Narnolia™

AUROPHARMA

Industry	Pharmaceuticals
Bloomberg	ARBP IN
BSE Code	524804
NSE Code	AUROPHARMA

30 May 2018

RATING	BUY
CMP	588
Price Target	643
Previous Target	775
Potential Upside	9%

Stock Info

52wk Range H/L	809/504
Mkt Capital (Rs Cr)	34454
Free float (%)	48%
Avg. Vol 1M (,000)	1486
No. of Shares (Crore)	59
Promoters Pledged %	2%

Research Analyst

Ritika Jalan

ritika.jalan@narnolia.com

Pramila Lakra

Key Highlights

- ☑ Auropharma's net sales grew by 11% YoY to Rs.4049 Cr in 4QFY18 on account of strong growth in US, Europe and Other Growth market .
- ☑ Company is looking at inorganic growth opportunities in Eastern Europe and other geographies for deeper market penetration and to secure newer technologies.
- ☑ FY19 will enjoy the reduction in tax benefit to 25% (26% in FY18) on account of realisation of SEZ investment benefit.
- ☑ As on 31st March 2018, on a cumulative basis, the company filed 478 ANDAs with USFDA and received approval for 117 ANDAs including 34 tentative approvals.
- ☑ Strong CAPEX guidance in biosimiliar & vaccinies and pipeline of 30-45 new products launch will drive the margins in FY19.
- ☑ Filed 11 ANDAs with USFDA including 2 injectables in Q4FY18 and 47 ANDAs including 16 injectables in FY18

4Q FY18 Result:

Auropharma posted a revenue growth of 11% YoY to Rs. 4049 Cr in 4QFY18. Formulation revenue registered a growth of 12.8% YoY to Rs 3249Cr and accounted for 82% of total revenues.EBITDA during the quarter has increased by 11% YoY to Rs.804 Cr against Rs.721 Cr in 4QFY17.. In 4QFY18, PAT de-grew by 0.7% YoY to Rs.529 Cr. PAT was impacted due to increase in finance cost to Rs.122 Cr (117 Cr in 4QFY17) and tax to Rs.25 Cr (14 Cr in 4QFY17).

View and Valuation

With Pharma industry facing a lot of head winds and price erosion hitting the margins of many US focused Pharma companies, Aurobindo Pharma is able to maintain its EBITDA margins in the range of 21-23% from FY16-FY18.We believe Auropharma US growth should be driven by Injectables launches as well as ramp up in the launch of new products mainly in the OTC Business. Improved cash flow from launches of high margin products and improved execution in the US business will increase the growth visibility going forward. We would see a significant re-rating in the stock with the margin expansion and net debt reduction over the next two years, which would expand valuations further.

We value Auropharma at 11x times of FY20 EPS and maintain a buy rating on the stock with same price target of Rs.643.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	13,955	15,090	16,500	20,140	21,871
EBITDA	3,024	3,434	3,772	4,935	5,249
EBIT	2,632	3,007	3,214	4,385	4,699
PAT	2,025	2,302	2,423	3,339	3,578
EPS (Rs)	35	39	41	57	61
EPS growth (%)	-36%	14%	5%	38%	7%
ROE (%)	28%	25%	21%	23%	20%
ROCE (%)	33%	31%	26%	29%	26%
BV	125	160	200	251	305
P/B (X)	6	5	3	2	2
P/E (x)	21	19	13	10	10

4Q FY 18 Results

Mixed Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	3,642	3,679	4,436	4,336	4,049	11.2%	-6.6%	15,090	16,500	9.3%
Other Income	41	33	10	33	44	7.5%	32.6%	116	102	-12.0%
COGS	1,503	1,498	1,768	1,818	1,669	11.1%	-8.1%	6,434	6,753	4.9%
Employee Cost	463	490	519	541	581	25.4%	7.5%	1,768	2,131	20.5%
Other Expenses	954	849	1,032	952	994	4.2%	4.4%	3,454	3,828	10.8%
EBITDA	721	842	1,117	1,026	804	11.5%	-21.6%	3,434	3,772	9.8%
Depreciation	100	131	132	138	157	56.6%	13.4%	428	558	30.5%
Interest	14	17	17	19	25	73.1%	31.1%	67	78	16.5%
PBT	648	727	978	902	667	2.9%	-26.1%	3,056	3,238	6.0%
Tax	117	191	198	307	122	4.5%	-60.1%	760	818	7.7%
PAT	532	519	781	595	529	-0.7%	-11.1%	2,302	2,423	5.3%

Significant revenue and EBITDA growth

Net sales during the quarter has recorded a groeth of 11% Yoy to Rs. 4049 Cr against Rs. 3642 in 4QFY17 led by robust performance in all US, Europe and Other markets. US formulation sales of Rs1739 Cr vs Rs1643 Cr in Q4FY17, witnessed a growth of 6% YoY. Europe formulation sales grew by 48% YoY to Rs. 1152 Cr from Rs. 777 Cr in 4QFY17. ROW segment also grew by 6% YoY to Rs. 210 Cr against Rs. 197 Cr in 4QFY17.

US revenue for Q4FY18 witnessed a growth of 5.8% YoY to Rs1,738.8 crore, accounting 43% of consolidated revenue. On constant currency basis, revenue grew by 10.1% YoY to US$ 271 million

Till Mar, 2018, we have transferred manufacturing of 83 products from Europe to India

In 4QFY18, EBITDA has grew by 11.5% YoY to Rs. 804 Cr against Rs. 721 Cr in 4QFY17. EBITDA margin was flat during the quarter to 19.9% in 4QFY18.

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.

Looking for new opportunities in future

Aurobindo Pharma is looking at inorganic growth opportunities in Eastern Europe and other geographies for deeper market penetration and to secure newer technologies. Apart from acquisitions, the company is also keen to expand its product portfolio in the US and Western European markets with high-value drugs.

New product launch will boost the revenue significantly

The company has filed 478 ANDAs with USFDA and received approval for 117 ANDAs including 34 tentative approvals as on 31st march, 2018. Company has a plan to launch 35-40 new products in FY19 of which company has received the approval of 10 Products in 4QFY18.

Concall Highlights :

- ✓ Unit 4 and Unit 12 is received EIR from USFDA in the last week.
- ✓ It plans to spend about USD 130 million towards capex in vaccines and biosimilar.
- ✓ Price erosion will continue and will be about 8% YoY in base business of US.
- ✓ Company has lined up 35-40 launches in FY19 of which company has received the approval of 10 Products.
- ✓ As per concall of 4QFY18 Management is optimistic to maintain the double digit margin for FY19.
- ✓ The management has guided capex of approx USD 135 million for FY19.

Exhibit: Net Sales/ Sales growth %

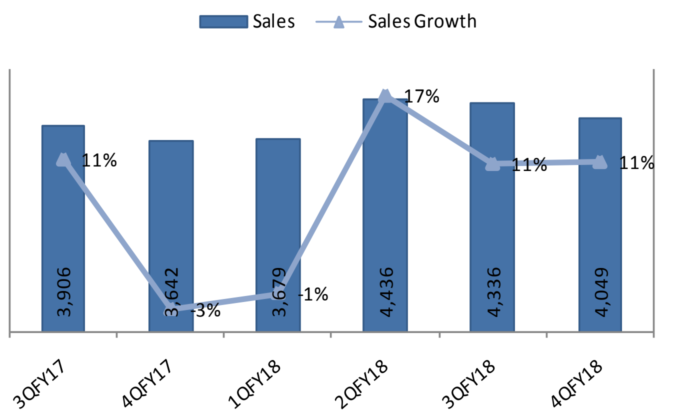


Exhibit: Net Sales/ PAT

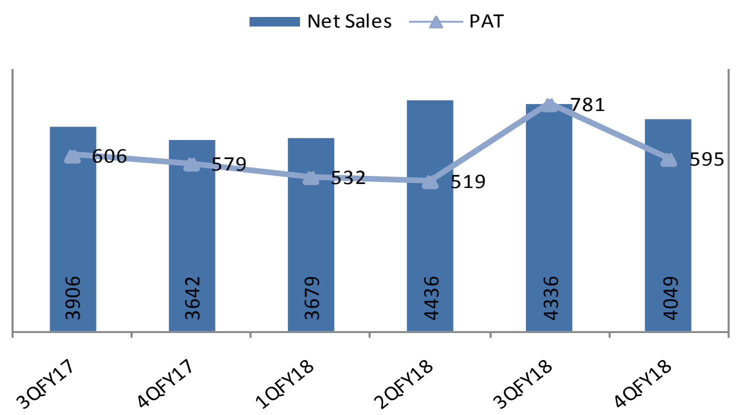


Exhibit: Net Sales/ Gross Margin %

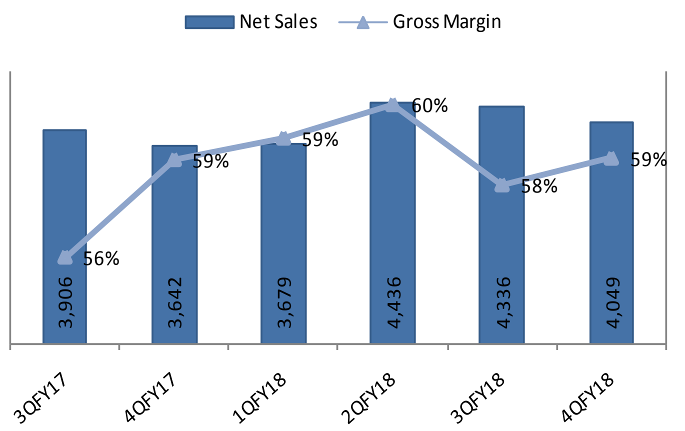


Exhibit: EBITDA/ EBITDA Margin %

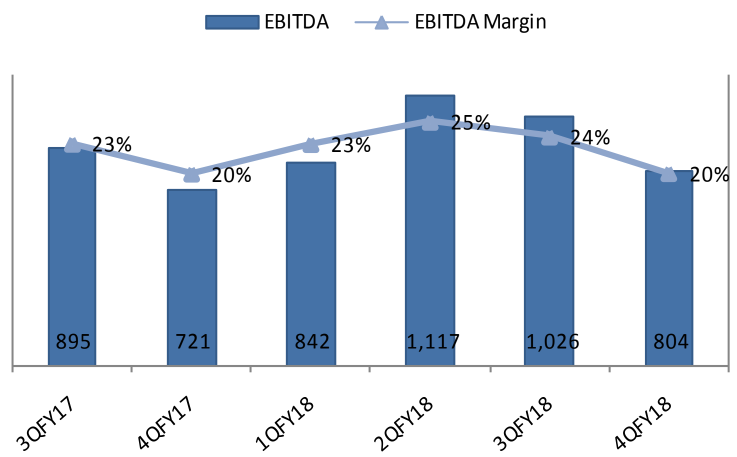


Exhibit: PAT / PAT Margin %

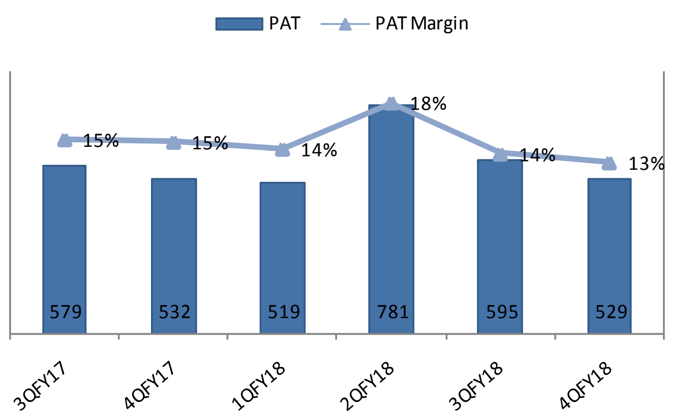
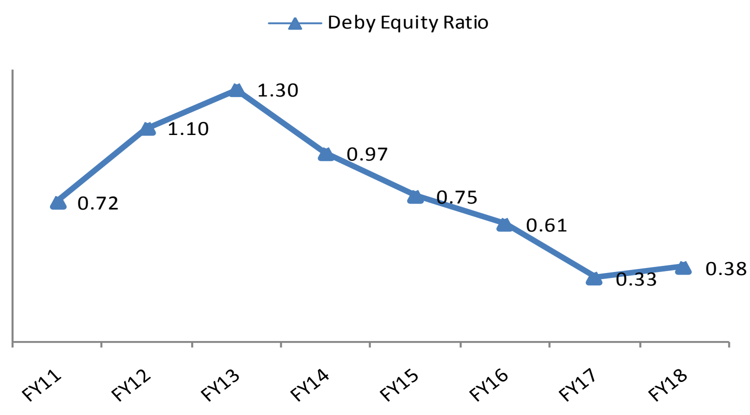


Exhibit: Debt to Equity Ratio



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	29	29	29	59	59	59	59	59
Reserves	*2,577*	*3,721*	*5,127*	*7,229*	*9,313*	*11,622*	*14,570*	*17,729*
Networth	**2,606**	**3,750**	**5,156**	**7,287**	**9,372**	**11,680**	14,629	17,788
Debt	3,384	3,634	3,864	4,415	3,084	4,483	3,251	2,451
Other Non Cur Liab	-	-	-	-	-	-	-	-
Total Capital Employed	5,990	7,384	9,019	11,703	12,456	16,163	17,880	20,239
Net Fixed Assets (incl CWIP)	*2,857*	*3,031*	*4,125*	*4,622*	*5,886*	*7,287*	*7,784*	*8,333*
Non Cur Investments	*22*	*20*	*0*	*123*	*246*	*312*	*446*	*446*
Other Non Cur Asst	*19*	*18*	*30*	*165*	*199*	*168*	*168*	*168*
Non Curr Assets	**3,136**	**3,859**	**4,616**	**5,626**	**7,043**	**8,917**	9,548	10,097
Inventory	1,924	2,368	3,611	4,056	4,331	5,858	5,518	5,992
Debtors	1,597	2,637	3,539	4,607	2,765	3,084	**3,752**	**4,075**
Cash & Bank	208	179	469	790	489	1,216	2,315	3,274
Other Curr Assets	**76**	**71**	**91**	**768**	**811**	**1,114**	1,114	1,114
Curr Assets	*4,137*	*5,631*	*8,299*	*10,294*	*9,206*	*12,188*	*14,070*	*15,827*
Creditors	964	1,351	2,051	2,457	2,488	2,627	3,207	2,996
Provisons	*80*	*127*	*218*	*51*	*63*	*201*	*201*	*201*
Other finicial liabilities	-	-	-	1,495	1,042	510	510	510
Other Curr Liab	151	388	1,365	83	99	1,268	1,484	1,642
Curr Liabilities	1,195	1,865	3,634	4,168	3,720	4,649	**5,445**	**5,393**
Net Curr Assets	**2,942**	**3,766**	**4,664**	**6,127**	**5,487**	**7,539**	**8,625**	**10,434**
Total Assets	7,273	9,490	12,914	15,920	16,249	21,105	23,618	25,924

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	5,855	8,100	12,121	13,955	15,090	16,500	20,140	21,871
Change (%)	27%	38%	50%	15%	8%	9%	22%	9%
EBITDA	861	2,132	2,564	3,024	3,434	3,772	4,935	5,249
Change (%)	*53%*	*148%*	*20%*	*18%*	*14%*	*10%*	*31%*	*6%*
Margin (%)	15%	26%	21%	22%	23%	23%	25%	24%
Depr & Amor.	*249*	*313*	*333*	*392*	*428*	*558.0*	*550.0*	*550.0*
EBIT	*612*	*1,819*	*2,231*	*2,632*	*3,007*	*3,214*	*4,385*	*4,699*
Int. & other fin. Cost	*267*	*310*	*160*	*93*	*67*	*78*	*99*	*99*
Other Income	*29*	*23*	*97*	*204*	*116*	*102*	*102*	*102*
EBT	374	1,533	2,168	2,743	3,056	3,238	4,388	4,702
Exp Item	-	-	-	-	-	-	-	-
Tax	*83*	*363*	*597*	*721*	*760*	*818.3*	*1,053.2*	*1,128.5*
Minority Int & P/L share of Ass.	*2*	*4*	*5*	*3*	*5*	*3*	*4*	*4*
Reported PAT	294	1,173	1,576	2,025	2,302	2,423	3,339	3,578
Adjusted PAT	***294***	***1,173***	***1,576***	***2,025***	***2,302***	***2,423.2***	***3,339.0***	***3,577.5***
Change (%)	-338%	299%	34%	29%	14%	5%	38%	7%
Margin(%)	*5%*	*14%*	*13%*	*15%*	*15%*	*15%*	*17%*	*16%*

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11%	31%	31%	28%	25%	21%	23%	20%
ROCE	16%	36%	34%	33%	31%	26%	29%	26%
Asset Turnover	0.8	0.9	0.9	0.9	0.9	0.8	0.9	0.8
Debtor Days	99.6	118.8	106.6	109.1	66.9	68.2	68.0	68.0
Inv Days	119.9	106.7	108.8	106.9	104.7	129.6	100.0	100.0
Payable Days	60.1	60.9	61.8	66.1	60.2	58.1	58.1	50.0
Int Coverage	2.3	5.9	14.0	28.4	45.1	41.4	44.3	47.5
P/E	*14.5*	*12.7*	*11.3*	*21.5*	*18.9*	*13.4*	*10.3*	*9.6*
Price / Book Value	*1.6*	*4.0*	*3.5*	*6.0*	*4.6*	*2.8*	*2.3*	*1.9*
EV/EBITDA	*6.0*	*7.5*	*7.3*	*14.4*	*12.6*	*8.4*	*6.6*	*6.0*
FCF per Share	*0.1*	*8.8*	*29.0*	*3.3*	*27.1*	*9.1*	*48.2*	*38.9*
Div Yield	1.6%	0.3%	0.9%	0.4%	0.5%	0.7%	1.0%	1.0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	374	1,533	2,168	2,722	3,061	3,238	4,388	4,702
(inc)/Dec in Working Capital	(422)	(1,059)	(842)	(738)	611	(566)	(122)	(850)
Non Cash Op Exp	249	313	333	393	428	558	550	550
Int Paid (+)	113	94	71	79	55	78	99	99
Tax Paid	(119)	(344)	(496)	(736)	(774)	(818)	(1,053)	(1,129)
others	83	108	61	38	(53)	4	4	4
CF from Op. Activities	**275**	**646**	**1,237**	**1,760**	**3,279**	**2,494**	**3,866**	**3,376**
(inc)/Dec in FA & CWIP	(268)	(374)	(368)	(1,549)	(1,685)	(1,960)	(1,046)	(1,099)
Free Cashflow	2	256	846	191	1,584	534	2,820	2,277
(Pur)/Sale of Inv	20	(424)	12	20	(118)	-	0	-
others	1	(21)	(675)	149	15	(0)	-	-
CF from Inv. Activities	**(246)**	**(819)**	**(1,031)**	**(1,380)**	**(1,787)**	**(1,960)**	**(1,046)**	**(1,099)**
inc/(dec) in NW	1	3	7	7	7	-	-	-
inc/(dec) in Debt	287	267	341	217	(1,728)	1,398	(1,231)	(800)
Int. Paid	(112)	(94)	(74)	(82)	(57)	(78)	(99)	(99)
Div Paid (inc tax)	(67)	(60)	(180)	(162)	(137)	-	(391)	(419)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	**108**	**118**	**93**	**(20)**	**(1,915)**	**1,321**	**(1,721)**	**(1,317)**
Inc(Dec) in Cash	137	(55)	299	360	(424)	1,854	1,099	960
Add: Opening Balance	66	203	148	461	744	489	1,216	2,315
Closing Balance	203	148	828	825	320	2,344	2,315	3,275

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