

Aurobindo Pharma Ltd.

Industry Pharmaceuticals
Bloomberg ARBP IN
BSE CODE 524804

Growth across geographies offset by higher operating expenses.

RATING	HOLD
CMP	745
Price Target	799
Potential Upside	7%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	830/527
Mkt Capital (Rs Cr)	43817
Free float (%)	48%
Avg. Vol 1M (,000)	2142
No. of Shares (Cr)	59
Promoters Pledged %	2%

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3QFY19 Result update.

- ❑ Overall revenue grew by 22% to Rs.5270 crores in Q3FY19. The growth was seen across geographies but was majorly driven by the US and Europe business.
- ❑ US business grew by 15% YoY to US\$ 339 million on account of improvement in the Injectables business carried out by Auromedics and also the Sartan opportunity which was available this quarter.
- ❑ The gross margin contracted by 343 bps YoY to 54.6% this quarter, the margin was impacted due to one-time provision on account of failure to supply. Higher procurement cost from China also contributed towards such contraction.
- ❑ EBITDA margin declined by 300 bps YoY to 20.6% due to contraction in gross margin and increased staff cost as Unit 16 was commissioned and Generis Farmaceutica S.A was consolidated.
- ❑ R&D spends for this quarter was at Rs.255 Cr, 4.8% of revenues. The management has guided for the R&D expenses to be less than 6% on a quarterly basis going forward.

View and Valuation

The EBITDA margin for this quarter contracted by 300 bps YoY due to contraction in gross margin and also on account of increased staff cost as Unit 16 was commissioned and Generis Farmaceutica S.A was consolidated. The growth this quarter was seen across geographies but was majorly driven by the US and Europe business. US grew by 15% YoY to US\$ 339 million due to improvement in injectable business which grew by 33% YoY to US\$ 61 million and also the Sartan opportunity contributed towards such growth. Europe grew by 3% YoY to Euro 159 million on account of opportunity sales this quarter. Post the acquisition of Sandoz and seven marketed injectable products from Spectrum Pharmaceuticals in FY20, which would give Auropharma entry into derma and Oncology space in US would be a key growth driver going forward. Also, the acquisition of Apotex business would trigger revenue growth in Europe as this acquisition would give the company entry into additional market of Eastern Europe. However, these acquisitions would lead to increased R&D and other operating expenses which would put pressure in the margins going forward. Therefore, we maintain our HOLD rating with a target price of Rs. 799.

Key Risks to our rating and target

- ❑ Unit 4 facility : awaiting the responses from the USFDA.
- ❑ R&D expenditure.
- ❑ Raw material cost.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	13955	15090	16500	19171	20046
EBITDA	3188	3434	3772	3960	4370
EBIT	2796	3007	3214	3292	3642
PAT	2025	2302	2423	2492	2928
EPS (Rs)	35	39	41	43	50
EPS growth (%)	-36%	14%	5%	3%	17%
ROE (%)	28%	25%	21%	18%	18%
ROCE (%)	35%	31%	26%	23%	21%
BV	125	160	199	238	284
P/B (X)	6.0	4.2	2.8	3.1	2.6
P/E (x)	21.5	17.2	13.5	17.5	14.9

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3QFY19 Results

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	4,336	4,049	4,250	4,751	5,270	21.5%	10.9%	15,090	16,500	9.3%
Other Income	33	44	44	26	64	93.2%	143.1%	116	102	-12.0%
COGS	1,818	1,669	1,907	2,043	2,390	31.5%	17.0%	6,434	6,753	4.9%
Gross Margin	58%	59%	55%	57%	55%	-5.9%	-4.1%	57%	59%	3.0%
Employee Cost	541	581	596	625	650	20.2%	3.9%	1,768	2,131	20.5%
Other Expen.	952	994	968	1,057	1,144	20.1%	8.2%	3,454	3,845	11.3%
EBITDA	1,026	804	779	1,026	1,086	5.9%	5.9%	3,434	3,772	9.8%
EBITDA Mar.	24%	20%	18%	22%	21%	-12.8%	-4.5%	23%	23%	0.4%
Depreciation	138	157	155	164	163	18.1%	-0.3%	428	558	30.5%
EBIT	888	647	625	862	923	4%	7.1%	3,007	3,214	6.9%
Interest	19	25	30	35	48	153%	34.6%	67	78	16.5%
PBT	902	667	639	853	939	4.2%	10.1%	3,056	3,238	6%
Exceptional	-	-	-	27	25					
Tax	307	122	116	175	205	-33.3%	16.7%	760	818	8%
PAT	595	529	456	611	712	19.7%	16%	2,302	2,423	5%
PAT Margin	14%	13%	11%	13%	14%	-1.5%	5%	15%	15%	-4%

Growth across geographies

Overall revenue grew by 22% YoY to Rs.5270 crores majorly driven by US and Europe. US revenue grew by 15% YoY to US\$ 339 million, the injectable business (Auromedics) grew by 33% to US\$ 61 million on account of Ertapenem ramp up and also Auobindo USA, the company marketing the oral products in the US grew by 18% YoY. Europe grew by 3% YoY to EUR 159 million on account of opportunity sales this quarter. API grew by 20% YoY to Rs.922 crores.

Higher operating expenses impacted Margins

Gross margin contracted by 343 bps YoY to 54.6% this quarter, the margin was impacted due to one-time provision on account of failure to supply. Higher procurement cost from China also contributed towards such contraction.

Though growth was across geographies, but the EBITDA margin declined by 300 bps YoY to 20.6% due to higher operating expenses. Other expenses and Staff cost increased by 20% to Rs.1144 crores and Rs.650 crores respectively as Unit 16 was commissioned and Generis Farmaceutica S.A was consolidated in FY18.

Concall Highlights

- The management has maintained 30% growth guidance for injectables in FY19. Auromedics (Injectables) witnessed a growth of 32% YoY to US\$61 million this quarter.
- The management is confident about growth in Injectables in the next 2-4 years which would improve the margins for injectables also the overall margins for the company will improve.
- The company has filed 10 ANDAs with USFDA including 4 for injectables, and has received final approval for 14 ANDAs including 6 injectables, and tentative approval for 1 ANDA this quarter. The company has launched 7 products during the quarter including 2 injectables.
- Welchol would be launched by next the fiscal year and Prevacid ODT launch is expected by Q3FY20 as per the management.
- The company has completed the acquisition of Advent pharmaceuticals, Australia through its subsidiary AuroScience Pty Limited, Melbourne.
- Sandoz acquisition is expected to be completed by the first half of next year. The company expects to close the Apotex acquisition in Europe this month.
- Auobindo Pharma's subsidiary Acrotech Biopharma to acquire portfolio of seven marketed oncology injectable products from Spectrum Pharmaceuticals. The Acquisition for an upfront purchase price of \$160 million in cash plus up to \$140 million on achieving regulatory and sales-based milestones
- The company has acquired Synergy Remedies Private Limited, an intermediate manufacturing facility to ensure assured supplies of some of the APIs and intermediates. The cost of acquisition is Rs.15 crores, the company will be holding 19.9% of the equity share capital
- The management expects the Capex to be around US\$150 million (might increase due to acquisition related cost) which would be utilized towards capacity expansion and de-bottlenecking of the capacity.

Exhibit: Sales and Sales Growth

Sales for the quarter grew by 22% YoY to Rs.5270 crores (vs our expectation of Rs.4715 crores)

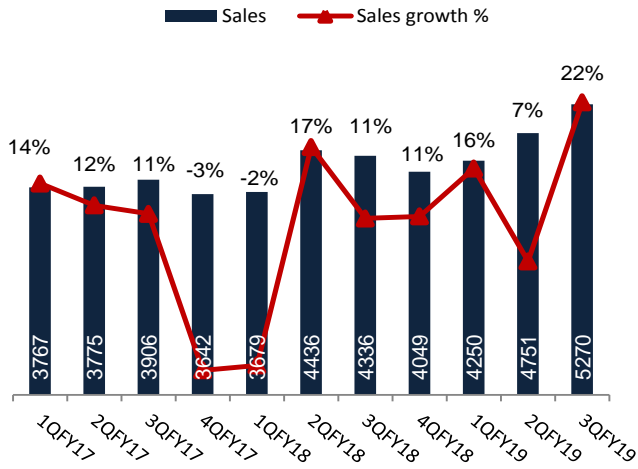


Exhibit: Gross and EBITDA margin

Margins declined on account of increased operating expenses.

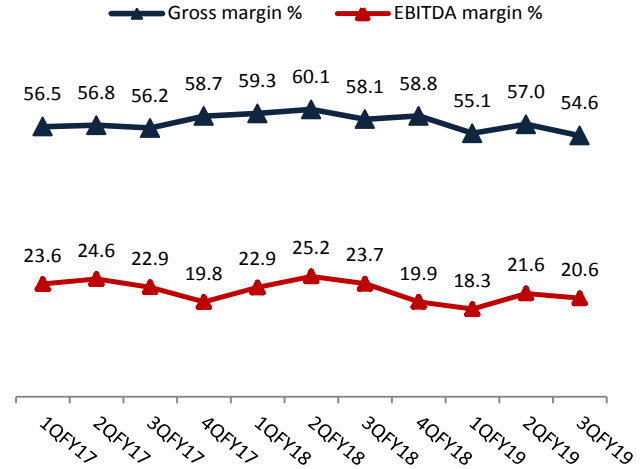


Exhibit: US sales and YoY growth

US sales for the quarter was US\$ 339 million on account of 7 launches including 2 injectables in this quarter.

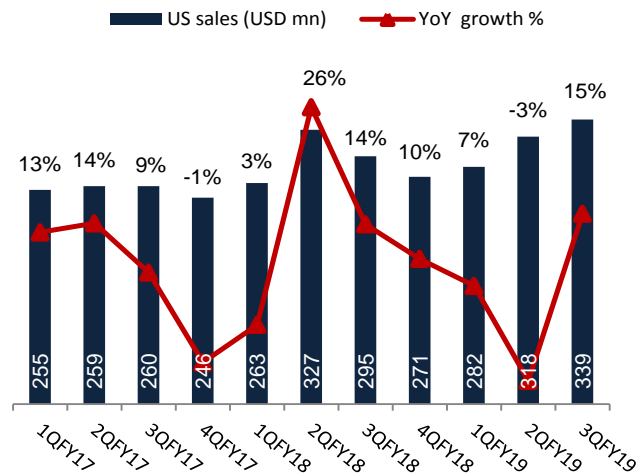


Exhibit: R&D cost and R&D as a % of sales

R&D expenditure for the quarter were Rs.255 crores, 4.8% of sales.

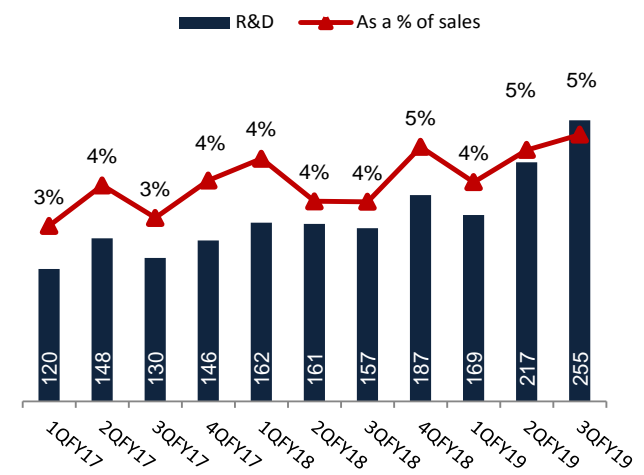


Exhibit: COGS and Other expenses

COSG and other expenses were Rs.2390 crores and Rs.1144 crores respectively this quarter.

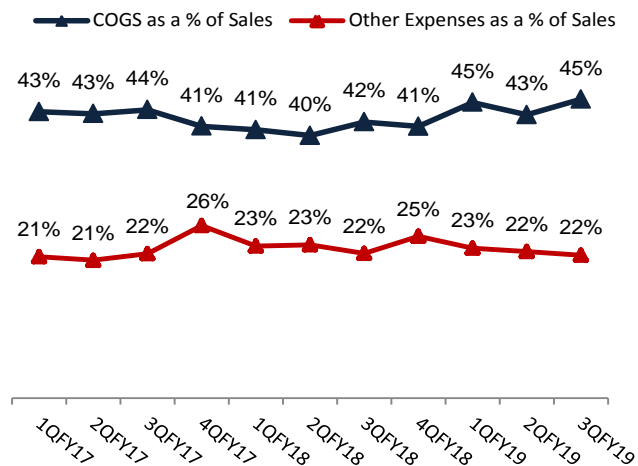
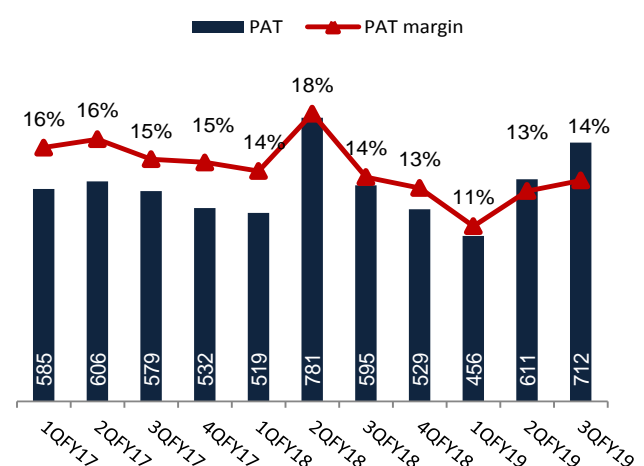


Exhibit: PAT and PAT margin

PAT for the quarter increased by 20% YoY to Rs.712 crores.



Operational Details

Geography	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
USA	1745	1643	1695	2099	1910	1739	1890	2227	2433
Europe	855	777	918	1114	1172	1152	1199	1157	1293
Growth Markets	188	197	194	243	250	210	257	308	341
ARV	342	262	245	208	239	149	156	244	281
API:									
Betalactum	525	512	409	514	537	533	492	513	558
Non-Betalactum	251	251	216	258	229	267	256	303	364

Revenue gr. %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
USA	11%	-1%	-1%	21%	9%	6%	11%	6%	27%
Europe	10%	-8%	10%	37%	37%	48%	31%	4%	10%
Growth Markets	3%	12%	0%	38%	33%	6%	32%	26%	36%
ARV	12%	-20%	-19%	-25%	-30%	-43%	-36%	18%	18%
API:									
Betalactum	17%	3%	-17%	1%	2%	4%	20%	0%	4%
Non-Betalactum	2%	-8%	-10%	0%	-9%	6%	19%	18%	59%

Revenue mix%	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
USA	45%	45%	46%	47%	44%	43%	44%	47%	46%
Europe	22%	21%	25%	25%	27%	28%	28%	24%	25%
Growth Markets	5%	5%	5%	5%	6%	5%	6%	6%	6%
ARV	9%	7%	7%	5%	6%	4%	4%	5%	5%
API:									
Betalactum	13%	14%	11%	12%	12%	13%	12%	11%	11%
Non-Betalactum	6%	7%	6%	6%	5%	7%	6%	6%	7%

ANDA pipeline	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ANDA filings	9	8	13	21	2	11	7	25	10
ANDA approvals	19	16	17	2	20	10	13	13	14

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	13,895	16,567
Networth	2,606	3,750	5,156	7,287	9,372	11,680	13,954	16,626
Debt	3,384	3,634	3,864	4,415	3,084	4,483	4,483	4,483
Other Non Current Liab	77	215	235	47	88	291	309	317
Total Capital Employed	5,990	7,384	9,019	11,703	12,456	16,163	18,436	21,109
Net Fixed Assets (incl CWIP)	2,857	3,031	4,125	5,028	6,292	8,104	8,522	9,196
Non Current Investments	22	20	0	123	246	312	319	319
Other Non Current Assets	256	807	490	475	506	502	651	667
Non Current Assets	3,136	3,859	4,616	5,626	7,043	8,917	9,492	10,182
Inventory	1,924	2,368	3,611	4,056	4,331	5,858	7,134	7,460
Debtors	1,597	2,637	3,539	4,607	2,765	3,084	3,345	3,498
Cash & Bank	208	179	469	800	513	1,262	2,012	3,595
Other Current Assets	408	448	679	831	1,597	1,983	2,300	2,392
Current Assets	4,137	5,631	8,299	10,294	9,206	12,188	14,791	16,944
Creditors	964	1,351	2,051	2,457	2,155	2,627	2,575	2,693
Provisions	80	127	218	51	235	201	217	222
Other Current Liabilities	151	388	1,365	1,660	1,313	1,821	2,743	2,783
Curr Liabilities	1,195	1,865	3,634	4,168	3,703	4,649	5,535	5,698
Net Current Assets	2,942	3,766	4,664	6,127	5,503	7,539	9,256	11,246
Total Assets	7,273	9,490	12,914	15,920	16,249	21,105	24,283	27,126

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	19,171	20,046
Change (%)	27%	38%	50%	15%	8%	9%	16%	5%
EBITDA	861	2132	2564	3188	3434	3772	3960	4370
Change (%)	53%	148%	20%	24%	8%	10%	5%	10%
Margin (%)	12.1%	14.7%	26.3%	21.2%	22.8%	22.8%	22.9%	20.7%
Depr & Amor.	249	313	333	392	428	558	668	728
EBIT	612	1819	2231	2796	3007	3214	3292	3642
Int. & other fin. Cost	267	310	160	257	67	78	148	148
Other Income	29	23	97	204	116	102	204	250
EBT	374	1,533	2,168	2,743	3,056	3,238	3,347	3,744
Exp Item	-	-	-	-	-	-	52	-
Tax	83	363	597	721	760	818	695	816
Minority Int & P/L share of Ass.	2	4	5	3	5	3	-	-
Reported PAT	291	1,169	1,571	2,022	2,296	2,420	2,492	2,928
Adjusted PAT	294	1,173	1,576	2,025	2,302	2,423	2,492	2,928
Change (%)	1	3	0	0	0	0	0	0
Margin(%)	5%	14%	13%	15%	15%	15%	13%	15%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11%	31%	31%	28%	25%	21%	18%	18%
ROCE	16%	36%	34%	35%	31%	26%	23%	21%
Asset Turnover	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Debtor Days	100	119	107	120	67	68	64	64
Inv Days	120	107	109	106	105	130	136	136
Payable Days	60	61	62	64	52	58	49	49
Int Coverage	2	6	14	11	45	41	22	25
P/E	14.5	12.7	11.3	21.5	17.2	13.5	17.5	14.9
Price / Book Value	1.6	4.0	3.5	6.0	4.2	2.8	3.1	2.6
EV/EBITDA	6	8	7	14	11	8	11	9
FCF per Share	0	9	16	(0)	27	7	19	34
Div Yield	1%	1%	1%	0%	0%	1%	0%	0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	374	1,533	2,168	2,744	3,061	3,241	3,295	3,744
(inc)/Dec in Working Capital	(422)	(1,057)	(842)	(1,079)	583	(1,069)	(1,097)	(415)
Non Cash Op Exp	249	313	333	392	428	558	668	728
Int Paid (+)	113	94	71	79	55	63	148	148
Tax Paid	(119)	(344)	(496)	(733)	(774)	(752)	(695)	(816)
others	80	109	3	16	(73)	(86)	(108)	-
CF from Op. Activities	275	646	1,237	1,420	3,279	1,955	2,211	3,388
(inc)/Dec in FA & CWIP	(273)	(390)	(768)	(1,447)	(1,694)	(1,530)	(1,070)	(1,402)
Free Cashflow	2	256	469	(28)	1,584	425	1,141	1,987
(Pur)/Sale of Inv	25	(408)	45	(149)	(108)	(68)	(7)	-
others	1	(21)	(675)	152	15	(359)	(16)	-
CF from Inv. Activities	(246)	(819)	(1,398)	(1,445)	(1,787)	(1,957)	(1,094)	(1,402)
inc/(dec) in NW	1	3	7	7	7	0	-	-
inc/(dec) in Debt	287	267	341	603	(1,728)	1,202	-	-
Int. Paid	(112)	(94)	(74)	(84)	(57)	(74)	(148)	(148)
Div Paid (inc tax)	(67)	(60)	(180)	(162)	(137)	(264)	(219)	(256)
others								
CF from Fin. Activities	108	118	93	365	(1,915)	864	(367)	(404)
Inc(Dec) in Cash	137	(55)	(68)	340	(424)	862	751	1,583
Add: Opening Balance	66	203	529	404	743	350	1,262	2,012
Closing Balance	203	148	461	744	320	1,212	2,012	3,595

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