

Company update and
earnings revision

Pharmaceuticals

Target price: Rs485

Earnings revision

(%)	FY20E	FY21E	FY22E
Sales	-	(15.9)	(17.1)
EPS	-	(6.7)	(6.2)

Target price revision

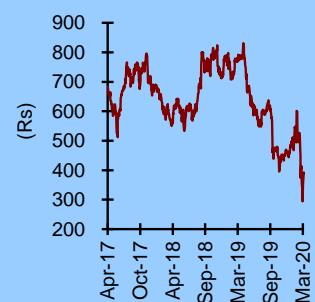
Rs485 from Rs574

Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	51.9	51.9	51.9
Institutional investors	35.2	35.0	34.6
MFs and others	13.0	12.7	12.8
Banks/FIs	0.1	0.1	0.2
Insurance co	0.2	0.2	0.2
FIs	22.0	22.0	21.4
Others	12.9	13.1	13.5

Source: BSE India

Price chart



Aurobindo Pharma

BUY
Maintained

Sandoz deal called-off, a negative surprise

Rs392

Aurobindo Pharma (Aurobindo) and Sandoz Inc. mutually announced the termination of the deal that the company was buying US generic oral solids and dermatology businesses from Sandoz. This comes as a negative surprise because it was highly anticipated to conclude anytime soon. It was attractive valued at 5x EBITDA along with benefit of significant scale up in US generic business. They have cited non-receipt of approval from the US Federal Trade Commission (FTC) for this transaction within the anticipated timelines as the reason for call-off. This acquisition would have aided in improving revenue growth in near term for Aurobindo. We now expect consolidated revenue growth in mid-single digit for Aurobindo over next two years as we take out Sandoz from estimates. Maintain BUY on attractive valuations.

- **Sandoz deal called off:** Aurobindo and Sandoz Inc have mutually terminated the agreement of Aurobindo buying out the generic oral solids and dermatology businesses of Sandoz at US\$900 (1x sales and ~5x EBITDA). This deal has been called-off as the approval from the US FTC was not received within anticipated timelines. This clearly comes as a negative surprise as it was expected to complete by March'20 as per company's guidance. This agreement was initially inked in Sep'18 and there had been constant delay in consummating it.
- **Financial impact due to deal termination:** Sandoz's portfolio would have supplemented Aurobindo's with a wide product portfolio of over 300 products, significant scale-up in US sales and ready dermatology portfolio with approvals in place. Further, this deal was done at very attractive valuation of ~5x EBITDA and would have been funded through a low cost debt at ~4% interest rate. We remove Sandoz acquisition from our estimates and cut revenue/EBITDA/PAT estimates by 15-17/14-17/6-7% for FY21-FY22. The impact on EPS is lower due to associated depreciation charge and interest cost.
- **Outlook:** The termination of Sandoz deal would impact the growth outlook in near term. However, we remain positive on Aurobindo's track record of continuously growing US generic business, maintaining margin profile in challenging times and de-leveraging of balance sheet. We expect Aurobindo to register 5.2% revenue and 7.2% PAT CAGRs over FY20-FY22E with EBITDA margin of 20-21%.
- **Valuations and risks:** We cut target P/E (x) to 9x from 10x due to termination of the Sandoz deal and resultant drop in earnings growth. Considering attractive valuation of 7.3x FY22E EPS, we maintain **BUY** rating with a revised target price of Rs485/share based on 9x FY22E earnings (earlier: Rs574/share based on 10x FY22E EPS). Key downside risks: regulatory hurdles, currency volatility, and delay in US launches.

Market Cap	Rs229bn/US\$3.0bn
Reuters/Bloomberg	ARBN.BO/ARBP IN
Shares Outstanding (mn)	585.9
52-week Range (Rs)	831/396
Free Float (%)	48.1
FII (%)	21.4
Daily Volume (USD/'000)	32,358
Absolute Return 3m (%)	(9.6)
Absolute Return 12m (%)	(47.3)
Sensex Return 3m (%)	(31.5)
Sensex Return 12m (%)	(26.9)

Year to Mar	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)	195,636	227,950	237,350	252,290
Net Income (Rs mn)	23,648	27,406	28,848	31,529
EPS (Rs)	40.4	46.8	49.2	53.8
% Chg YoY	(2.4)	15.9	5.3	9.3
P/E (x)	9.6	8.4	8.0	7.3
CEPS (Rs)	51.8	63.6	67.0	71.1
EV/E (x)	7.1	5.9	5.2	4.5
Dividend Yield (%)	0.6	1.1	1.1	1.2
RoCE (%)	13.9	13.2	13.1	13.3
RoE (%)	18.8	18.2	16.4	15.5

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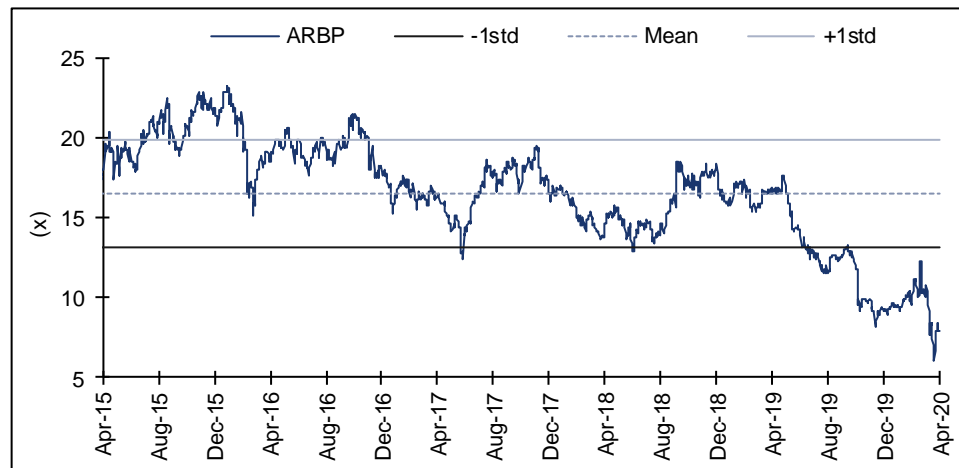
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Valuations

We expect earnings to grow at a CAGR of 7.2% for Aurobindo over FY20-FY22E driven by revenue CAGR of 5.2%. The stock currently trades at attractive valuations of 8.0x FY21E and 7.3x FY22E earnings and EV/EBITDA multiples of 5.2x FY21E and 4.5x FY22E. We believe the current valuation has upside potential with expectation of >30 product launches in the US each year, and strong operating cashflow generation over the next two years. We cut target P/E (x) to 9x from 10x due to termination of the Sandoz deal and resultant drop in earnings growth. We maintain **BUY** rating with a revised target price of Rs485/share based on 9x FY22E earnings (earlier: Rs574/share based on 10x FY22E EPS).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Formulations	161,571	195,801	203,594	216,846
US	90,307	113,505	118,597	125,855
EU	49,602	57,391	57,812	61,144
EM	11,937	13,157	14,736	16,504
ARVs	9,725	11,747	12,450	13,343
APIs	34,030	32,149	33,756	35,444
Betalactam	21,459	20,273	21,287	22,351
Non-Betalactam	12,571	11,876	12,470	13,093
Dossier Lic. income	35			
Total Gross Sales	195,636	227,950	237,350	252,290
Excise duty	-	-	-	-
Total Net Revenue	195,636	227,950	237,350	252,290
YoY Growth%	18.6	16.5	4.1	6.3
Total Op. Exp.	156,116	180,901	187,920	199,895
EBITDA	39,520	47,049	49,431	52,395
Margins %	20.2	20.6	20.8	20.8
YoY Growth%	4.3	19.1	5.0	5.9
Depreciation	6,680	9,847	10,431	10,112
EBIT	32,840	37,202	39,000	42,283
Other Income	1,184	961	1,057	1,164
Interest	2,626	1,610	1,581	1,397
EO Items	(484)	0	0	0
PBT	30,914	36,553	38,476	42,050
Tax	7,269	9,147	9,628	10,521
Tax Rate (%)	23.5	25.0	25.0	25.0
Minority Interest	(2)	0	0	0
Reported PAT	23,648	27,406	28,848	31,529
Adj. PAT	24,018	27,406	28,848	31,529
Net Margins (%)	12.3	12.0	12.2	12.5

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Paid-up Capital	586	586	586	586
Reserves & Surplus	138,322	162,768	188,499	216,618
Total Equity	138,908	163,354	189,085	217,204
Minority Interest	16	16	16	16
Total Debt	69,668	59,168	45,168	34,668
Deferred Liabilities	980	980	980	980
Capital Employed	209,572	223,518	235,249	252,868
Current Liabilities	53,139	58,122	59,899	62,690
Total Liabilities	262,711	281,640	295,148	315,558
Net Fixed Assets	101,433	105,586	105,655	106,043
Investments	3,602	4,198	4,371	4,646
Inventory	72,456	83,959	87,217	92,774
Debtors	34,138	39,783	41,423	44,030
Other Current Assets	31,510	36,479	37,923	40,218
Cash and Equivalents	19,572	11,635	18,559	27,847
Total Cur. Assets	161,278	176,053	189,492	209,515
Total Assets	262,711	281,640	295,148	315,558

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
PBT (Adj. for Extraordinary)	30,914	36,588	38,511	42,085
Depreciation	6,680	9,847	10,431	10,112
Net Chg in WC	(12,780)	(14,003)	(3,655)	(6,222)
Taxes	(7,698)	(9,147)	(9,628)	(10,521)
Others	(3,521)	(3,132)	(910)	(1,446)
CFO	13,594	20,153	34,749	34,008
Capex	(28,568)	(14,000)	(10,500)	(10,500)
Net Investments made	(463)	(596)	(173)	(275)
Others	263	-	-	-
CFI	(28,768)	(14,596)	(10,673)	(10,775)
Change in Share capital	1	-	-	-
Change in Debts	22,304	(10,500)	(14,000)	(10,500)
Div. & Div Tax	(1,599)	(2,995)	(3,152)	(3,445)
Others	1,418	-	-	-
CFF	22,123	(13,495)	(17,152)	(13,945)
Total Cash Generated	6,949	(7,937)	6,924	9,288
Cash Opening Balance	12,623	19,572	11,635	18,559
Cash Closing Balance	19,572	11,635	18,559	27,847

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Adj EPS	40.4	46.8	49.2	53.8
YoY Growth%	(2.4)	15.9	5.3	9.3
Cash EPS	51.8	63.6	67.0	71.1
EBITDA - Core (%)	20.2	20.6	20.8	20.8
NPM (%)	12.3	12.0	12.2	12.5
Net Debt to Equity (x)	0.4	0.3	0.1	0.0
P/E (x)	9.6	8.4	8.0	7.3
EV/EBITDA Core (x)	7.1	5.9	5.2	4.5
P/BV (x)	1.7	1.4	1.2	1.1
EV/Sales (x)	1.4	1.2	1.1	0.9
RoCE (%)	13.9	13.2	13.1	13.3
RoE (%)	18.8	18.2	16.4	15.5
RoIC (%)	15.1	14.2	14.0	14.7
Book Value (Rs)	237	279	323	371
DPS (Rs)	2.5	4.2	4.5	4.9
Dividend Payout (%)	6.1	9.1	9.1	9.1
Div Yield (%)	0.6	1.1	1.1	1.2
Asset Turnover Ratio	0.8	0.8	0.8	0.8
Avg Collection days	61	59	62	62
Avg Inventory days	153	158	166	164

Source: Company data, I-Sec research

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