

# Aurobindo Pharma Ltd.

Nifty	11356
Sensex	37644.90

## Key Stock Data

CMP	₹619
Market Cap (Cr)	35,913
52W High/Low	527/809

## Shareholding pattern Mar 2018

Promoters	51.87%
Public & Others	48.13%

(₹ mn)

	FY18	FY19E	FY20E
Total Income	164998	177113	191653
Operating Profit	32381	39827	44258
Net Profit	24232	28874	32087
Net Margin in %	14.60%	16.21%	16.65%

Source: Company Data, Way2Wealth Inst Equity

## Key Result Highlights – Q1FY19

- **Aurobindo Pharma consolidated revenue from operation grew 15.5% on a YoY basis to ₹4250.27 Crs. in Q1. Growth has been aided by API segment, US, and Europe formulation business segments. However, the ARV business contracted 36% on YoY basis due to weak tender environment and price erosion of key products.**
- **Consolidated EBITDA declined to 7.41% YoY to ₹779.22 Cr led by an increase in raw material prices. EBITDA margins for the quarter stood at 18.33%, down 454 bps on a YoY basis.**
- **Net profit declined by 12% to ₹455.59 Cr. This was led by an increase in raw material cost, interest expense and one-time foreign exchange loss arising from the reinstatement of loans.**

- **US Business –** U.S. formulation business reported revenue of ₹1889.6 Crs. witnessing a growth of 11.5% YoY and 8.7% on a sequential basis. The improvement in US business on a QoQ basis was mainly because of base business volume growth being in the range low double-digit. During the quarter, Aurobindo has received final approvals for 13 ANDAs including one injectable.

The injectable business remained flat on a year-on-year basis; but the management maintained its guidance of 30%+ growth for this segment on the back of new approvals and resumption of production of the temporary shut bag line. Going ahead, meaningful launches like Metoprolol, Toprol, and lansoprazole would be the key triggers for growth.

- **Europe Formulation –** During the quarter, Europe business clocked revenues of ₹1199Cr, an increase of 31% YoY. As of 31st March 2018, Aurobindo successfully transferred 94 products from Europe to India as a part of its cost reduction strategy. In the month of July, Aurobindo Pharma has inked a definitive agreement with Canadian pharmaceutical firm Apotex to take over its commercial operations in five European countries. This acquisition will help in entering Eastern Europe Markets.
- **ARV Segment –** The anti retroviral (ARV) business dropped 57.2% to ₹155.6 Cr during the quarter. Sales were primarily driven by DTG during the quarter. The company is working towards improving overall ARV portfolio sales by participating Non-DTG product as well. The new tender for ARV products is expected to open in Q3FY19 and awarded in January.
- **API Business & Growth Markets –** API business grew to ₹748 Cr for the quarter, an increase of 20% year-on-year while sales from growth markets posted robust growth of 32.3% YoY to ₹256.5 Cr.

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## Valuations And Recommendations

We estimate a growth of 19% and 11% for PAT in FY19 and FY20 respectively. At the CMP of 619/- Aurobindo trades at 12.54x & 11.28x its estimated EPS of ₹49.34 & ₹54.83/- for FY19 & FY20 respectively. **We continue to maintain the BUY rating on the stock given the strong growth drivers in place (European markets, normalization of pricing pressure in ARV segment and Injectable business getting back on track)**

**Conference-call summary**

- **Inventory** – The inventory level was increased by \$33million during the quarter. The management has guided to maintain a minimum inventory of three months as it starts to cash-in on New Business Opportunities of around \$90-\$100 million over the next 12 months.
- **Raw Materials** – Gross margin declined to 55% due to the provision related to product recalls and the increase in raw material prices. Going ahead, management expects gross margin to normalize to around 60% in coming quarters due to better product mix and cooling of raw material prices.
- **R & D Expense** – R & D spending was at ₹455.7Cr, 4.0% of revenues for the current quarter. Going forward, this rate will be maintained for FY19 and it is expected to increase marginally when the clinical trial for biosimilars begins in FY20.
- **Debt** – The net debt as on 30 June, 2018 was at \$571 million against \$538 million as of 31<sup>st</sup> March 2018. Management has given the guidance to reduce the debt by about \$100 till the end of FY19.
- **Capex** – Net CapEx for the quarter is at around \$55 million.

**USFDA approvals received in Q1 FY19**

Lamivudine & Tenofovir Disoproxil Fumarate Tab 300 mg/300mg	Anti-Retrovirals
Sildenafil Citrate (gViagra)Tab 25 mg, 50 mg and 100 mg	CVS
Atazanavir Sulfate Cap (gReyataz)100 mg, 150 mg, 200 mg and 300 mg	Anti-Retrovirals
Omeprazole Magnesium Delayed-Release Tab (OTC) (gPrilosec OTC) 20.6 mg	Gastroenterological
Levonorgestrel & Ethinyl Estradiol Tab (g Seasonale) 0.15 mg/0.03 mg	Oral Contraceptive
Loratadine Tab (OTC) (gClaritin) 10 mg	Anti-histamine
Ibuprofen Cap (OTC) (gAdvil Liqui-Gels) 200 mg	Pain
Ibuprofen Oral Suspension (OTC) (gChildren's Mortin) 100 mg/5 mL	Pain
Polyethylene Glycol 3350 Powder for Oral Solution (OTC) (gMiralax) 17 g	Gastroenterological
Drospirenone and Ethinyl Estradiol Tab (gYasmin) 3 mg/0.03 mg	Oral Contraceptive
Loratadine Oral Solution (OTC) (gClaritin) 5 mg/5 mL	Anti-histamine
Loratadine Orally Disintegrating Tab (OTC) (gClaritin Reditabs) 10 mg	Anti-histamine
Ertapenem for Injection 1 g/vial (Single Dose Vial) (gInvanz)	Penem

Valuation Summary	EV/EBITDA			P/E		EV/SALES	
	CMP	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Piramal Enterprises Ltd	2777.7	22.15	18.09	23.55	17.05	6.09	4.84
Sun Pharmaceutical Industries	563.9	19.88	16.04	31.34	23.89	4.53	4.02
Cipla Ltd/India	628.3	15.48	12.89	27.40	21.96	3.10	2.75
Dr Reddy's Laboratories Ltd	2241.6	13.35	10.53	24.71	18.18	2.57	2.27
Lupin Ltd	811.95	14.22	11.35	26.86	19.82	2.55	2.27
Cadila Healthcare Ltd	354.35	13.55	12.05	18.69	16.25	3.15	2.85
Divi's Laboratories Ltd	1120.2	17.83	15.16	26.50	22.55	6.33	5.60
Aurobindo Pharma Ltd	<b>618.8</b>	<b>9.79</b>	<b>8.74</b>	<b>14.24</b>	<b>12.61</b>	<b>2.18</b>	<b>1.98</b>
Glenmark Pharmaceuticals Ltd	583.5	11.30	9.72	18.90	15.26	1.97	1.78
GlaxoSmithKline Pharmaceutical	3267.1	40.51	33.81	61.27	51.58	8.07	7.16

Source: Bloomberg

(₹ cr)

Revenue Summary	Q1 -FY19	Q1 -FY18	Q4 -FY18	Y-o-Y (%)	Q-o-Q (%)
<b>Formulations</b>					
US	1889.6	1694.9	1738.8	11.5%	8.67%
Europe	1199.1	917.6	1151.6	30.7%	4.12%
Growth markets	256.5	193.9	209.6	32.3%	22.38%
ARV	155.6	244.6	148.6	-36.4%	4.71%
<b>Total Formulations</b>	<b>3500.8</b>	<b>3051</b>	<b>3248.6</b>	<b>14.7%</b>	<b>7.76%</b>
API	748	625	799.9	19.7%	-6.49%
Dossier income	1.5	2.8	0.8		
<b>Total Revenue</b>	<b>4250.3</b>	<b>3678.8</b>	<b>4049.3</b>	<b>15.5%</b>	<b>5%</b>

(₹ cr)

Quarterly Result	Q1FY19	Q1FY18	Y o Y %	Q4FY18	Q o Q %
Total Revenue from Operation	4250.27	3678.75	15.54%	4049.09	4.97%
Other Income	43.73	22.09	97.96%	43.83	-0.23%
Total Income	4294	3700.84	16.03%	4092.92	4.91%
				0	
Manufacturing Exp	1907.25	1497.83	27.33%	1669.47	14.24%
Employee Benefit Expense	596.13	490.17	21.62%	581.27	2.56%
Finance Costs	29.54	16.87	75.10%	24.72	19.50%
Foreign Exchange Loss	68.16	7.66	789.82%	15.92	328.14%
Depreciation & Amortization Expense	154.53	131.18	17.80%	156.63	-1.34%
Other Expense	967.67	849.15	13.96%	994.32	-2.68%
Total Expense	3723.28	2992.86	24.41%	3442.33	8.16%
				0	
Profit Before Tax	570.72	707.98	-19.39%	650.59	-12.28%
Share of Profit of Joint Venture Net of Tax	0.41	1.34	-69.40%	0.56	-26.79%
Profit Before Tax	571.13	709.32	-19.48%	651.15	-12.29%
Tax Expense	115.54	190.99	-39.50%	122.39	-5.60%
Net Profit	455.59	518.33	-12.10%	528.76	-13.84%
Net Margin in %	10.61%	14.01%	-24.25%	12.92%	-17.87%
EPS	7.78	8.85	-12.09%	9.02	-13.75%
EBITDA	779.22	841.60	-7.41%	804.03	-3.09%
EBITDA Margin in %	18.33%	22.9%		19.9%	
Gross Margin	55%	59.28%		58.77%	

**Financials**

(₹ mn)

Income Statement	FY16	FY17	FY 18	FY19E	FY 20E
Total Income	139552	150899	164998	177113	191653
Manufacturing Exp	61621	64342.6	67527.4	72616.4	78577.9
Other Expense	37114.5	39479.1	44801.8	43742.2	47231.1
Total Exp	98735.5	103822	112329	116359	125809
EBITDA	31881.2	34342.8	37717.6	43584.2	48305.7
%Growth	13.36%	7.72%	9.83%	15.55%	10.83%
EBITDA Margin	22.52%	22.59%	22.72%	24.47%	25.07%
Gross Profit	77931.2	86556	97471	104497	113076
Gross Margin	55.8%	57.4%	59.1%	59.0%	59.0%
Profit Before Tax	25405	30608.4	32412	39826.8	44258.2
Tax	7207.1	7596.5	8182.8	10952.4	12171
Effective Tax Rate	28.37%	24.82%	25.25%	27.50%	27.50%
Net Profit	18212.9	23016.6	24231.8	28874.4	32087.2
% Growth	15.6%	26.4%	5.3%	19.2%	11.1%
Net Margin	13.1%	15.3%	14.7%	16.3%	16.7%
EPS	34.66	39.33	41.41	49.34	54.83
% Growth	-35.9%	13.5%	5.3%	19.2%	11.1%
Return on Equity	29.21%	27.62%	23.02%	22.12%	20.26%
Return on Asset	12.68%	14.31%	12.97%	14.89%	17.64%
ROCE	36.9%	35.4%	28.1%	29.5%	28.6%

Cash Flow Statement	FY16	FY17	FY 18	FY19E	FY 20E
EBIT	27972	31276	33189	40524	44925
(Inc.)/dec. in working capital	-9211	988	-17609	-1651	-5320
Cash flow from operations	18761	32264	15581	38874	39605
Other income	-2038	-1159	-1020	-1020	-1020
Depreciation	3924	4276	5580	4080	4400
Tax paid (-)	-7207	-7597	-8183	-10952	-12171
Net cash from operations	13440	27785	11958	30981	30815
Capital expenditure (-)	-14984	-16917	-12350	-12000	-10000
Net cash after capex	-1544	10868	24308	18981	20815
Other activities	52	-145	1655	1249	-2738
Cash from financial activities	5510	-13156	14152	-4983	-6476
Opening cash balance	3949	7967	5135	12616	37175
Closing Cash Balance	7967	5135	12616	37175	49615
Change in cash balance	4017	-2832	7481	24559	12440

Balance Sheet	FY16	FY17	FY 18	FY19E	FY 20E
Equity	585	586	586	586	586
Reserve	72288	93133	116218	143649	171886
Net worth	72873	93719	116804	144235	172472
Minority Interest	26	21	18	18	18
Net Deferred Tax Liabilities	240	493	2353	2353	2353
Short Term Loans	36727	29027	40313	35831	29854
Long Term Loans	7428	1814	4512	4012	3512
Other Non Current Liabilities	234	391	559	559	559
Total Liabilities	117527	125465	164559	187007	208768
Net Block	33804	40831	47366	51000	55000
CWIP	8359	12374	13995	7000	7000
Intangible Asset and Good Will	8115	9715	19676	19676	19676
Other Non Current Asset	6016	7514	8136	8136	8136
Inventories	40561	43305	58584	59685	64585
Trade Receivables	46067	27653	30844	33967	36755
Cash	7967	5135	12616	37175	49615
Other Current Asset	8313	15968	19834	19834	19834
Total Current Asset	102907	92061	121878	150661	170790
Account Payable	24570	21547	26274	28848	31216
Other Current Liabilities	17105	15482	20218	20618	20618
Total Current Liabilities	41675	37029	46493	49466	51834
Net Current Assets	61232	55032	75386	101195	118955
Total Assets	117527	125465	164559	187007	208768

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### **Disclosure of Interest Statement in Aurobindo Pharma Ltd. as on August 14, 2018**

Name of the Security	Aurobindo Pharma Ltd.
Name of the analyst	Tausif Shaikh
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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