

# Aurobindo Pharma (ARBP IN)

## Foresee value progress in US/EU

### INDIA | PHARMACEUTICALS | Quarterly Update

9 November 2015

#### Top takeaways from Q2FY16

- ✓ US sales maintained growth momentum (+26% yoy to US\$ 224mn vs. estimated US\$ 227mn) on incremental traction from new launches.
- ✓ Its US injectable subsidiary, Aurolife, reported muted sales of US\$ 10mn due to modification in facility. However, it maintained robust 50% growth guidance for FY16.
- ✓ ARBP has a Target Action Date (TAD) for 33 ANDAs that it expects to launch over the next 15-18 months.

**Key highlights:** Revenues up 16% yoy led by strong 20% rise in US generics and 95% jump in ARV sales. However, EU sales remained flat on adverse currency movement. Margin expanded by 120bps yoy to 23.3% on improved product mix and strong US performance. Following sturdy sales and operating performance, PAT grew +15% yoy, which was in line with our estimates.

#### Conference call takeaways

- ✓ ARBP received 20 ANDA approvals in YTD (highest compare to its peers) and important launches are scheduled in H2 (Aripiprazole, Memantine, Raloxifene). Additionally, the management expects a few big-ticket injectable approvals in H2 – ergo, it expects stronger US sales in H2 vs. H1.
- ✓ It has already built a strong products portfolio (168 pending ANDAs covering niche drug opportunities in hormones, oncology, penems). While its strong pipeline (33 TADs and >40 injectable ANDAs) will drive near-term US growth, its fillings in the complex space of microspheres, liposomal, and peptides would drive long-term value.
- ✓ ARBP expects sequential operational performance of its European business to improve and breakeven in FY16. In Q2, it transferred 12 EU products to its Indian facility (15 so far). It has already commissioned its greenfield API facility in Vizag and sees its formulation facility commissioning in the next 2-3 months. It targets commercial supply of drugs from its new facilities in the EU market by mid FY17 and therefore guides for strong profitable growth in EU operations ahead.

**Outlook and valuation:** ARBP's Q2 was in line with our expectation. Hence, we retain our estimates for FY16/17 and continue to value the company at Rs 940 (22x FY17 earnings). With ARBP's continued growth momentum in the US, earning CAGR of >20% over FY15-17, and improved profitability in its European business, we maintain our BUY recommendation.

## BUY (Maintain)

CMP RS 856 / TARGET RS 940 (+10%)

#### COMPANY DATA

O/S SHARES (MN) :	584
MARKET CAP (RSBN) :	479
MARKET CAP (USDBN) :	7.3
52 - WK HI/LO (RS) :	681 / 799
LIQUIDITY 3M (USDMN) :	24.2
PAR VALUE (RS) :	1

#### SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	53.9	54.0	54.1
FII / NRI :	30.1	30.1	30.2
FI / MF :	6.3	6.2	6.5
NON PRO :	3.1	2.9	2.5
PUBLIC & OTHERS :	7.3	7.3	7.2

#### Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	121,205	146,065	161,473
EBIDTA	25,636	33,887	39,399
Net Profit	16,422	20,877	24,714
EPS, Rs	28.2	35.9	42.5
PER, x	30.3	23.9	20.2
EV/EBIDTA, x	21.0	16.0	13.4
ROE, %	30.6	28.9	25.9
Debt/Equity (%)	86.3	66.7	38.4
BLM Cons EPS, Rs	27.0	35.1	43.1

#### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	146.1	161.5	0.0	0.0
EBITDA	33.9	39.4	0.0	0.0
Core PAT	20.9	24.7	0.0	-0.2
EPS (Rs)	35.9	42.5	0.0	-0.2

Surya Patra &amp; Mehul Sheth

(Rs mn)	Q2FY16	Q1FY16	qoq Ch %	Q2FY15	yoy Ch %	vs. expect. %	Comments
US (\$ mn)	224	225	-0.7	194	15.5	-1.4	Incremental revenue from new launches and sustained mature
<b>US</b>	14,775	14,295	3.4	11,743	25.8	-1.4	portfolio
Europe	7,643	7,417	3.0	7,665	-0.3	0.0	
ARV	2,708	2,953	-8.3	1,389	95.0	-1.5	
APIs	6,911	7,230	-4.4	6,850	0.9	-1.3	
<b>Net Sales</b>	<b>33,335</b>	<b>33,204</b>	0.4	<b>28,812</b>	15.7	-2.7	US and strong ARV tender sales helped overall sales growth
RM cost	14,690	15,078		12,647			
<b>Gross Profit</b>	<b>18,645</b>	<b>18,125</b>	2.9	<b>16,165</b>	15.3	-0.7	
Gross Profit margin	55.9	54.6		56.1			
<b>EBITDA</b>	<b>7,756</b>	<b>7,247</b>	7.0	<b>6,372</b>	21.7	2.8	Better business mix helped margin expansion
EBITDA margin	23.3	21.8		22.1		123bps	
<b>PBT</b>	<b>6,125</b>	<b>6,182</b>	-0.9	<b>5,117</b>	19.7	-8.4	
Tax rate (%)	26.5	30.2		27.4			
Forex loss/(Gain)/ EO Loss	579	256		420			
<b>Reported PAT</b>	<b>4,518</b>	<b>4,324</b>	4.5	<b>3,722</b>	21.4	-4.9	
<b>Core PAT</b>	<b>4,707</b>	<b>4,514</b>	4.3	<b>4,097</b>	14.9	0.5	Strong sales and operating performance helped PAT growth
<b>EPS (Rs)</b>	<b>8.07</b>	<b>7.74</b>	4.3	<b>7.03</b>	14.9	0.5	

**Q2FY16 results at a glance**

(Rs mn)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	QoQ (%)	YoY (%)
<b>Total Income</b>	<b>29,111</b>	<b>28,812</b>	<b>31,662</b>	<b>31,621</b>	<b>33,204</b>	<b>33,335</b>	0.4	15.7
Adjusted RM cost	13,806	12,647	15,385	13,736	15,078	14,690	-2.6	16.2
% of sales	47.4	43.9	48.6	43.4	45.4	44.1		
Gross Profit	15,304	16,165	16,276	17,885	18,125	18,645	2.9	15.3
Gross Margin%	52.6	56.1	51.4	56.6	54.6	55.9		
Employee Expenses	3,084	3,370	3,680	3,733	3,651	3,759	3.0	11.6
% of sales	10.6	11.7	11.6	11.8	11.0	11.3		
Other Expenses	5,639	6,424	6,474	7,591	7,228	7,129	-1.4	11.0
% of sales	19.4	22.3	20.4	24.0	21.8	21.4		
Total operating expenditure	6,582	6,372	6,122	6,561	7,247	7,756	7.0	21.7
% of sales	22.6	22.1	19.3	20.7	21.8	23.3		
<b>Operating profit</b>	<b>6,582</b>	<b>6,372</b>	<b>6,122</b>	<b>6,561</b>	<b>7,247</b>	<b>7,756</b>	7.0	21.7
OPM (%)	22.6	22.1	19.3	20.7	21.8	23.3		
<b>Other Income</b>	<b>108</b>	<b>273</b>	<b>359</b>	<b>67</b>	<b>291</b>	<b>117</b>		
Interest	189	210	219	226	209	241		
Forex (Gain)/ Loss	(14)	420	202	(12)	256	579		
Depreciation	908	899	673	847	891	928		
PBT	5,607	5,117	5,387	5,568	6,182	6,125		
Core PBT ex forex	5,593	5,537	5,589	5,556	6,438	6,704	4.1	21.1
Total tax	1,464	1,404	1,563	1,534	1,865	1,622		
Tax rate (%)	26.1	27.4	29.0	27.6	30.2	26.5		
<b>PAT</b>	<b>4,143</b>	<b>3,712</b>	<b>3,824</b>	<b>4,034</b>	<b>4,317</b>	<b>4,503</b>	4.3	21.3
Minority Interest	(12)	(10)	(20)	(5)	(8)	(15)		
<b>Reported profit</b>	<b>4,154</b>	<b>3,722</b>	<b>3,844</b>	<b>4,038</b>	<b>4,324</b>	<b>4,518</b>	4.5	21.4
Net profit margin (%)	14.3	12.9	12.1	12.8	13.0	13.6		
<b>Core PAT</b>	<b>4,139</b>	<b>4,097</b>	<b>3,988</b>	<b>4,060</b>	<b>4,514</b>	<b>4,707</b>	4.3	14.9
<b>Core EPS</b>	<b>7.11</b>	<b>7.03</b>	<b>6.84</b>	<b>6.96</b>	<b>7.74</b>	<b>8.07</b>	4.3	14.9

Source: Company, PhillipCapital India Research

**Segmental revenue breakup**

(Rs mn)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	QoQ (%)	YoY (%)
<b>Formulations</b>								
USA(\$ mn)	186	194	191	214	225	224	-0.7	15.5
USA	11,157	11,743	12,012	13,405	14,295	14,775	3.4	25.8
Europe	7,982	7,665	8,609	7,691	7,417	7,643	3.0	-0.3
ROW	1,369	1,568	1,338	1,408	1,706	1,680	-1.5	7.1
ARV	2,242	1,389	3,338	2,670	2,953	2,708	-8.3	95.0
<b>Total Formulations</b>	<b>22,750</b>	<b>22,365</b>	<b>25,297</b>	<b>25,174</b>	<b>26,371</b>	<b>26,806</b>	1.6	19.9
% of sales	77.2	76.5	78.9	78.7	78.5	79.5		
<b>APIs</b>								
SSP	2,385	2,152	2,055	2,048	2,165	1,981	-8.5	-7.9
Cephalosporins	2,120	2,348	2,472	2,360	2,614	2,294	-12.2	-2.3
ARVs & Others	2,198	2,350	2,217	2,357	2,451	2,636	7.5	12.2
Total APIs	<b>6,703</b>	<b>6,850</b>	<b>6,744</b>	<b>6,765</b>	<b>7,230</b>	<b>6,911</b>	-4.4	0.9
% of sales	22.7	23.4	21.0	21.2	21.5	20.5		
Dossier sales	18	3	21	35	-	9		
<b>Gross Sales</b>	<b>29,471</b>	<b>29,218</b>	<b>32,062</b>	<b>31,974</b>	<b>33,601</b>	<b>33,726</b>	0.4	15.4

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
<b>Net sales</b>	<b>121,205</b>	<b>146,065</b>	<b>161,473</b>	<b>182,021</b>
Growth, %	50	21	11	13
Total income	121,205	146,065	161,473	182,021
Raw material expenses	-55,056	-66,606	-72,824	-81,363
Employee expenses	-13,023	-15,629	-16,955	-18,748
Other Operating expenses	-27,490	-29,943	-32,295	-35,494
<b>EBITDA (Core)</b>	<b>25,636</b>	<b>33,887</b>	<b>39,399</b>	<b>46,415</b>
Growth, %	20.2	32.2	16.3	17.8
Margin, %	21.2	23.2	24.4	25.5
Depreciation	-3,326	-4,154	-4,963	-5,775
<b>EBIT</b>	<b>22,310</b>	<b>29,733</b>	<b>34,437</b>	<b>40,641</b>
Growth, %	22.6	33.3	15.8	18.0
Margin, %	18.4	20.4	21.3	22.3
Interest paid	-843	-1,006	-822	-879
Other Non-Operating Income	967	1,169	1,292	1,456
Non-recurring Items	0	0	0	0
<b>Pre-tax profit</b>	<b>21,678</b>	<b>29,896</b>	<b>34,906</b>	<b>41,218</b>
Tax provided	-5,966	-8,969	-10,123	-11,541
<b>Profit after tax</b>	<b>15,712</b>	<b>20,927</b>	<b>24,784</b>	<b>29,677</b>
Others (Minorities, Associates)	45	-50	-70	-100
<b>Net Profit</b>	<b>15,757</b>	<b>20,877</b>	<b>24,714</b>	<b>29,577</b>
Growth, %	18.0	27.1	18.4	19.7
<b>Net Profit (adjusted)</b>	<b>16,422</b>	<b>20,877</b>	<b>24,714</b>	<b>29,577</b>
Unadj. shares (m)	582	582	582	582
Wtd avg shares (m)	582	582	582	582

### Balance Sheet

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Cash & bank	4,691	3,989	5,373	20,639
Debtors	35,392	44,631	49,339	56,123
Inventory	36,113	45,442	49,339	55,618
Loans & advances	10,237	10,225	9,688	10,921
Other current assets	1,214	743	743	743
Total current assets	87,647	105,029	114,482	144,044
Investments	198	198	198	198
Gross fixed assets	54,461	61,095	68,928	76,996
Less: Depreciation	-17,405	-21,559	-26,522	-32,297
Add: Capital WIP	4,196	8,000	10,000	10,000
Net fixed assets	41,253	47,536	52,406	54,699
<b>Total assets</b>	<b>129,145</b>	<b>152,763</b>	<b>167,086</b>	<b>198,941</b>
Current liabilities	30,712	31,324	34,082	38,110
Total current liabilities	30,712	31,324	34,082	38,110
Non-current liabilities	46,616	48,924	37,313	37,100
Total liabilities	77,328	80,248	71,395	75,211
Paid-up capital	292	292	292	292
Reserves & surplus	51,267	71,964	95,141	123,180
Shareholders' equity	51,816	72,514	95,690	123,729
<b>Total equity &amp; liabilities</b>	<b>129,145</b>	<b>152,763</b>	<b>167,086</b>	<b>198,941</b>

Source: Company, PhillipCapital India Research Estimates

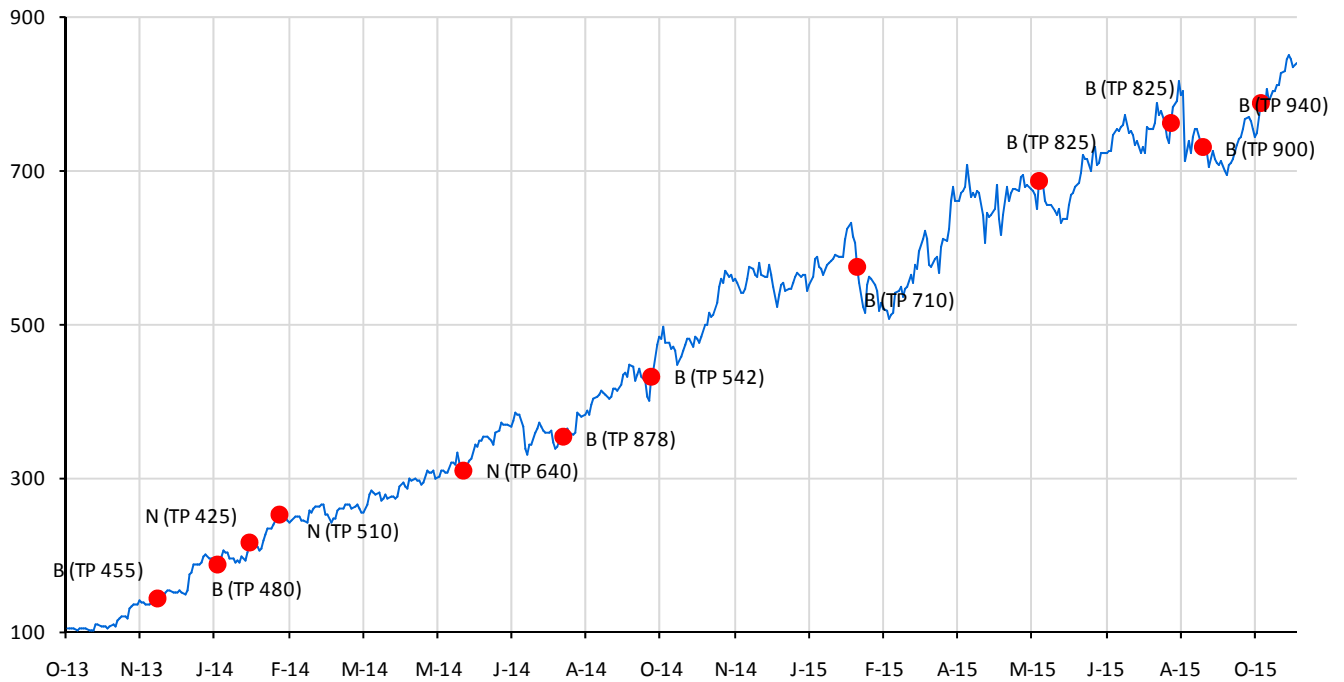
### Cash Flow

	FY15	FY16e	FY17e	FY18e
Pre-tax profit	21,678	29,896	34,906	41,218
Depreciation	3,326	4,154	4,963	5,775
Chg in working capital	-6,998	-17,473	-5,310	-10,268
Total tax paid	-5,962	-10,327	-10,123	-11,541
<b>Cash flow from operating activities</b>	<b>12,044</b>	<b>6,251</b>	<b>24,436</b>	<b>25,184</b>
Capital expenditure	-14,265	-10,438	-9,833	-8,068
Chg in investments	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-14,265</b>	<b>-10,438</b>	<b>-9,833</b>	<b>-8,068</b>
Free cash flow	-1,646	-2,879	14,534	17,016
Debt raised/(repaid)	6,819	3,714	-11,611	-213
Dividend (incl. tax)	-1,563	-1,537	-1,537	-1,537
<b>Cash flow from financing activities</b>	<b>5,370</b>	<b>3,484</b>	<b>-13,219</b>	<b>-1,840</b>
Net chg in cash	3,149	-703	1,385	15,276

### Valuation Ratios

	FY15	FY16e	FY17e	FY18e
<b>Per Share data</b>				
EPS (INR)	28.2	35.9	42.5	50.8
Growth, %	18.0	27.1	18.4	19.7
Book NAV/share (INR)	88.6	124.2	164.0	212.2
FDEPS (INR)	28.2	35.9	42.5	50.8
CEPS (INR)	33.9	43.0	51.0	60.7
CFPS (INR)	19.0	8.7	39.8	40.8
DPS (INR)	2.3	2.3	2.3	2.3
<b>Return ratios</b>				
Return on assets (%)	14.5	15.3	15.8	16.5
Return on equity (%)	30.6	28.9	25.9	24.0
Return on capital employed (%)	23.6	25.4	26.9	26.2
<b>Turnover ratios</b>				
Asset turnover (x)	1.4	1.4	1.3	1.4
Sales/Total assets (x)	1.1	1.0	1.0	1.0
Sales/Net FA (x)	3.4	3.3	3.2	3.4
Working capital/Sales (x)	0.4	0.5	0.5	0.5
Receivable days	106.6	111.5	111.5	112.5
Inventory days	108.8	113.6	111.5	111.5
Working capital days	157.3	174.2	169.6	171.0
<b>Liquidity ratios</b>				
Current ratio (x)	2.9	3.4	3.4	3.8
Quick ratio (x)	1.7	1.9	1.9	2.3
Interest cover (x)	26.5	29.6	41.9	46.2
Dividend cover (x)	12.5	15.9	18.8	22.5
Total debt/Equity (%)	86.3	66.7	38.4	29.5
Net debt/Equity (%)	77.2	61.2	32.7	12.8
<b>Valuation</b>				
PER (x)	30.3	23.9	20.2	16.8
PEG (x) - y-o-y growth	1.7	0.9	1.1	0.9
Price/Book (x)	9.7	6.9	5.2	4.0
Yield (%)	0.3	0.3	0.1	0.0
EV/Net sales (x)	4.4	3.7	3.3	2.8
EV/EBITDA (x)	21.0	16.0	13.4	11.1
EV/EBIT (x)	24.1	18.2	15.4	12.6

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

**Management**

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