

# Aurobindo Pharma Ltd.

Nifty	10576
Sensex	35146

## Key Stock Data

CMP	₹783
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
Revenue from Operation	164998	176242	190695
EBITDA	37718	42739	48723
EBITDA Margin in %	22.86%	24.25%	25.55%
Net Profit	24232	25942	29188

Source: Company Data, Way2Wealth Inst Equity

## Key Result Highlights – Q2FY19

- Aurobindo Pharma's consolidated revenue from operation grew 7.1% on a YoY basis to ₹4,751.4Cr. in Q2. Growth was mainly contributed by formulation segment across all regions, with growth markets and ARV reporting growth of 26% and 18% respectively on a YoY basis.
- Consolidated EBITDA declined to ₹1,026.0 Cr vs. ₹1,117.3 Cr in Q2 last year. EBITDA margins for the quarter stood at 21.6%, down 360 bps on a YoY basis.
- Net profit declined by 22% to 611.4 Cr. This was led by foreign exchange loss (difference arising from foreign currency borrowings) of ₹40 Cr and exceptional item (acquisition related costs) of ₹27Cr.
- **US Business** – U.S. formulation business reported revenue of ₹2,226.8 Crs. witnessing a growth of 6.1% YoY and 17.8% on a sequential basis. US business reported healthy growth inspite of high base due to one-off opportunity in Q2FY18. The launch of Ertapenem and shortage of Valsartan helped to report improved volumes in the US. During the quarter, Aurobindo received final approvals for 13 ANDAs including one injectable and filed 25 ANDAs including 8 ANDAs for injectable products. The management has maintained their growth guidance for the injectable business of ~30% growth for FY19 and the price erosion for the quarter was in the range of 5-6% on YoY basis.
- **Europe Formulation** – During the quarter, Europe business clocked revenues of ₹1156Cr, an increase of 3.9% YoY. As of 31st March 2018, Aurobindo successfully transferred 97 products from Europe to India as part of its cost reduction strategy. The company has guided their Europe business will grow at the rate of 8-10% on a sustainable basis.
- **ARV Segment** – The antiretroviral (ARV) business grew by 17.6 % to ₹244 Cr during the quarter. The company is working towards improving overall ARV portfolio sales by participating in Non-DTG products as well. The new tender for ARV products is expected to open in Q3FY19 and new business can start from April 2019.
- **API Business& Growth Markets** – API business grew to ₹816 Cr during the quarter, an increase of 5.8% year-on-year while sales from growth markets posted robust growth of 26% YoY to ₹307 Cr. API business growth was on the back of an increase in the Non-Betalactum segment.

## Valuations And Recommendations

We estimate a growth of 7% and 13% for PAT in FY19 and FY20 respectively. At the CMP of 783/- Aurobindo trades at 17.80x & 15.66x its estimated EPS of ₹44 & ₹50/- for FY19 & FY20 respectively. **We maintain our BUY rating on the stock as long-term earnings growth drivers remain intact (Injectable business getting back on track, strong traction in the US market, normalization of pricing pressure in ARV segment and European formulation reporting sustainable growth.**

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## Conference-call & Acquisition Summary

- **Aurobindo Pharma announced acquisitions of Novartis's US generics business and under-development products from Australian Advent Pharmaceuticals.**
  - Acquisition of Novartis division comprises dermatology business and a portfolio of oral solid products along with commercial and manufacturing infrastructure in the US. It will add approximately 300 products to the company and this deal will help Aurobindo to become the second largest dermatology player and second largest generics company in the US market.

- Aurobindo agreement with Australian Advent Pharmaceuticals is to acquire certain products which are under development for a cash consideration of US\$12.5mn. The products are largely DPI (dry powder inhaler) related primarily catering to the US market.
- **Inventory** – The inventory level increased by ₹959 Cr during the quarter due to stocks lying in various subsidiary companies. The management has guided to maintain a minimum inventory level of three months as it starts to cash-in on new business opportunities of around \$90-\$100 million over the next 3-4 quarters.
- **Raw Materials** – Gross margin remained flat on a QoQ basis due to the growth in the ARV segment and increase in raw material prices. Going ahead, the management expects gross margins to normalize at around 60% in coming quarters due to better product mix and raw material prices getting stabilize.
- **R & D Expense** – R & D spending was at ₹216.8Cr, 4.6% 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 has decreased by \$20 million quarter-on-quarter to \$551mn. Management has guided for debt reduction of ~US\$100mn in FY19.

**USFDA approvals received in Q2 FY18-19**

Efavirenz(gSustiva)Tab600mg	Anti-Retroviral
Efavirenz,Emtricitabine,TenofovirDisoproxilFumarate(gAtripla)Tab600mg/200mg	Anti-Retroviral
Efavirenz,LamivudineandTenofovirDisoproxilFumarateTab600mg/300mg/300mg	Anti-Retroviral
Acetaminophen,ButalbitalandCaffeineCap50mg/325mg/40mg	ControlledSubstance
Efavirenz(gSustiva)Tab600mg	Anti-Retroviral
Bivalirudin(gAngiomax)Injection250mg/vial	CVS
Ritonavir(gNorvir)Tab100mg	Anti-Retroviral
Azithromycin(gZithromax)Tab250mg	Anti-Infective
Azithromycin(gZithromax)Tab500mg	Anti-Infective
HydrocodoneBitartrateandAcetaminophenTab5mg/300mg,7.5mg/300mgand10	ControlledSubstance
DorzolamideHydrochlorideandTimololMaleate(gCosoptPF)SolPF2%/0.5%w/v	Ophthalmic
CetirizineHydrochlorideCap[OTC]10mg	Anti-Histamine
Ranitidine(gZantac)Cap150mgand300mg	Gastroenterological

Valuation Summary	EV/EBITDA		P/E		EV/SALES	
	FY 19 E	FY 20E	FY19E	FY20E	FY19E	FY20E
Piramal Enterprises	21.68	17.81	24.22	17.42	6.00	4.87
Sun Pharmaceutical	18.77	14.94	30.04	22.58	4.19	3.69
Cipla	14.41	11.87	26.11	20.66	2.71	2.40
Dr Reddy's Lab	14.55	11.35	25.05	19.06	2.85	2.50
Lupin Ltd	16.36	12.18	30.85	22.06	2.71	2.38
Cadila Healthcare	14.11	12.46	19.49	17.57	3.24	2.91
Divi's Laboratories	21.95	18.45	32.96	27.81	8.30	7.21
Aurobindo Pharma	12.31	9.72	18.06	14.66	2.67	2.15
Glenmark Pharmaceuticals	12.84	10.88	20.78	17.82	2.20	1.98
GlaxoSmithKline Pharmaceutical	32.23	27.45	50.78	42.81	6.54	5.88
Torrent Pharmaceuticals	17.01	14.37	35.21	25.45	4.36	3.83
Natco Pharma Ltd	12.33	12.68	16.14	17.29	5.35	4.98

Source: Bloomberg Estimates

(₹ Cr)

Revenue Summary	Q2FY19	Q2FY18	% Chg	Q1FY19	% Chg
<b>Formulations</b>					
USA	2226.8	2098.9	6.1	1889.6	17.8
Europe	1156.5	1113.5	3.9	1199.1	-3.5
Growth Markets	307.5	243.4	26.3	256.5	19.8
ARV	244	207.5	17.6	155.6	56.8
<b>Total Formulations</b>	<b>3934.8</b>	<b>3663.3</b>	<b>7.4</b>	<b>3500.8</b>	<b>12.4</b>
API	0	0		0	
Betalactam	513.4	514.2	-0.2	491.9	4.4
Non Betalactam	303.2	257.6	17.7	256.1	18.4
<b>Total API</b>	<b>816.6</b>	<b>771.8</b>	<b>5.8</b>	<b>748</b>	<b>9.2</b>
Consolidated Gross Sales	4751.4	4435.1	7.1	4248.8	11.8
Dossier Income	0	0.7		1.5	
<b>Revenue from Operations</b>	<b>4751.4</b>	<b>4435.9</b>	<b>7.1</b>	<b>4250.3</b>	<b>11.8</b>

(₹ Cr)

Quarterly Results	Q2FY19	Q2FY18	Y o Y %	Q1FY19	Q o Q %
Total Revenue from Operation	4,751	4,436	7.11%	4,250	11.79%
Other Income	26	10	155.70%	44	-39.95%
<b>Total Income</b>	<b>4777.66</b>	<b>4446.16</b>	<b>7.46%</b>	<b>4294</b>	<b>11.26%</b>
Manufacturing Exp	2,043	1,768	15.55%	1,907	7.11%
Employee Benefit Expense	625	519	20.58%	596	4.92%
Finance Costs	35	17	104.92%	30	19.80%
Foreign Exchange Loss	40	0		68	
Depreciation & Amortization Expense	164	132	23.92%	155	5.92%
Other Expense	1,057	1,032	2.43%	968	9.23%
<b>Total Expense</b>	<b>1220.71</b>	<b>3,468</b>	<b>-64.80%</b>	<b>3723.28</b>	<b>-67.21%</b>
Profit Before Tax	813	978	-16.81%	571	42.53%
Share of Profit of Joint Venture Net of Tax	0	1	-78.76%	0	-41.46%
Exceptional item	27				
Profit Before Tax	787	979	-19.62%	571	37.77%
Tax Expense	175	198	-11.39%	116	51.83%
<b>Net Profit</b>	<b>611.44</b>	<b>780.97</b>	<b>-21.71%</b>	<b>455.59</b>	<b>34.21%</b>
Net Margin in %	12.80%	17.57%	-27.14%	10.61%	20.62%
EPS	10.44	13.33	-21.68%	9.02	15.74%
EBITDA	1026	1117.32	-8.17%	779.22	31.67%
EBITDA Margin in %	21.59%	25.2%		18.3%	
EBIT	848.85	995.07	-14.69%	600.26	41.41%
EBIT Margin in %	17.77%	22.38%		13.98%	

**Financials**

(₹ mn)

<b>Income Statement</b>	<b>FY16</b>	<b>FY17</b>	<b>FY 18</b>	<b>FY19E</b>	<b>FY 20E</b>
Revenue from Operation	139552	150899	164998	176242	190695
Manufacturing Exp	61621	64343	67527	72259	74371
Gross Profit	77931	86556	97471	103983	116324
Gross Margin in %	56%	57%	59%	59%	61%
EBITDA	31881	34343	37718	42739	48723
EBITDA Margin in %	23%	23%	22.86%	24.25%	25.55%
EBIT	27972	31276	33189	37008	42195
PAT	18213	23017	24232	25942	29188
PAT growth in %	15.6%	26.4%	5.3%	7.1%	12.5%
EPS	31.12	39.29	41.36	44.28	49.82
ROE in %	28.71%	27.62%	23.02%	20.06%	18.72%
D/E	0.58	0.30	0.30	0.20	0.09

<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY 18</b>	<b>FY19</b>	<b>FY 20E</b>
<b>Assets</b>					
<b>Non Current Assets</b>					
Net Property , Plants & Equipment	33,804	40,831	47,366	54,615	61,068
Capital Work in Progress	8,359	12,374	13,995	13,995	13,995
Good Will	4,063	4,063	8,166	8,166	8,166
Intan Asset + Under Dev	4,052	5,652	11,511	11,511	11,511
<b>Financial Assets</b>					
<b>Investments</b>	<b>1,229</b>	<b>2,459</b>	<b>3,115</b>	<b>3,115</b>	<b>3,115</b>
<b>Trade Receivables</b>					
Loans	55	57	54	54	54
Other Financial Asset	536	752	875	875	875
Deferred Tax Assets ( Net)	2,063	1,678	1,588	1,588	1,588
Non Current Assets (Net)	448	580	826	826	826
Other Non Current Assets	1,650	1,989	1,678	1,678	1,678
Total Non Current Asset	56,259	70,432	89,174	96,423	102,876
<b>Current Assets</b>					
Inventories	40,561	43,305	58,584	51,472	53,996
<b>Financial Assets</b>					
Investments	0	0	0	0	0
Trade Receivables	46,067	27,653	30,844	50,700	57,470
Cash and Cash Equivalents	8,003	5,134	12,616	25,786	49,305
Loans	103	109	102	102	102
Other Financial Asset	492	7,577	7,942	7,942	7,942
Current Tax Assets (Net)	43	175	646	646	646
Other Current Assets	7,675	8,108	11,145	11,145	11,145
Total Current Asset	102,944	92,061	121,878	147,792	180,605
<b>Total Asset</b>	<b>159,202</b>	<b>162,494</b>	<b>211,052</b>	<b>244,216</b>	<b>283,481</b>
<b>Equity &amp; Liabilities</b>					
<b>Equity</b>					
Equity Share capital	585	586	586	586	586
Other Equity	72,288	93,133	116,218	141,223	169,358
Equity Attr of Parent Company	72,873	93,719	116,804	141,809	169,944
Non Controlling Interest	26	21	18	18	18
Total Equity	72,899	93,740	116,822	141,828	169,962
<b>Non Current Liabilities</b>					
<b>Financial Liabilities</b>					
Borrowings	7,428	1,814	4,512	4,512	4,512
Provisions	234	391	559	559	559
Deferred Tax Liabilities(Net)	240	493	2,353	2,353	2,353
Total Non Current Liabilities	7,901	2,698	7,423	7,423	7,423
<b>Current Liabilities</b>					
<b>Financial Liabilities</b>					
Borrowings	36,727	29,027	40,313	50,000	60,000
Trade Payables	24,570	21,547	26,274	24,746	25,877
Other Financial Liabilites	14,950	4,694	5,100	5,100	5,100
Provisions	509	8,174	12,678	12,678	12,678
Other Liabilities	826	2,349	2,009	2,009	2,009
Current Tax Liabilities(Net)	820	265	431	431	431
Total Current Liabilities	78,402	66,056	86,806	94,965	106,096
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>159,202</b>	<b>162,494</b>	<b>211,052</b>	<b>244,216</b>	<b>283,481</b>

Cash Flow Statement	FY16	FY17	FY 18	FY19E	FY 20E
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net profit before tax	27,443	30,608	32,412	35,782	40,259
Depreciation and amortisation expense	3,924	4,276	5,580	6,750	7,548
Other Adjustment	1,142	297	-562	1,227	1,935
Change in Working Capital	-10,985	5,341	-10,358	-14,273	-8,162
Tax Paid	-7,326	-7,737	-7,524	-9,840	-11,071
Net cash flow generated from operating activities	14,198	32,786	19,548	19,646	30,509
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>					
Net Purchase of PPE & CWIP	-14,277	-16,846	-19,065	-14,000	-14,000
Other Adjustment	-175	-1,024	-504	0	0
Net cash flow used in investing activities	-14,452	-17,870	-19,570	-14,000	-14,000
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from issuance of equity share capital	72	67	2	0	0
Proceeds/Repayment of borrowings	6033	-17279	12022	9687	10000
Interest paid	-835	-568	-742	-1227	-1935
Dividends paid on equity shares	-1342	-1140	-2194	-778	-876
Tax paid on equity dividend	-274	-232	-447	-158	-178
Net cash flow generated from/(used in) financing activities	3654	-19153	8642	7523	7011
Net increase/(decrease) in cash and cash equivalents	3400	-4237	8620	13169	23519
Cash and cash equivalents at the beginning of the year	4035	7434	3498	12616	25786
<b>Cash and cash equivalents at the end of the year</b>	<b>7435</b>	<b>3196</b>	<b>12118</b>	<b>25786</b>	<b>49305</b>

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## **Disclosure of Interest Statement in Aurobindo Pharma Ltd. as on November 16, 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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