

# AUOPHARMA

**BUY**

13-Nov-17

**Bloomberg Code:** ARBP:IN  
**INDUSTRY -** Pharmaceuticals  
**BSE Code -** 524804  
**NSE Code -** AUOPHARMA  
**NIFTY -** 10321

## Company Data

CMP 743  
**Target Price 950**

**Upside 28%**  
 52wk Range H/L 808/504  
 Mkt Capital (Rs Cr) 43,370  
 Av. Volume (,000) 157

## Declining Debt To Equity Ratio

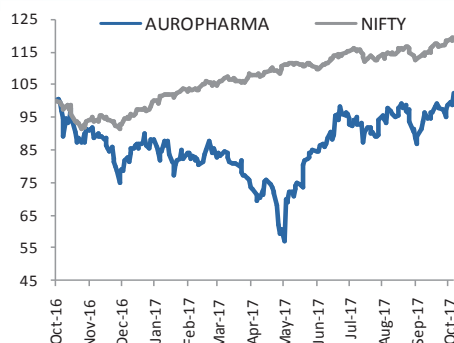


## Share Holding patterns %

	2QFY18	1QFY18	4QFY17
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	6.3	6.0	2.5
Rel.to Nifty	0.9	1.3	(20.4)



## Key Highlights of the Report:

- ✓ Net Sales grew by 17.5% YoY to Rs 4435Cr due to launch of gRenvela and increase in volumes. EBITDA margin at 25.2% improved 60 bps YoY owing to the favourable business mix and gRenvela launch in the US.
- ✓ Net Debt increased from USD516m in 1QFY18 to USD616m, largely supported by increase in working capital on the back of new product launches in Q2FY18.
- ✓ Till date company has 169 ANDAs pending with the US FDA, of which 50-55 are injectables.
- ✓ We value Auropharma at 3.69x times of FY19 expected BV and maintain a buy rating on the stock with a price target of Rs.950.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	12121	13955	15090	17078	19074
EBITDA	2564	3024	3434	4180	4530
EBIT	2231	2632	3007	3703	3999
PAT	1576	2025	2302	2782	3106
EPS (Rs)	54	35	39	47	53
EPS growth (%)	34%	-36%	14%	19%	13%
ROE (%)	31%	28%	25%	23%	22%
ROCE (%)	34%	33%	31%	30%	26%
BV	177	125	160	207	257
P/B (X)	3	6	4	4	3
P/E (x)	11	21	17	17	15

## Concall Highlights:

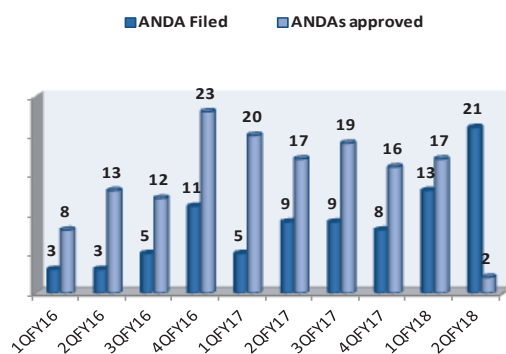
- ✓ As per the management Net debt will reduce to USD475m by the end of FY18 from USD616m.
- ✓ Depreciation run-rate will be ~Rs 130Cr per quarter, after the Commercialization of the new Vizag unit and Unit 16.
- ✓ Growth in the ARV business going forward as company received two year contract from Global Funds of USD80m starting April 2018.
- ✓ Capex Guidance of USD120m-130m for FY18.
- ✓ R&D expenditure to be at ~5%-6% of sales in FY18.
- ✓ Guided for 25%-26% tax Rate FY18. (FY17 Tax Rate=25%).
- ✓ Price erosion in the US Business is likely to continue and that may be 10%-12% and 5% QoQ and management expects this to offset by new products launches and volume growth

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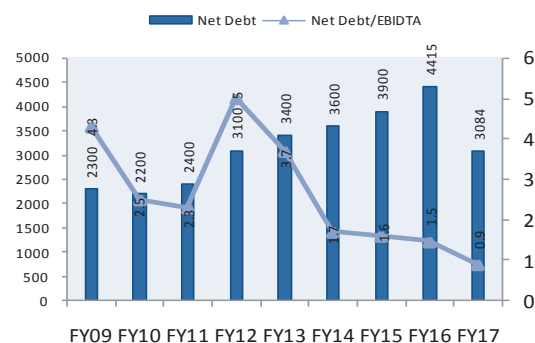
## Investment Arguments:

- ✓ **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=169)
- ✓ **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)
- ✓ **Regulatory Concern Unwarranted :** Unlike most other large cap peers (Sun Pharma, Dr Reddy's and Lupin), Auropharma has no critical regulatory issues at this point in time. Given that auropharma key plants have been successfully inspected by USFDA in the last one year, it provides comfort around stable business outlook
- ✓ **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.

## Trend in ANDA Filing



## Declining Debt/Equity Ratio



## View & Valuation

Looking forward 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 2QFY18 results on the back of robust growth in US Business due to new approvals and continuing turnaround 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 FY18/FY19. Better cash flow from launches of high margin and limited competition drugs will increase the growth visibility going forward. We value Auropharma at 3.69x times of FY19 expected BV and maintain a buy rating on the stock with a same price target of Rs.950, considering the positives in the auropharma has already been factored due to recent run up in the stock price.

# AUROPHARMA

## Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	12,121	13,955	15,090	17,078
Change (%)	49%	12%	8%	13%
EBITDA	2564	3024	3434	4180
Change (%)	20%	18%	14%	22%
Margin (%)	21%	22%	23%	24%
Dep & Amortization	333	392	428	478
EBIT	2231	2632	3007	3779
Interest & other finance cost	160	93	67	56
Other Income	97	204	116	133
EBT	2168	2743	3056	3779
Exceptional Item	-	-	-	-
Tax	597	721	760	1002
Minority Int & P/L share of Ass.	5	3	5	4
Reported PAT	1576	2025	2302	2782
Adjusted PAT	1576	2025	2302	2782
Change (%)	34%	29%	14%	21%
Margin(%)	13%	15%	15%	16%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	31%	28%	25%	23%
ROCE	34%	33%	31%	31%
Asset Turnover	0.9	0.9	0.9	1.0
Debtor Days	107	109	67	67
Inventory Days	109	107	105	105
Payable Days	62	66	60	60
Interest Coverage	14	28	45	61
P/E	11	21	17	16
Price / Book Value	3.5	6.0	4.2	3.6
EV/EBITDA	7	14	11	10
EPS	54	35	39	48
Dividend Payout	8%	7%	6%	6%

Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Share Capital	29	59	59	59
Reserves	5127	7229	9313	11981
Networth	5156	7287	9372	12104
Debt	3864	4415	3084	2884
Other Non Current Liab	-	-	-	-
Total Capital Employed	9019	11703	12456	14989
Net Fixed Assets (incl CWIP)	4125	4622	5886	6121
Non Current Investments	0	123	246	0
Other Non Current Assets	30	165	199	199
Non Current Assets	4616	5626	7043	6732
Inventory	3611	4056	4331	5009
Debtors	3539	4607	2765	3199
Cash & Bank	469	790	489	450
Other Current Assets	91	768	811	419
Current Assets	8299	10294	9206	11057
Creditors	2051	2457	2488	2878
Provisions	218	51	63	183
Other Current Liabilities	1365	83	99	108
Curr Liabilities	3634	4168	3720	3169
Net Current Assets	4664	6127	5487	7888
Total Assets	12914	15920	16249	17790

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
PBT	2168	2722	3061	3867
(inc)/Dec in Working Capital	2632	3232	3490	4411
Non Cash Op Exp	333	393	428	478
Interest Paid (+)	74	82	57	62
Tax Paid	-496	-736	-774	-1025
others	852	972	895	1084
CF from Op. Activities	1237	1760	3279	2801
(inc)/Dec in FA & CWIP	-390	-1568	-1694	-713
Free Cashflow	846	191	1584	2088
(Pur)/Sale of Investment	22	19	10	
others	-618	207	-83	-800
CF from Inv. Activities	-1031	-1380	-1787	-1513
inc/(dec) in NW	7	7	7	0
inc/(dec) in Debt	341	217	-1728	-200
Interest Paid	-74	-82	-57	-62
Dividend Paid (inc tax)	-180	-134	-137	-333
others	0	-27.36	0	0
CF from Fin. Activities	93	-20	-1915	-595
Inc(Dec) in Cash	299	360	-424	693
Add: Opening Balance	148	461	744	489
Closing Balance	828	825	320	1182