

Sector: Pharma

BUY

Upside: 16.7%

Stock Data

| | |
|----------------------|------------|
| Sensex: | 27,865 |
| 52 Week h/l (Rs): | 891/ 582 |
| Market cap (Rs Cr) : | 49,775 |
| BSE code: | 524804 |
| NSE code: | AUROPHARMA |
| FV (Rs): | 1 |
| Div yield (%): | 0.3 |

Shareholding Pattern

| | Dec-15 | Mar-16 | Jun-16 |
|-------------|--------|--------|--------|
| Promoters | 50.8 | 50.7 | 53.7 |
| DII+FII | 35.2 | 34.6 | 34.0 |
| Individuals | 10.8 | 11.5 | 12.1 |

Source: www.bseindia.com

Share Price Trend



Prices as on 30/09/2016

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Improving product launch momentum to accelerate US revenues

Aurobindo Pharma (Aurbindo) has a strong portfolio of 403 cumulative ANDA filings in the US as of Q1FY17. Its pending ANDAs stands at 175 (228 already approved). The pace of product launch has been slower compared to approvals over the last year and a half. In FY16 and Q1FY17, the company received 62 product approvals, while it could only launch 35 products (in the US). The Management intends to commercialize 26-27 products during FY17E (19 oral solids and 7-9 injectables) which have an estimated market size of US\$6.8bn. Among the key launches expected in FY17 are Nexium, Linezolid and Vancomycin. We expect improving product launch momentum to enable volume led revenue growth for the company in the US geography. We forecast ~16% CAGR in US revenue over FY16-18E.

Europe business turnaround to drive margins

The company's European business PAT turned positive in FY16 (from losses in FY14, when Actavis' business was taken over). This turnaround was due to shifting of some products' manufacturing to India to bring down costs. The company has cumulatively transferred 36 products till Q1FY17. The European business is ahead of the curve. This in terms of the Management guiding at the business attaining an EBITDA margin of 7%-8% by FY18E. We expect ~269bps improvement in consolidated EBITDA margin over FY16-FY18E to ~25.8%.

US Injectable business to grow significantly

The company's injectable business has grown by ~40% yoy in FY16 led by higher product launches. In FY17E, the Management expects its US injectable business to outpace FY16 growth led by more number of approvals & launches. Moreover, ~27% of the company's pending ANDAs relate to the injectable business. Such robust portfolio should drive the company's growth in the injectable segment in the coming years.

Improving cash flows to strengthen balance sheet

The company has incurred capex towards expanding its capacities in the last 2-3 years. The company's major capex cycle shall end by FY17. The Management has guided for ~Rs1,200cr & ~Rs600cr capex for FY17E & FY18E respectively. We expect the company to generate ~Rs2900cr and ~Rs3,400cr of free cash flows over FY17E & FY18E from ~Rs2,400cr in FY16. We believe improving cash flows over the next few years would aid the company in retiring some of its debts. This will improve its balance sheet.

Outlook & Valuation

We have a positive view on the stock due to 1) its strong US ANDA pipeline and on expectation of product approvals gaining pace 2) turnaround in the European business 3) significant growth potential in injectable business 4) balance sheet de-leveraging due to improving free cash flows. We estimate 21.4% earnings CAGR over FY16-18E. The company trades at an attractive valuation of 17.1x its FY18E earnings. We recommend BUY on the stock with one-year target price of Rs998, based on 20x FY18E earnings.

Financial Summary

| Rs Cr. | FY14 | FY15 | FY16 | FY17E | FY18E |
|---------|-------|--------|--------|--------|--------|
| Revenue | 8,100 | 12,121 | 13,896 | 15,754 | 17,740 |
| EBITDA | 2,135 | 2,564 | 3,206 | 3,847 | 4,570 |
| OPM% | 26.4 | 21.2 | 23.1 | 24.4 | 25.8 |
| PAT | 1,173 | 1,576 | 1,982 | 2,413 | 2,922 |
| EPS Rs | 20.0 | 26.9 | 33.9 | 41.2 | 49.9 |
| P/E (x) | 42.7 | 31.8 | 25.3 | 20.7 | 17.1 |
| ROE % | 31.3 | 30.6 | 28.1 | 26.0 | 24.4 |
| ROCE % | 19.2 | 17.3 | 17.9 | 20.7 | 23.5 |

Recommendation Parameters for Fundamental Reports:

- Buy – Absolute return of over +10%
- Accumulate – Absolute return between 0% to +10%
- Reduce – Absolute return between 0% to -10%
- Sell – Absolute return below -10%

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