

AUROPHARMA

BUY

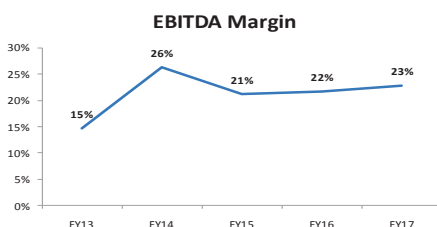
29-Jun-17

INDUSTRY - Pharmaceuticals
BSE Code - 524804
NSE Code - AUROPHARMA
NIFTY - 9491

Company Data

CMP	672
Target Price	850
Previous Target Price	
Upside	
52wk Range H/L	895/503
Mkt Capital (Rs Cr)	39,289
Av. Volume (,000)	419

Sustainable EBITDA Margin

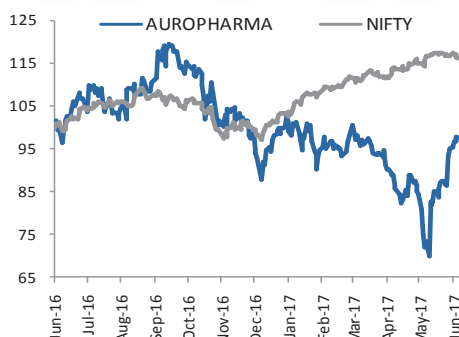


Share Holding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	51.9	51.9	53.8
Public	48.1	48.1	46.2
Others			
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	15.5	(7.7)	(18.4)
Rel.to Nifty	16.7	(22.7)	(29.3)



RITIKA JALAN

Key Highlights of the Report:

- ✓ Aurobindo Pharma became the first filer and gets US FDA nod for Renvela suspension (sevelamer carbonate) in the US (IMS market size: US\$120 mn).
- ✓ As on 27th June 2017 The US Food and Drug Administration completed inspection of company's unit 7 based in Hyderabad.
- ✓ The Naidupet plant will get commissioned by mid-FY18E, and will be one of the largest formulations plants for auropharma (with capacity of 7-8b tablets).
- ✓ Currently the stock is trading at 4.0x times FY17 P/B . We recommend a buy rating on the stock with a price target of Rs.850.

Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
Net Sales	12,121	13,955	15,090	16,061	18,189
EBITDA	2,564	3,024	3,434	3,656	3,890
EBIT	2,231	2,632	3,007	3,124	3,524
PAT	1,576	2,025	2,302	2,449	2,926
EPS (Rs)	54	35	39	42	50
EPS growth (%)	34%	-36%	14%	6%	19%
ROE (%)	35%	33%	28%	24%	23%
ROCE (%)	20%	21%	19%	18%	16%
BV	176	125	161	193	237
P/B (X)	3.5	2.7	2.4	2.1	1.9
P/E (x)	11.3	17.0	15.0	13.0	12.0

RECENT DEVELOPMENT:

- ✓ gRenvela PFOS (Sevelamer carbonate) is the first complex product out of Aurobindo's pipeline of complex generics pending approval in the US during FY18E-20E.
- ✓ Company has filed 158 ANDAs (abbreviated new drug application) from Unit7 facility, of which 88 drugs received final approvals and 20 drugs have tentative approvals from the USFDA as of March 2017.
- ✓ Auropharma has, in Q1FY18 YTD, launched more 7 products (against 5 in Q4FY17) including 3 complex products - Meropenem, Strattera and Renvela suspension.
- ✓ Auropharma has net debt of US\$439 mn at the end of 4QFY17 down from US\$640 mn in previous year.

Concall Highlights:

- ✓ Company has started filing ANDA's in Oncology segment. Company has already filed 12 products in Q4 and expects 15-16 approvals in FY18. USFDA is expected to inspect facility in next few months.
- ✓ The company is working on about 10 derma products & is likely to start exhibit batches of these in next 1 year .
- ✓ Planned Capex for FY18 about Rs.768 Cr (USD 120mn) excluding capex of bio-similars (INR150Cr-200cr) and ex-vaccine.
- ✓ Auropharma does not have much share with Walmart. Hence, Walmart McKesson may not be impacted due to consolidation
- ✓ Tax Rate guidance for FY18 at ~25-26%; R&D spend at 6-7% of sales in FY18.
- ✓ Management expects EBITDA margin to improve from current levels.
- ✓ Three key formulation plants are getting commissioned, including Vizag (dedicated supply to EU started in March 17), Unit XVI (antibiotic injectable plant to supply products in the US) and Naidupet (oral solids plant to supply to the US).
- ✓ Auropharma is expected to launch 20-25 products every year in US market, to sustain the current growth momentum over next two years
- ✓ Company has lined up 20-25 launches in FY18.
- ✓ For Europe business management has guided for 7-8% growth for FY18E, but in constant currency expects to be flat.

Investment Arguments:

- ✓ **Delay in approval:** Slowdown in ANDA approvals and USFDA related regulatory risks as company is awaiting EIR on 5 of its manufacturing facilities.
- ✓ **Significant ramp up in injectables Business:** US business to drive growth on the back of sustained performance from injectable product and larger product launches (~40 pending ANDAs).
- ✓ **Price Erosion in US Business:** The Management expects the US business price erosion is likely to continue (7-8% in FY18) over the next 4-6 quarters. The Management expects Natrol would contribute meaningfully to the US sales from 2HFY19 onwards.
- ✓ **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.

View & Valuation

We expect Auropharma will be able to register growth from the US and EU business, on the back of new product launches which are expected to be monetized in FY18/FY19. Apart from that management is focusing to develop dermatology, Ophthalmology segments which will help the company to diversify its portfolio in future. Better cash flow from launches of high margin and limited competition drugs will increase the growth visibility going forward. Currently the stock is trading at 4.0x times FY17 P/B . We recommend a buy rating on the stock with a price target of Rs.850. We would see a significant re-rating in the stock once the regulatory concerns are over at various sites which would expand valuations further.