

Aurobindo Pharma

Sees improved operating efficiency in acquired EU operation



PhillipCapital (India) Pvt. Ltd.

PHARMACEUTICALS: Quarterly Update

8 August 2014

Aurobindo Pharma's (ARBP) Q1FY15 results were ahead of our estimates led by continued surprising revenue and margin contribution from the near-exclusive opportunity of Cymbalta in US. Going ahead, we believe ARBP to maintain steady growth of ~17-18% in its US sales led by ramp up in injectables and controlled substances sales. On the other hand, the management expects value growth in ARV operations led by new approvals and it also lowered the EBITDA loss guidance from Euro 20mn for Actavis' acquired operation to Euro 10mn for FY15. In fact, the loss making EU acquisition was the key concern area for ARBP and visible improvement in operating efficiency there makes up optimistic about the company. Hence, we upgrade our rating on ARBP from neutral to BUY with a revised target price of Rs 878 (i.e 16x FY16E).

Q1FY15 results: Continued robustness in US sales

ARBP has reported 69.7% YoY growth in sales to Rs 29.11bn (v/s est. of 27.95bn). The growth was largely from superb 78% jump in USA revenue to Rs 11.15bn (i.e. 66% jump in constant currency to US\$ 186mn). We believe continued strong performance in Cymbalta due to limited competition the key was driver of US growth during the quarter. The European acquisition contributed revenue of ~Rs 6.00bn during the quarter.

Robust US generic performance and higher rupee realization, despite the integration of loss making EU acquisition, has boosted the margins by 470bps YoY to 22.6% (v/s our est of 16.2%), resulting in 114% jump in EBITDA to Rs 6.58bn. Finally, supported by strong operating performance and financial leverage the net profit jumped by 146% to Rs 4.15bn (v/s our est of Rs 2.8bn).

Key highlights of the call

- 1) US base business excluding Cymbalta to maintain steady growth momentum led by new product launches including injectables, controlled substances etc. 2) Auro Life saw ramp up during Q1 to US\$25mn (v/s US\$75mn in FY14) and guides to maintain growth momentum led by better order visibility and capacity expansion. 3) Injectables sees doubling growth with new product launches. 4) **Despite the high base effect of Cymbalta in FY14, we estimate US to grow at 17% CAGR over FY14-16 to US\$770mn.**
- ARBP sees operational improvement in its acquired European operation, as it focused more on better margin products acquired from Actavis and replaced some low margin ones with its own brands. With improving operational efficiency, **ARBP guides for lower EBITDA loss of ~Euro 10mn in FY15 against earlier indicated Euro 20mn.**
- ARBP has **reduced its debt position by US\$89mn in Q1 and guides for US\$17mn** ECB repayment in subsequent quarters.

Upgrade to BUY with revised target price of Rs 878

Factoring strong Q1 performance, improved margin outlook of acquired operation in EU and financial deleveraging, we raise our FY15/FY16 earnings estimates by 19.1%/10.5% to Rs 45.3/54.5, respectively. Also seeing the focused debt reduction and improved return ratios (FY15/FY16 ROE 26.1%/24.2%), we raise the valuation multiple to 16x and value ARBP at Rs 878 (from earlier Rs 640 at 13x FY16), implying an upside of 21%. Hence, **we upgrade our rating on ARBP to BUY with a revised target price of Rs 878.**

Upgrade to BUY

ARBP IN | CMP RS 721

TARGET RS 878 (+21%)

Company Data

O/S SHARES (MN) :	291
MARKET CAP (RSBN) :	210
MARKET CAP (USDBN) :	3.4
52 - WK HI/LO (RS) :	787 / 476
LIQUIDITY 3M (USDMN) :	23.4
FACE VALUE (RS) :	1

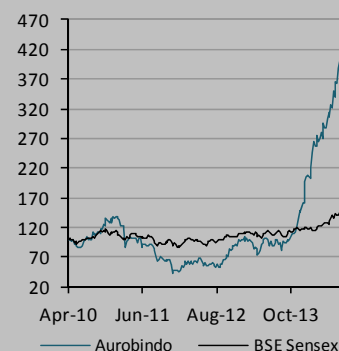
Share Holding Pattern, %

PROMOTERS :	54.6
FII / NRI :	24.0
FI / MF :	9.9
NON PROMOTER CORP. HOLDINGS :	2.1
PUBLIC & OTHERS :	9.4

Price Performance, %

	1mth	3mth	1yr
ABS	-1.6	21.2	348.0
REL TO BSE	-0.6	7.9	313.2

Price Vs. Sensex (Rebased values)



Source: Bloomberg, Phillip Capital Research

Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	80,998	117,689	133,510
EBIDTA	21,328	22,008	26,034
Net Profit	13,922	13,195	15,852
EPS, Rs	47.8	45.3	54.5
PER, x	15.1	15.9	13.3
EV/EBIDTA, x	11.5	11.1	9.2
P/BV, x	5.6	4.1	3.2
ROE, %	31.2	26.1	24.2
Debt/Equity (%)	100.4	71.9	52.4

Source: Phillip Capital India Research

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Q1FY15 Results at a glance

(Rs mn)	Q1FY15	Q1FY14	YoY%	FY14
Total Income	29111	17156	69.7	80998
Adjusted RM cost	13806	8913	54.9	36060
% of sales	47.4	52.0		44.5
Gross Profit	15304	8243	85.7	44938
Gross Margin%	52.6	48.0		55.5
Employee Expenses	3084	1889	63.2	8319
% of sales	10.6	11.0		
Other Expenses	5639	3277	72.1	15290
% of sales	19.4	19.1		18.9
Total operating expenditure	22529	14079	60.0	59670
% of sales	77.4	82.1		73.7
Operating profit	6582	3077	113.9	21328
OPM (%)	22.6	17.9		26.3
Other Income	108	39		232.4
Interest	189	254	-25.8	1079
Forex (Gain)/ Loss	-14	1724		2031
Depreciation	908	719	26.3	3125
PBT	5607	419	1237.9	15325
Core PBT ex forex	5593	2143	161.0	17356
Total tax	1464	245		3635
Tax rate (%)	26.2	11.4		20.9
PAT	4143	175	2272.7	11691
Minority Interest	-11.6	-11.4		-37.8
Reported profit	4154	186	2133.5	11729
Net profit margin (%)	14.3	1.1		14.5
Core PAT	4150	1683	146.6	13749
Core EPS	14.2	5.8	146.6	47.2

Source: Company, PhillipCapital India Research

Segmental Revenue Break-up:

(Rs mn)	Q1FY15	Q1FY14	YoY%	FY14
Formulations				
USA(\$ mn)	186	112	66.1	566
USA	11157	6248	78.6	34028
Europe	7982	1739	359.0	6721
ROW	1369	1100	24.5	4634
ARV	2242	1918	16.9	8402
Total Formulations	22750	11005	106.7	53785
% of sales	77.2	62.9		65.1
APIs				
SSP	2385	2222	7.3	9778
Cephalosporins	2120	2163	-2.0	8754
ARVs & Others	2198	2084	5.5	10110
Total APIs	6703	6469	3.6	28642
% of sales	22.7	37.0		34.7
Dossier sales	18	30	-39.6	165
Gross Sales	29471	17504	68.4	82592

Source: Company, PhillipCapital India Research

Change in Estimates

Revision in estimates Fig. Rs mn	Old Est.		Revised Est.		% Revision	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Revenue	115.1	130.4	117.7	133.5	2.3	2.4
EBITDA	18.5	23.0	22.0	26.0	18.8	13.4
EBITDA Margin%	16.1	17.6	18.7	19.5		
Core PAT	11.1	14.3	13.2	15.9	19.1	10.5
EPS (Rs)	38.1	49.3	45.3	54.5	19.1	10.5

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Net sales	58,553	80,998	117,689	133,510
Growth, %	27	38	45	13
Total income	58,553	80,998	117,689	133,510
Raw material expenses	-29,908	-36,060	-59,315	-66,755
Employee expenses	-6,633	-8,319	-12,828	-14,419
Other Operating expenses	-13,122	-15,290	-23,538	-26,301
EBITDA (Core)	8,891	21,328	22,008	26,034
Growth, %	45.7	139.9	3.2	18.3
Margin, %	15.2	26.3	18.7	19.5
Depreciation	-2,487	-3,125	-3,221	-3,790
EBIT	6,403	18,203	18,787	22,245
Growth, %	56.3	184.3	3.2	18.4
Margin, %	10.9	22.5	16.0	16.7
Interest paid	-1,313	-1,079	-1,406	-1,323
Other Non-Operating Income	285	232	279	307
Non-recurring Items	0	0	0	0
Pre-tax profit	3,741	15,325	17,660	21,229
Tax provided	-827	-3,635	-4,415	-5,307
Profit after tax	2,914	11,691	13,245	15,922
Others (Minorities, Associates)	25	38	-50	-70
Net Profit	2,939	11,729	13,195	15,852
Growth, %	62.6	221.9	(5.2)	20.1
Net Profit (adjusted)	4,325	13,922	13,195	15,852
Unadj. shares (m)	291	291	291	291
Wtd avg shares (m)	291	291	291	291

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	2,085	1,786	3,098	5,606
Debtors	15,970	26,366	35,961	40,795
Inventory	19,236	23,675	34,326	38,940
Loans & advances	5,749	11,662	7,061	6,675
Other current assets	943	712	743	743
Total current assets	43,982	64,201	81,189	92,759
Investments	224	198	198	198
Gross fixed assets	37,635	41,830	48,584	55,042
Less: Depreciation	-11,246	-14,613	-17,834	-21,623
Add: Capital WIP	2,185	3,097	3,500	3,500
Net fixed assets	28,574	30,314	34,251	36,919
Total assets	72,780	94,713	115,637	129,876
Current liabilities	11,576	17,170	27,668	29,159
Total current liabilities	11,576	17,170	27,668	29,159
Non-current liabilities	35,035	39,746	37,081	35,009
Total liabilities	46,611	56,915	64,750	64,168
Paid-up capital	291	292	292	292
Reserves & surplus	25,767	37,250	50,340	65,160
Shareholders' equity	26,167	37,797	50,887	65,707
Total equity & liabilities	72,778	94,713	115,637	129,876

Cash Flow

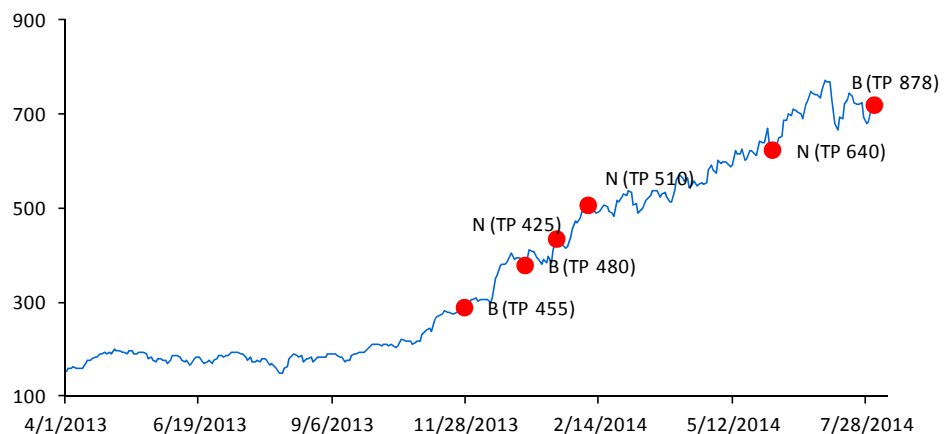
Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	3,741	15,325	17,660	21,229
Depreciation	2,487	3,125	3,221	3,790
Chg in working capital	-5,374	-14,925	-5,176	-7,573
Total tax paid	-131	-2,260	-5,779	-5,297
Cash flow from operating activities	724	1,266	9,925	12,149
Capital expenditure	-2,661	-4,865	-7,158	-6,458
Chg in investments	161	26	0	0
Cash flow from investing activities	-2,499	-4,839	-7,158	-6,458
Free cash flow	-2,451	-5,178	-4,082	0
Debt raised/(repaid)	3,395	3,337	1,300	-2,082
Dividend (incl. tax)	-509	-1,023	-1,021	-1,021
Cash flow from financing activities	3,150	2,534	-2,372	-2,683
Net chg in cash	1,374	-1,040	396	3,008

Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
Per Share data				
EPS (INR)	14.9	47.8	45.3	54.5
Growth, %	62.6	221.9	(5.2)	20.1
Book NAV/share (INR)	89.5	129.0	174.0	224.9
FDEPS (INR)	14.9	47.8	45.3	54.5
CEPS (INR)	23.4	58.6	56.4	67.5
CFPS (INR)	1.5	3.6	33.1	40.7
DPS (INR)	1.5	3.0	3.0	3.0
Return ratios				
Return on assets (%)	5.6	14.8	13.4	13.7
Return on equity (%)	11.3	31.2	26.1	24.2
Return on capital employed (%)	10.9	23.8	21.7	22.4
Turnover ratios				
Asset turnover (x)	1.0	1.2	1.5	1.5
Sales/Total assets (x)	0.9	1.0	1.1	1.1
Sales/Net FA (x)	2.1	2.8	3.6	3.8
Working capital/Sales (x)	0.5	0.6	0.4	0.4
Receivable days	99.6	118.8	111.5	111.5
Inventory days	119.9	106.7	106.5	106.5
Working capital days	189.0	203.9	156.4	158.6
Liquidity ratios				
Current ratio (x)	3.8	3.7	2.9	3.2
Quick ratio (x)	2.1	2.4	1.7	1.8
Interest cover (x)	4.9	16.9	13.4	16.8
Dividend cover (x)	9.9	15.9	15.1	18.2
Total debt/Equity (%)	131.8	100.4	71.9	52.4
Net debt/Equity (%)	123.8	95.6	65.8	43.9
Valuation				
PER (x)	48.6	15.1	15.9	13.3
PEG (x) - y-o-y growth	0.8	0.1	(3.0)	0.7
Price/Book (x)	8.1	5.6	4.1	3.2
Yield (%)	0.2	0.4	0.4	0.4
EV/Net sales (x)	4.1	3.0	2.1	1.8
EV/EBITDA (x)	27.3	11.5	11.1	9.2
EV/EBIT (x)	37.9	13.5	13.0	10.7

Source: Company, PhillipCapital India Research Estimates

Recommendation History



Source: PhillipCapital India Research

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