

US back on growth track

8th February 2019

CMP: Rs.761
Target: Rs 782
Recommendation: Neutral

Stock Info

BSE Group	A
BSE Code	524804
NSE Symbol	AUROPHARMA
Bloomberg	ARBP.IN
Reuters	AARB.N.BO
BSE Sensex	36,501
NSE Nifty	10,933

Market Info

Market Capital	Rs. 46,635,cr
Equity Capital	Rs.58.59 cr
Avg. Trading Vol.	3,612,746
52 Wk High/ Low	830/527
Face Value	Rs.1

Shareholding Pattern(%) (Dec 2018)

Promoters	51.87
Domestic Institutions	14.44
Foreign Institutions	20.07
Public & Others	13.62

Price Vs Sensex Chart



Q3FY19 Highlights:

- Revenue from Operations stood at INR 5,269 Cr, witnessed a strong growth of 21.5% over corresponding previous period.
- US formulation sales stood at INR 2,433 Cr vs INR 1,909 Cr in Q3FY18, registering a robust growth of 27.4% YoY.
- Europe formulation sales stood at INR 1,292.8 Cr, an increase of 10.3% against Q3 last year.
- Growth Markets posted a strong growth of 36.1% YoY to INR 340.5 Cr.
- ARV sales stood at INR 281.3 Cr vs. INR 238.9 Cr, an increase of 17.8% over corresponding previous period.
- API sales witnessed a healthy growth of 20.4% YoY to INR 921.7 Cr.
- EBIDTA before Forex and Other income stood at INR 1,086.4 Cr vs INR 1,025.6 Cr in Q3 last year, grew by 5.9%; EBITDA margin for the quarter was at 20.6% compared to 21.6% sequentially.
- Net Profit after JV share, minority interest stood at INR 712.2 Cr as against INR 595.0 Cr in the corresponding previous period, witnessing a growth of 19.7% YoY.
- Formulation sales for the quarter increased by 21.8% YoY to INR 4,347.8 Cr and accounted for 82.5% of total revenues.
- API business posted a growth of 20.4% to INR 921.7 Cr and contributed 17.5% of the total revenue during the quarter. The growth was on the back of increase in Non-Betalactum segment. The company filed 1 DMFs with USFDA during the quarter taking total DMFs filing to 236 as on 31st Dec 2018.

Outlook & Valuation:

Focus will be on growing the injectable portfolio. Unit IV which is mainly for the injectable manufacturing received observation from the regulators, however company has responded to the query and waiting for the response. This is bit of a concern. Net debt has increased on QoQ basis mainly due to acquisitions. Pricing pressure in the generic portfolio is stable as of now. Europe has done well and will continue to outperform the industry. Recent acquisition, product pipeline and execution strength to drive growth. At CMP of 778 the stock is trading at 18x PE of our FY20E EPS of Rs 44. We remain Neutral on the stock with a target of Rs 782, valuing the stock at 17x PE of FY20E EPS of Rs 46.

Financial Snapshot:

Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Revenue	16,500	17,585	20,843
EBIDTA	3,789	3,552	4,314
EBIDTA Margin	23%	20%	21%
PAT	2,440	2,195	2,711
Growth (%)	6%	-10%	24%
EPS	42	37	46
P/E	19	21	17

Conference Call and Business Highlight:**US price erosion to stable**

- US price erosion was flat compared to an erosion of 2% last quarter and management expects it to be similar going ahead.

Formulations

- Sales of formulations or generic drugs, which contributes 82% of Aurobindo Pharma's total revenue, grew 21.8 percent to Rs 4,347.8 crore in Q3FY19, compared with Rs 3,570.2 crore in the year-ago period.

Fillings

- During the third quarter, the company filed 10 abbreviated new drug applications (ANDAs) with the USFDA including four ANDAs for injectable products. The company received final approval for 14 ANDAs and tentative approval for one ANDA.

Injectables

- Injectables has runrate of \$210 mn and company expects it to increase on back of new products.

Net Debt

- Net debt has increased to \$558.6 Mn (Rs 3897 crore) up from \$551 Mn (Rs 3996 crore).
- Management expects to reduce debt by \$50 Mn by FY19.

Gross Margins

- Gross margins were down 240 basis point due to change in product mix.

Other Highlights

- US now contributes 46% to the total revenue compared to 44% QoQ.
- R&D stood at Rs 254 Crore or 4.8% of revenue.
- FCF stands at \$10Mn.
- Sandoz deal to be approved in H2 FY20.
- Constructing facility in china which will take around 12 months and then 2 years for the products to commercialize. As the local facilities receives faster approvals management will file products from the china facility.
- Top 25 products contributes 40% to the revenue.
- For the ARV business company is winning tenders and this would reflect in their margins. More tenders to open in June and July.
- Unit IV have received couple of observations, company has made the following changes and are awaiting response from the regulator.
- Execution strength, pipeline evolution and recent acquisitions is expected to drive the future growth

Quarterly Update:

Particulars (Rs. Cr)	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Revenue	5270	4751	4336	22%	11%
COGS	2390	2043	1818	31%	17%
Employee cost	650	625	541	20%	4%
Other expenses	1144	1057	952	20%	8%
EBITDA	1086	1026	1025	6%	6%
EBITDA Margin	21%	22%	24%		
Depreciation	163	164	138	18%	-0.3%
EBIT	923	862	887	4%	7%
EBIT Margin	18%	18%	20%		
Interest	48	35	19	153%	35%
Forex loss	0	40	0		
Other Income	64	26	33	93%	143%
PBT	939	813	902	4%	15%
Tax paid	205	175	307	-33%	17%
Effective tax rate%	22%	22%	34%		
Net Profit	712	611	595	20%	16%
EPS	12	10	10	20%	16%

Profit & Loss Statement			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Revenue	16500	17585	20843
Employee costs	2131	2286	2710
Operation and other expenses	10580	11747	13819
Total Operating Expenses	12711	14033	16528
EBIDTA	3789	3552	4314
EBIDTA Margin	23.0%	20.2%	20.7%
Depreciation	558	668	733
EBIT	3231	2884	3581
Interest	78	80	89
Other Income	102	120	120
Share of joint venture	3	3	3
PBT	3258	2927	3615
Tax	818	732	904
PAT	2440	2195	2711
Growth (%)	6%	-10%	24%
EPS	42	37	46

Cash Flow Statement			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Profit Before taxes	3258	2927	3615
Add:- Depreciation	558	668	733
Change in Working Capital	282	304	789
Cash generated from operations	4098	3899	5137
Taxes paid	-818	-732	-904
Net cash flow from operating activities	3280	3167	4233
Purchase of fixed assets	-1200	-1200	-4700
Others	-118	-118	-118
Net cash flow from investing activities	-1318	-1318	-4818
Dividend paid, including dividend tax	-264	-211	-195
Other	-802	-810	-809
Net cash used in financing activities	-1066	-1021	-1004
Net Cash Flow	896	828	-1589
Opening Cash balance	320	1216	2044
Closing Cash balance	1216	2044	455

Balance Sheet			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Shareholder's funds			
Share Capital	58.59	58.59	58.59
Reserves & Surplus	11622	13606	16123
Total	11680	13665	16181
Total Non Current Liabilities	742	750	750
Total Current Liabilities	8,683	7,774	9,750
Total Liabilities	21,105	22,189	26,681
Net Block	4737	5937	10637
Capital Work-in-Progress	1400	1485	1583
Other Non Current Assets	168	297	367
Total Non Current Assets	8917	9503	13771
Cash and bank balance	1216	2044	455
Total Current Assets	12188	12686	12910
Total Assets	21,105	22,189	26,681

Key Ratios			
Particulars	FY18	FY19E	FY20E
EPS	41.6	37.5	46.3
Book Value Per Share	199	233	276
P/E	18.7	20.8	16.8
EBIDTA Margin	23%	20%	21%
PBT Margin	20%	17%	17%
PAT Margin	15%	12%	13%
Debt/Equity	0.4	0.3	0.3
Current Ratio	1.4	1.6	1.3
ROE	21%	16%	17%
DPS	3.8	3.0	2.8

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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