

AUROPHARMA

BUY

09-Feb-17

Bloomberg Code: ARBP:IN
INDUSTRY - Pharmaceuticals
BSE Code - 524804
NSE Code - AUROPHARMA
NIFTY - 10577

Company Data

CMP	602
Target Price	775
Previous Target Price	950
Upside	29%
52wk Range H/L	808/504
Mkt Capital (Rs Cr)	35,264
Av. Volume (,000)	2,032

Declining Debt To Equity Ratio

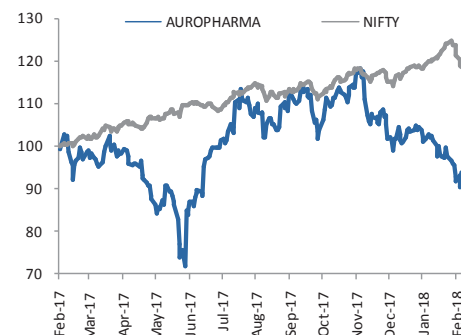


Share Holding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	51.9	51.9	51.9
Public	48.1	48.1	48.1
Others	-	-	-
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(8.3)	(21.0)	(11.7)
Rel.to Nifty	(1.5)	1.2	19.5



RITIKA JALAN

Key Highlights of the Report:

- ✓ Net Sales grew by 11% YoY to Rs 4336Cr on account of strong growth in US, Europe and Other Market .
- ✓ US formulation sales of Rs1,910 Cr vs Rs1,745 Cr in Q3FY17, witnessed a growth of 9.4% YoY.
- ✓ Europe formulation sales at Rs1,172 Cr vs Rs855 Cr in Q3FY17, registering a strong growth of 37.0% YoY.
- ✓ As on 31 st Dec 2017, on a cumulative basis, the company filed 465 ANDAs with USFDA and received approval for 351 ANDAs including 38 tentative* approvals.
- ✓ We value Auropharma at 13x times of FY19 expected EPS and maintain a buy rating on the stock with a revised target of Rs.775.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	12121	13955	15090	16980	20715
EBITDA	2564	3024	3434	4143	5077
EBIT	2231	2632	3007	3603	4546
PAT	1576	2025	2302	2698	3485
EPS (Rs)	54	35	39	46	60
EPS growth (%)	34%	-36%	14%	17%	29%
ROE (%)	31%	28%	25%	23%	23%
ROCE (%)	34%	33%	31%	31%	31%
BV	177	125	160	201	254
P/B (X)	3	6	4	3	2
P/E (x)	11	21	17	13	10

Concall Highlights:

- ✓ **US business** - Injectables: Auropharma expects to attain 30% plus growth in FY18. A guidance of US\$ 180-185mn for FY18. Company is on track to achieve that guidance and expect US\$ 50-55mn for 4QFY18.
- ✓ **Europe formulations:** As per the management a growth of 8%-10% on constant currency basis will be sustained in near future
- ✓ Unit 4 and Unit 12 is due for scheduled inspection by USFDA in next few
- ✓ Capex Guidance of USD120m-130m for FY18.
- ✓ Effective Tax guidance at 26%-27% in FY18. Tax rate should hold at 25% level on account of realisation of SEZ investment benefit in FY19
- ✓ R&D spending guidance of 3.6% in FY18 and can scale up to 4.5% of sales, when late stage phase 3 clinical trials on biosimilar commence in FY19.
- ✓ Growth in the ARV business going forward as company received two year contract from Global Funds of USD80m starting April 2018.

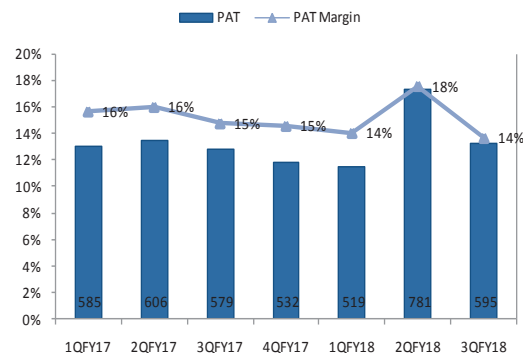
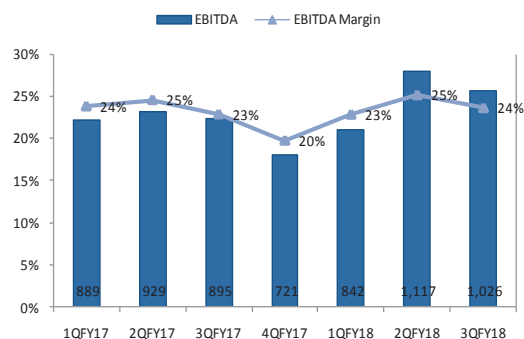
Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	3,906	3,642	3,679	4,436	4,336	11%	-2%	13,955	15,090	6%
Other Income	8	41	33	10	33.05	317%	222%	203.81	115.89	9%
COGS	1,710	1,503	1,498	1,768	1,818	6%	3%	6,162	6,434	4%
Employee Cost	446	463	490	519	541	21%	4%	1,543	1,768	8%
Other Expenses	856	954	849	1,032	952	11%	-8%	3,062	3,454	16%
EBITDA	895	721	842	1,117	1,026	15%	-8%	3,024	3,434	-1%
Depreciation	111	100	131	132	138	24%	5%	392	428	144%
Interest	14	14	17	17	19	32%	9%	93	67	-1%
PBT	777	648	727	978	902	16%	-8%	2,743	3,056	-39%
Tax	218	117	191	198	307	41%	55%	721	760	-59%
PAT	579	532	519	781	595	3%	-24%	2,025	2,302	-31%

Margins under

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	56%	59%	59%	60%	58%	3%	-3%	56%	57%	2%
EBITDA Margin	23%	20%	23%	25%	24%	3%	-6%	22%	23%	1%
PAT Margin	15%	15%	14%	18%	14%	-7%	-22%	15%	15%	1%

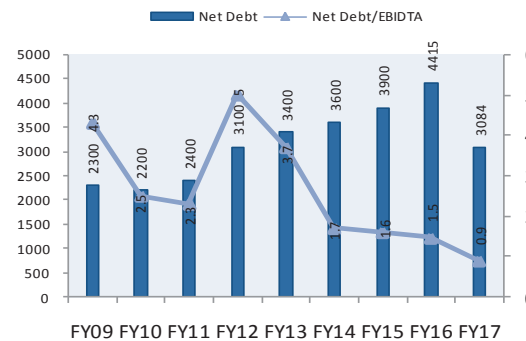
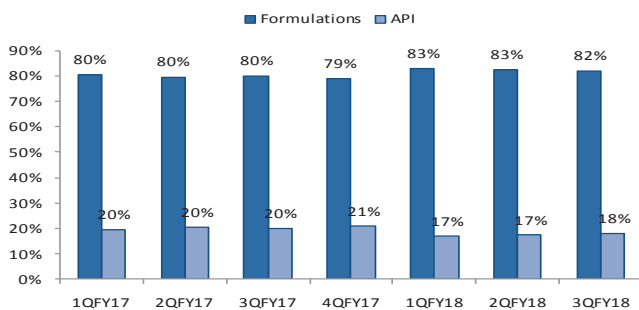
- ✓ Gross Margin contracted by 210 bps QoQ to 58.1% on account of increased material cost.
- ✓ EBITDA margin for this quarter contracted by 150 bps QoQ to 23.7% . Cost of Good Sold and Employee expenses increased by 210 and 80 bps YoY respectively in Q3FY18.
- ✓ PAT margin declined QoQ to 13.7% while PAT degrowth for this quarter remained -22.1% QoQ to Rs 595 Cr. In the United States of America, The Tax Cuts and Jobs Act of 2017 was approved and enacted into law on December 22, 2017 which has resulted in reduction in federal corporate tax from 35% to 21%. As a result, the Company has re-measured its U.S. deferred tax assets and liabilities based on the new tax law and have recognized a one-time charge of Rs. 66.4 Cr for the quarter.



Investment Arguments:

- ✓ **Significant ramp up in injectables Business:** The injectable revenue is expected to nearly double over the next two years as Injectables account for ~34% of total pending ANDAs (Total Pending ANDA number=114)
- ✓ **Approval Of Some Limited Competition Products On The Cards:** Expect approval of some limited competition products like g-toprol XL (Sales-800USDm), g-Strattera (Sales-1020USDm), g-Truvada (Sales-2900USDm) and Ertapenem generic ((Sales-300USDm)
- ✓ **Debt Reduction will lead to free cash flow Generation :** The current outstanding debt is around US\$722mn as on 31st December 2017. The company repaid US\$28mn of debt in 3QFY18 .As per the management Net debt should be below US\$475mn by the end of FY18E on account of the remittance from Renvela generic sales.
- ✓ **Commercialization of Naidupet plant in Nellore district (Andhra Pradesh), oral finished dosage facility for European markets in Visakhapatnam (Andhra Pradesh) and new semi-synthetic penicillin plant at Jadcherla, near Hyderabad (Telangana):** The facility are to provide further opportunities for the existing products, cater to a growing product portfolio, as well as to service the Western European markets.

Declining Debt/Equity Ratio



View & Valuation

We continue to remain optimistic for Auropharma among the Indian Pharma peers as Aurobindo Pharma is better placed and has come up with a good performance in the recent month especially in US by mitigating challenging pricing pressure in US. The company has reported healthy revenue growth in 3QFY18 results on the back of robust growth in US Business due to new approvals and significant growth in Europe Business. We believe Auropharma's US growth momentum to improve from current levels, despite Price Erosion, aided by new product launches and execution of its injectable pipeline which are expected to be monetized in FY19/FY20. Earning visibility in near future remain tough factoring the shift of major product launch from FY18 to FY19, increasing R&D expenditure based on trials for biosimilars and scheduled inspection of USFDA for Unit 4 and Unit 12 unit. Due to the above concern we have changed our estimates and revised target price to Rs775 (from Rs950). We value Auropharma at 13x times of FY19 expected EPS and maintain a buy rating on the stock with a revised target of Rs.775.

AUROPHARMA

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	13,955	15,090	16,980	20,715
Change (%)	15%	8%	13%	22%
EBITDA	3024	3434	4143	5077
Change (%)	18%	14%	21%	23%
Margin (%)	22%	23%	24%	25%
Dep & Amortization	392	428	539	531
EBIT	2632	3007	3603	4546
Interest & other finance cost	93	67	72	75
Other Income	204	116	110	110
EBT	2743	3056	3641	4580
Exceptional Item	-	-	-	-
Tax	721	760	947	1099
Minority Int & P/L share of Ass.	3	5	4	4
Reported PAT	2025	2302	2698	3485
Adjusted PAT	2025	2302	2698	3485
Change (%)	29%	14%	17%	29%
Margin(%)	15%	15%	16%	17%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	28%	25%	23%	23%
ROCE	33%	31%	31%	31%
Asset Turnover	0.9	0.9	0.9	0.9
Debtor Days	109	67	67	68
Inventory Days	107	105	106	106
Payable Days	66	60	60	60
Interest Coverage	28	45	50	60
P/E	21	17	13	10
Price / Book Value	6.0	4.2	3.0	2.4
EPS	35	39	46	60
Dividend Payout	8%	7%	6%	6%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	59	59	59	59
Reserves	7229	9313	11696	14773
Networth	7287	9372	11754	14831
Debt	4415	3084	2760	2407
Other Non Current Liab	-	-	-	-
Total Capital Employed	11703	12456	14514	17238
Net Fixed Assets (incl CWIP)	4622	5886	6466	7142
Non Current Investments	123	246	246	446
Other Non Current Assets	165	199	199	199
Non Current Assets	5626	7043	7623	8500
Inventory	4056	4331	4931	6016
Debtors	4607	2765	3112	3859
Cash & Bank	790	489	883	1021
Other Current Assets	768	811	1250	1250
Current Assets	10294	9206	10988	13470
Creditors	2457	2488	2800	3416
Provisions	51	63	63	63
Other Current Liabilities	83	99	106	125
Curr Liabilities	4168	3720	4038	4673
Net Current Assets	6127	5487	6949	8796
Total Assets	15920	16249	18611	21970

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	2722	3061	3641	4580
(inc)/Dec in Working Capital	-738	611	-1069	-1909
Non Cash Op Exp	393	428	539	531
Interest Paid (+)	79	55	72	75
Tax Paid	-736	-774	-947	-1099
others	38.07	-53	4	4
CF from Op. Activities	1760	3279	2241	2182
(inc)/Dec in FA & CWIP	-1549	-1685	-1119	-1207
Free Cashflow	191	1584	1121	975
(Pur)/Sale of Investment	20	-118	0	-
others	149	15	0	0
CF from Inv. Activities	-1380	-1787	-1119	-1207
inc/(dec) in NW	7	7	0	0
inc/(dec) in Debt	217	-1728	-324	-353
Interest Paid	-82	-57	-72	-75
Dividend Paid (inc tax)	-162	-137	-316	-408
others	0	0	0	0
CF from Fin. Activities	-20	-1915	-712	-836
Inc(Dec) in Cash	360	-424	409	138
Add: Opening Balance	461	744	489	883
Closing Balance	825	320	899	1021