

June 15, 2017

Surajit Pal
surajitpal@plindia.com
+91-22-66322259

Rating	BUY
Price	Rs643
Target Price	Rs877
Implied Upside	36.4%
Sensex	31,076
Nifty	9,578

(Prices as on June 15, 2017)

Trading data

Market Cap. (Rs bn)	376.4
Shares o/s (m)	585.2
3M Avg. Daily value (Rs m)	1855.5

Major shareholders

Promoters	51.87%
Foreign	20.99%
Domestic Inst.	12.76%
Public & Other	14.38%

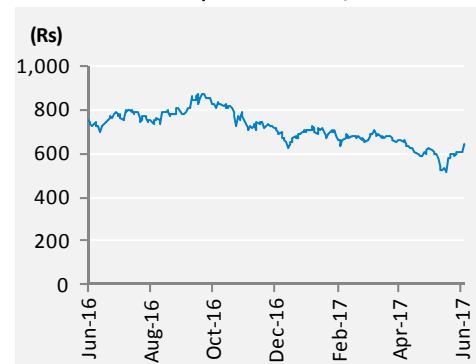
Stock Performance

(%)	1M	6M	12M
Absolute	4.8	(7.4)	(13.4)
Relative	2.3	(24.6)	(29.6)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	43.3	42.6	1.8
2019	48.7	48.5	0.5

Price Performance (RIC: ARBN.BO, BB: ARBP IN)



Source: Bloomberg

■ **Aurobindo first in the race to launch gRenvela:** Aurobindo received and launched oral suspension of gRenvela PFOS (Sevelamer carbonate) today. The drug treats high blood pressure of patient on dialysis due to chronic kidney disease. gRenvela is the first complex product out of Aurobindo's pipeline of complex generics pending approval in the US during FY18E-20E. Being a polymer based drug, Renvela is a complex product with difficulty in characterization of the molecule during manufacturing of API. This has resulted in delay in approvals of Sevelamer generic with first approval granted to Aurobindo.

■ **Complexity in gRenvela to keep competition limited:** The manufacturing difficulty in Sevelamer API to remain a major natural entry barrier, which will lead to limited competition over several years. Lupin and Dr. Reddy's Lab (DRL) is to refile ANDA on gRenvela in FY18E while Torrent withdrew its ANDA and Cadila downgraded its ANDA from para-IV to para-III. Also, there are few filers linked with API from Hetero who will have to refile with new source of API as Hetero has cGMP related issues with FDA. Aurobindo is expected to remain the sole generic in Renvela PFOS in FY18E while we expect only 2-3 generic approvals including Aurobindo in 800mg tablets of Renvela in FY18.

■ We expect Aurobindo's sales in Renvela PFOS to be US\$29m and incremental EPS to be Rs1.9 in FY18E, assuming 30% discount on originator price, 30% Rx share, no generics in FY18E and 90% EBITDA margin

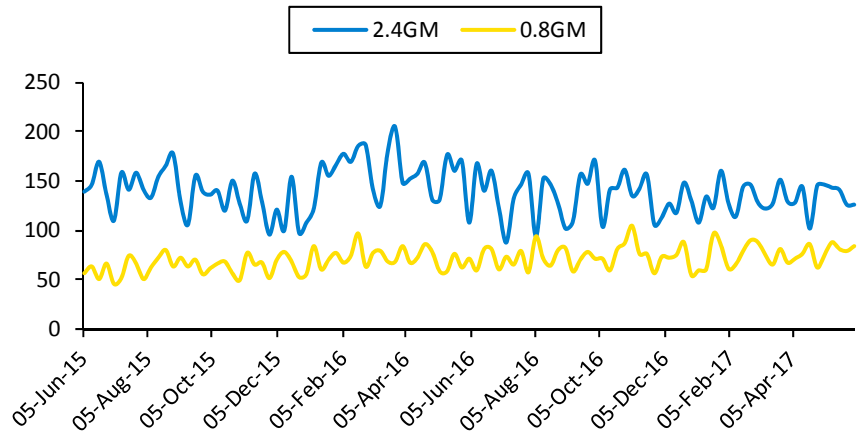
■ With commencement of successful foray into complex generics with the approval of gRenvela, Aurobindo is well placed for further approvals in gRenvela 800mg tabs (mkt size: US\$1.4bn) and launch of four more complex drugs from their portfolio in FY18E. The stock currently trades at 14.7x and 13.1x FY18E and FY19E. We maintain our recommendation 'Buy' and retain TP of Rs877

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	137,098	148,448	161,871	179,167
Growth (%)	13.1	8.3	9.0	10.7
EBITDA (Rs m)	29,426	31,892	35,531	39,954
PAT (Rs m)	21,891	23,017	25,385	28,533
EPS (Rs)	37.4	39.3	43.3	48.7
Growth (%)	33.9	5.0	10.3	12.4
Net DPS (Rs)	4.5	4.5	4.5	4.5

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	21.5	21.5	22.0	22.3
RoE (%)	35.2	27.6	24.9	23.3
RoCE (%)	20.4	18.3	18.6	18.9
EV / sales (x)	3.1	2.7	2.5	2.1
EV / EBITDA (x)	14.2	12.6	11.3	9.6
PE (x)	17.2	16.4	14.8	13.2
P / BV (x)	5.2	4.0	3.4	2.8
Net dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company Data; PL Research

Exhibit 1: Renvela PFOS: Rx share of dosage strengths



Source: PL Research, Bloomberg

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	137,098	148,448	161,871	179,167
Raw Material Expenses	61,621	64,343	70,819	76,952
Gross Profit	75,477	84,105	91,052	102,215
Employee Cost	15,426	17,678	18,615	20,156
Other Expenses	30,624	34,536	36,907	42,104
EBITDA	29,426	31,892	35,531	39,954
Depr. & Amortization	3,924	4,276	4,514	4,971
Net Interest	927	667	579	522
Other Income	4,493	3,610	3,826	4,056
Profit before Tax	29,069	30,558	34,264	38,517
Total Tax	7,207	7,596	8,909	10,014
Profit after Tax	21,862	22,962	25,355	28,503
Ex-Od items / Min. Int.	(1,640)	—	—	—
Adj. PAT	21,891	23,017	25,385	28,533
Avg. Shares O/S (m)	585.2	585.9	585.9	585.9
EPS (Rs.)	37.4	39.3	43.3	48.7

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	17,596	28,815	28,586	36,608
C/F from Investing	(13,801)	(15,583)	(13,394)	(13,392)
C/F from Financing	(201)	(16,082)	(8,240)	(17,011)
Inc. / Dec. in Cash	3,594	(2,851)	6,952	6,206
Opening Cash	4,652	8,246	5,395	12,347
Closing Cash	8,246	5,395	12,347	18,552
FCFF	5,260	26,773	5,380	22,884
FCFE	11,152	14,076	2,808	11,531

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	13.1	8.3	9.0	10.7
EBITDA (%)	14.8	8.4	11.4	12.4
PAT (%)	33.9	5.1	10.3	12.4
EPS (%)	33.9	5.0	10.3	12.4
Profitability				
EBITDA Margin (%)	21.5	21.5	22.0	22.3
PAT Margin (%)	16.0	15.5	15.7	15.9
RoCE (%)	20.4	18.3	18.6	18.9
RoE (%)	35.2	27.6	24.9	23.3
Balance Sheet				
Net Debt : Equity	0.6	0.3	0.2	—
Net Wrkng Cap. (days)	217	173	162	166
Valuation				
PER (x)	17.2	16.4	14.8	13.2
P / B (x)	5.2	4.0	3.4	2.8
EV / EBITDA (x)	14.2	12.6	11.3	9.6
EV / Sales (x)	3.1	2.7	2.5	2.1
Earnings Quality				
Eff. Tax Rate	24.8	24.9	26.0	26.0
Other Inc / PBT	15.5	11.8	11.2	10.5
Eff. Depr. Rate (%)	6.2	5.8	4.7	4.6
FCFE / PAT	50.9	61.2	11.1	40.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	72,873	93,719	109,942	135,389
Total Debt	50,646	37,949	35,376	24,024
Other Liabilities	(1,798)	(1,164)	(2,222)	(3,407)
Total Liabilities	121,721	130,504	143,096	156,006
Net Fixed Assets	50,278	62,919	71,904	80,433
Goodwill	—	—	—	—
Investments	1,230	2,459	2,459	2,459
Net Current Assets	67,525	61,749	64,511	67,836
<i>Cash & Equivalents</i>	<i>8,003</i>	<i>12,523</i>	<i>12,347</i>	<i>18,552</i>
<i>Other Current Assets</i>	<i>94,941</i>	<i>79,538</i>	<i>84,560</i>	<i>91,426</i>
<i>Current Liabilities</i>	<i>35,418</i>	<i>30,313</i>	<i>32,397</i>	<i>42,143</i>
Other Assets	2,688	3,378	4,222	5,278
Total Assets	121,721	130,504	143,096	156,006

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	37,046	37,136	38,445	35,821
EBITDA	8,270	8,673	8,331	6,617
<i>% of revenue</i>	<i>22.3</i>	<i>23.4</i>	<i>21.7</i>	<i>18.5</i>
Depr. & Amortization	1,062	1,102	1,111	1,001
Net Interest	206	175	143	143
Other Income	849	903	854	1,003
Profit before Tax	7,850	8,299	7,932	6,477
Total Tax	2,008	2,240	2,177	1,172
Profit after Tax	5,850	6,056	5,786	5,325
Adj. PAT	5,846	6,026	5,786	5,325

Key Operating Metrics (Rs m)

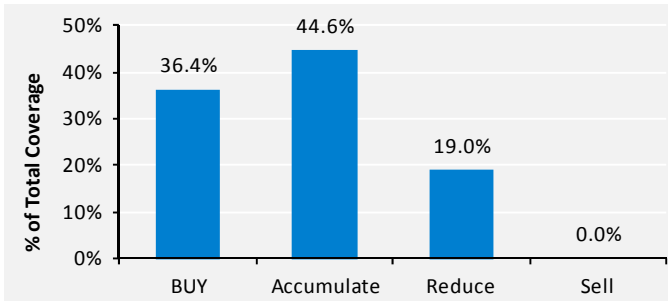
Y/e March	2016	2017	2018E	2019E
US Formulations	61,440	68,272	75,725	86,086
EU & ROW	38,218	40,327	42,271	46,181
ARV formulations	11,999	11,854	13,276	14,604
APIs	28,837	30,420	32,457	34,355

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
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