.7	3.7	5.1	5.3	5.5	5.9	4.2
US generic form.	47.3	44.0	42.9	44.5	46.9	46.2	46.9	49.4	50.6
EU and ROW form.	30.6	32.8	33.6	34.3	30.8	31.0	30.3	31.3	30.7
APIs	17.4	17.7	19.7	17.6	17.2	17.5	17.3	13.4	14.3
Revenue Growth (%)									
Formulations	22.0	14.1	12.8	14.7	7.4	21.8	34.6	34.6	21.8
ARV form.	(25.5)	(30.1)	(43.3)	(36.4)	17.6	17.7	96.2	104.7	(2.5)
US generic form.	21.0	9.4	5.8	11.5	6.1	27.4	42.7	42.3	27.3
EU and ROW form.	37.0	36.3	39.7	31.0	7.9	14.9	17.6	17.1	17.5
APIs	0.4	(1.3)	4.8	19.7	5.8	20.4	14.7	(2.1)	(1.3)
As % of sales									
Raw material	39.9	41.9	41.2	44.9	43.0	45.4	43.5	42.2	42.3
Staff cost	11.7	12.5	14.4	14.0	13.2	12.3	13.5	14.3	13.9
Other expenses	19.7	18.3	19.9	18.8	17.7	16.9	17.3	17.9	19.0
Tax Rate	26.5	26.5	18.8	20.2	22.3	22.4	28.3	26.5	26.0
Margins (%)									
Gross Margins	60.1	58.1	58.8	55.1	57.0	54.6	56.5	57.8	57.7
EBITDA Margins	25.2	23.7	19.9	18.3	21.6	20.6	21.4	21.1	20.8
PAT margins	17.6	15.1	13.4	12.0	14.0	13.1	12.5	11.8	11.9

Source: Company, MOFSL

Valuation and view

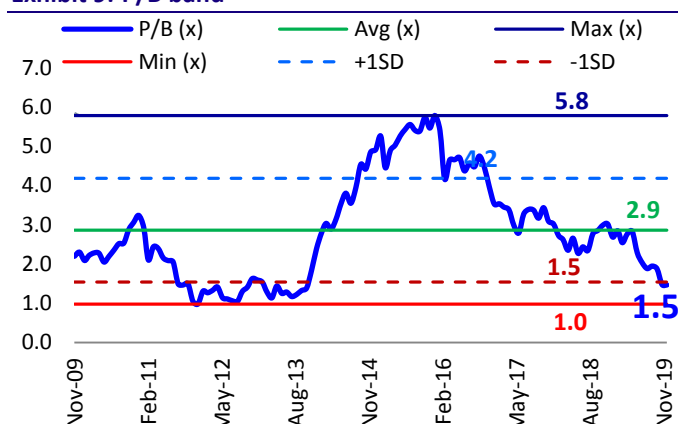
We lower our EPS estimate for FY20 by 5% to INR47 to factor in the delay in the closure of the Sandoz transaction. We reduce our P/E multiple to 8x (prior: 10x) to factor in regulatory headwinds and revise our TP to INR500 (prior: INR590) on a 12M forward earnings basis. While we remain positive on ARBP based on the limited price erosion in the base business and the robust ANDA pipeline (which includes complex generics), regulatory issues may remain an overhang over the near term. Maintain **Buy**.

Exhibit 8: P/E band (x)



Source: Company, MOFSL

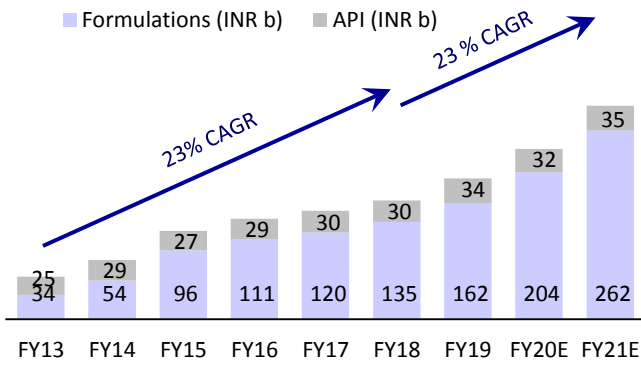
Exhibit 9: P/B band



Source: Company, MOFSL

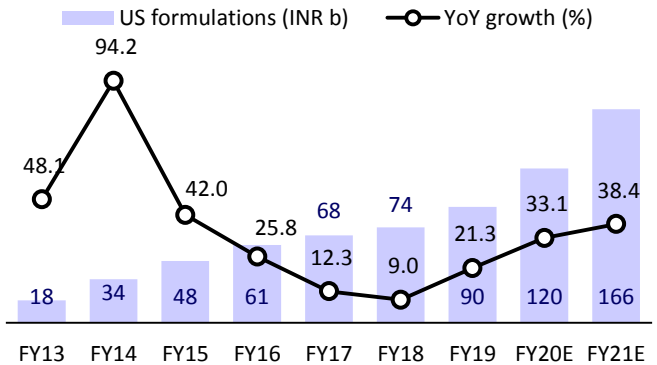
Story in charts

Exhibit 10: Expect sales CAGR of 23% over FY19-21



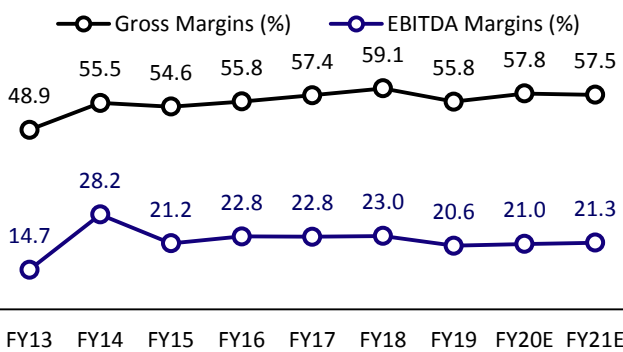
Source: Company, MOFSL

Exhibit 11: Sandoz portfolio to boost US business



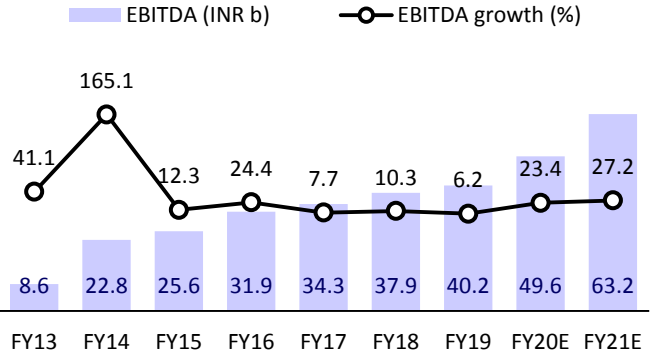
Source: Company, MOFSL

Exhibit 12: Margins to improve gradually



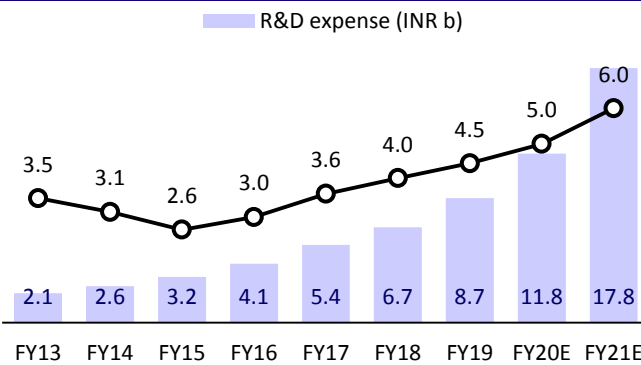
Source: Company, MOFSL

Exhibit 13: Expect EBITDA CAGR of 25% over FY19-21



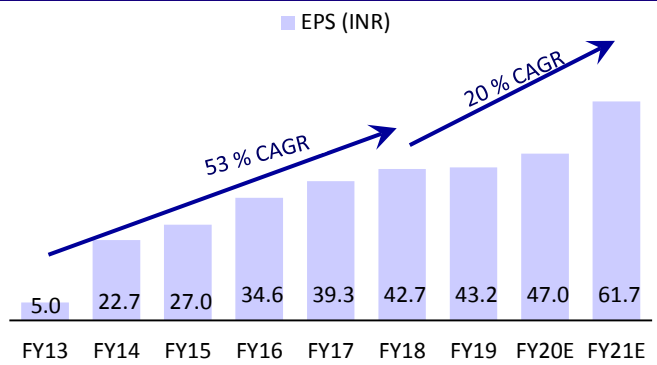
Source: Company, MOFSL

Exhibit 14: R&D expense to increase led by development of complex molecules



Source: Company, MOFSL

Exhibit 15: Expect EPS CAGR of ~20% over FY19-21



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	80,998	1,21,205	1,39,553	1,50,897	1,64,998	1,95,636	2,36,415	2,96,581
Change (%)	38.3	49.6	15.1	8.1	9.3	18.6	20.8	25.4
Total Expenditure	58,170	95,569	1,07,671	1,16,556	1,27,113	1,55,416	1,86,768	2,33,410
EBITDA	22,828	25,636	31,882	34,341	37,885	40,219	49,647	63,172
Margin (%)	28.2	21.2	22.8	22.8	23.0	20.6	21.0	21.3
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	10,934	13,571
EBIT	19,703	22,310	27,958	30,065	32,305	33,540	38,713	49,601
Int. and Finance Charges	1,079	843	927	667	777	1,627	2,245	3,382
Other Income	232	808	701	538	1,020	1,157	700	650
PBT bef. EO Exp.	18,856	22,275	27,733	29,936	32,548	33,070	37,169	46,868
EO Items	-2,031	-596	-304	621	-168	-2,183	-479	0
PBT after EO Exp.	16,825	21,679	27,429	30,557	32,380	30,887	36,690	46,868
Current Tax	3,635	5,966	7,207	7,596	8,183	7,269	9,567	10,780
Deferred Tax	0	0	0	0	0	0	0	0
Tax Rate (%)	21.6	27.5	26.3	24.9	25.3	23.5	26.1	23.0
Less: Minority Interest	-38	-45	-30	-55	-34	-29	-54	-55
Reported PAT	13,228	15,758	20,252	23,015	24,231	23,647	27,177	36,143
Adjusted PAT	13,228	15,758	20,251	23,015	25,021	25,288	27,530	36,143
Change (%)	350.1	19.1	28.5	13.6	8.7	1.1	8.9	31.3
Margin (%)	16.3	13.0	14.5	15.3	15.2	12.9	11.6	12.2

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	583	584	585	586	586	586	586	586
Total Reserves	36,919	50,975	72,288	93,133	1,16,218	1,38,322	1,64,034	1,98,712
Net Worth	37,502	51,559	72,873	93,719	1,16,804	1,38,908	1,64,620	1,99,298
Minority Interest	257	258	26	21	18	16	16	17
Deferred Liabilities	2,054	2,058	-1,823	-1,185	765	980	1,000	1,020
Total Loans	36,339	38,636	44,155	30,841	44,825	67,532	1,12,049	1,06,176
Capital Employed	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,77,684	3,06,511
Gross Block	41,066	53,821	41,312	53,650	70,719	97,987	1,44,987	1,59,987
Less: Accum. Deprn.	14,613	17,405	3,455	7,168	11,843	18,298	29,232	42,803
Net Fixed Assets	26,453	36,416	37,856	46,482	58,876	79,689	1,15,755	1,17,183
Goodwill on Consolidation	764	640	4,063	4,063	8,165	8,325	18,825	18,825
Capital WIP	3,097	4,196	8,359	12,374	13,995	13,419	13,419	13,419
Total Investments	198	198	1,230	2,459	3,115	3,602	3,602	3,602
Curr. Assets, Loans&Adv.	64,386	87,647	1,05,631	95,439	1,25,312	1,57,676	1,70,606	2,06,854
Inventory	23,675	36,113	40,561	43,305	58,584	72,456	83,640	1,05,672
Account Receivables	26,366	35,392	46,067	35,042	38,721	47,336	56,351	69,879
Cash and Bank Balance	1,786	4,691	8,003	5,135	12,616	19,572	5,615	6,303
Loans and Advances	12,559	11,451	11,001	11,957	15,390	18,312	25,000	25,000
Curr. Liability & Prov.	18,747	36,587	41,909	37,420	47,051	55,275	44,523	53,374
Account Payables	13,512	20,511	24,570	24,883	26,274	26,771	31,898	40,749
Other Current Liabilities	3,877	13,650	15,776	11,415	18,209	26,230	12,000	12,000
Provisions	1,358	2,426	1,563	1,123	2,568	2,274	625	625
Net Current Assets	45,640	51,060	63,722	58,019	78,260	1,02,400	1,26,083	1,53,481
Appl. of Funds	76,151	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,77,684	3,06,511

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
EPS	22.7	27.0	34.6	39.3	42.7	43.2	47.0	61.7
Cash EPS	28.1	32.7	41.3	46.6	52.2	54.6	65.6	84.9
BV/Share	64.3	88.3	124.5	160.0	199.4	237.1	281.0	340.2
DPS	1.5	2.3	2.0	2.5	2.5	2.5	2.5	2.5
Payout (%)	6.6	8.3	5.8	6.4	6.0	6.2	5.4	4.1
Valuation (x)								
P/E	19.1	16.0	12.5	11.0	10.1	10.0	9.2	7.0
Cash P/E	15.4	13.2	10.5	9.3	8.3	7.9	6.6	5.1
P/BV	6.7	4.9	3.5	2.7	2.2	1.8	1.5	1.3
EV/Sales	3.6	2.4	2.1	1.8	1.7	1.5	1.5	1.2
EV/EBITDA	12.6	11.2	9.1	8.1	7.5	7.5	7.2	5.6
Dividend Yield (%)	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.6
FCF per share	-1.4	5.1	-0.5	27.0	-12.3	-20.8	-93.6	19.3
Return Ratios (%)								
RoE	41.6	35.4	32.5	27.6	23.8	19.8	18.1	19.9
RoCE	23.3	20.4	20.4	19.0	17.4	14.4	12.1	13.3
RoIC	24.2	20.9	22.8	22.5	20.4	16.9	13.4	14.2
Working Capital Ratios								
Inventory (Days)	217	198	227	238	275	277	286	274
Debtor (Days)	93	91	107	98	82	80	80	78
Creditor (Days)	117	113	134	140	138	112	107	105
Working Cap. (Days)	193	177	200	196	219	245	258	247
Leverage Ratio (x)								
Current Ratio	3.4	2.4	2.5	2.6	2.7	2.9	3.8	3.9
Interest Cover Ratio	18	26	30	45	42	21	17	15
Debt/Equity	0.9	0.7	0.5	0.3	0.3	0.3	0.6	0.5

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	19,703	22,310	27,443	30,608	32,305	33,540	38,713	49,601
Depreciation	3,125	3,326	3,924	4,276	5,580	6,680	10,934	13,571
Interest / Dividend received	232	808	689	384	1,020	1,157	700	650
Direct Taxes Paid	-3,635	-5,966	-7,326	-7,737	-8,183	-7,269	-9,567	-10,780
(Inc)/Dec in WC	-13,533	-2,515	-10,794	6,110	-12,760	-17,184	-37,639	-26,710
CF from Operations	5,893	17,963	13,936	33,641	17,962	16,923	3,141	26,332
Others	-2,031	-596	262	-856	-168	-2,183	-479	0
CF from Operating incl EO	3,863	17,367	14,198	32,786	17,795	14,740	2,662	26,332
(inc)/dec in FA	-4,656	-14,389	-14,475	-16,942	-25,011	-26,916	-57,500	-15,000
Free Cash Flow	-793	2,978	-277	15,844	-7,217	-12,176	-54,838	11,332
(Pur)/Sale of Investments	-25	0	23	-929	657	487	0	0
CF from Investments	-4,681	-14,388	-14,452	-17,870	-24,355	-26,429	-57,500	-15,000
Change in networth	-910							
Inc/(Dec) in Debt	2,131	2,298	6,033	-17,279	13,982	22,704	44,517	-5,872
Interest Paid	-1,079	-843	-835	-568	-777	-1,627	-2,245	-3,382
Dividend Paid	-875	-1,314	-1,616	-1,372	-1,465	-1,465	-1,465	-1,465
Others	1,253	-214	-16	1,436	2,302	-968	74	75
CF from Fin. Activity	520	-73	3,566	-17,784	14,042	18,645	40,882	-10,644
Inc/Dec of Cash	-298	2,905	3,312	-2,868	7,482	6,955	-13,957	687
Opening Balance	2,085	1,786	4,691	8,003	5,135	12,616	19,572	5,615
Closing Balance	1,786	4,691	8,003	5,134	12,616	19,572	5,615	6,303

Corporate profile

Company description

A well integrated pharma company, Aurobindo Pharma (ARBP) features among the top 10 companies in India in terms of consolidated revenues. ARBP exports to over 125 countries across the globe with more than 70% of its revenues derived out of exports. With multiple facilities approved by leading regulatory agencies such as USFDA, EU GMP, UK MHRA, South Africa-MCC, Health Canada and Brazil ANVISA, ARBP makes use of in-house R&D for filing of patents, Drug Master Files (DMFs), Abbreviated New Drug Applications (ANDAs) and formulation dossiers across the world. ARBP is among the largest filers of DMFs and ANDAs from India.

Exhibit 1: Sensex rebased

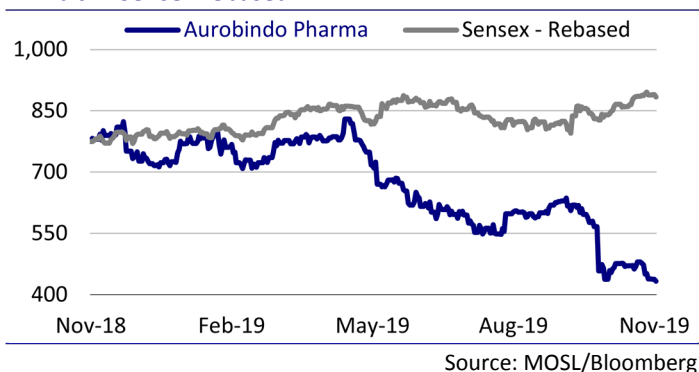


Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	51.9	51.9	51.9
DII	13.0	13.3	15.0
FII	22.0	22.0	19.1
Others	13.2	12.9	14.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HDFC TRUSTEE CO LTD A/C HDFC RETIREMENT SAVINGS FUND-HYBRID-EQUITY PLAN	7.0
Qualified Institutional Buyer	1.6
AMANSA HOLDINGS PRIVATE LIMITED	1.3
RELIANCE CAPITAL TRUSTEE CO LTD.A/C RELIANCE LARGE CAP FUND	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
K Ragunathan	Chairman & Independent Director
K Nithyananda Reddy	Vice Chairman & Whole Time Director
N Govindarajan	Managing Director
B Adi Reddy	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
M Sitarama Murthy*	M Madan Mohan Reddy
P V Ramprasad Reddy	M Sivakumaran
Avnit Bimal Singh*	P Sarath Chandra Reddy
Savita Mahajan*	

*Independent

Exhibit 6: Auditors

Name	Type
A Mohan Rami Reddy	Secretarial Audit
B S R & Associates LLP	Statutory
Ernst & Young LLP	Internal

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	47.0	48.3	-2.7
FY21	61.7	55.6	11.0

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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