

# Aurobindo Pharma (AURPHA)

₹ 760

## Acquires Derma + oral solid businesses of Sandoz in the US ...

Aurobindo has entered into an agreement with US based Sandoz Inc. (generics / biosimilars arm of Novartis AG) to acquire its US Dermatology and Oral solid businesses for a consideration of US\$ 900 million. Acquired portfolio comprises of 1) Portfolio of dermatology and oral solids, 2) authorised generics and in-licensed products, branded dermatology products (~US\$ 50 million), 3) three manufacturing facilities at Hicksville - NY (Derma), Melville – NY (Derma) and Wilson- NC (OSD) besides entire holding in Eon Labs Inc., a wholly owned subsidiary of Sandoz. Total number of products in the acquired portfolio are ~ 300. Revenues from this portfolio stood at US\$ 600 million in H1CY18. Segment wise, Dermatology comprises of ~30% while Oral solids comprises of ~70% of the portfolio. Excluding likely expiry of certain in-licensed product contracts and rationalization of some products, the management expects US\$ 900 million of revenues in the first year of acquisition. The transaction will be financed entirely by debt. As per the management, the transaction is expected to be accretive to normalize EPS from the first full year of acquisition. The acquisition is expected to be closed in CY19 following the completion of customary closing conditions, including US FTC clearance.

### Acquisition to strengthen products basket in the US

Post this acquisition, Aurobindo will become the Second largest generic player in the US by number of prescriptions. The company will also become the second largest dermatology player in the US in both generic and branded dermatology products along with specialized manufacturing capabilities in creams, ointments, and other topical dosage forms. Acquisition will add ~300 products including projects in development as well as commercial and manufacturing capabilities in the US, complementing and expanding the group's portfolio and pipeline.

### Despite magnitude of acquisition gearing should be manageable

As per the management, the entire transaction would be financed via debt. Over the last few years the company has successfully managed high debt scenario and acquisitions by consistently generating free cash flows. This time around, despite acquisition size, we believe the Debt / equity ratios to remain at manageable level- 0.6x in FY20E.

### Acquisition to improve scalability with manageable headwinds

The acquisition is at 1x (after adjustment) of sales which is one of the cheapest among recent deals. The reason for the same is the negative growth trajectory the portfolio is witnessing over the last few quarters owing to generic pricing pressure in the US. This deal is also a part of parent Novartis's broader game plan of exiting from non-core generics globally. For Aurobindo, however this augurs well as this offers a footprint in the Derma segment in the US and in a way it fills the portfolio gap especially for derma (generics + branded). There will be significant debt addition nonetheless, but looking at the broader picture of synergy and earlier history of successful acquisitions, we believe the company is well poised to manage this added burden. Aurobindo possesses one of the best enduring ecosystems among peers (vertically integrated model, lower product concentration) to withstand the volatility in the US generics space. We have rolled over our estimates to FY21 to capture the synergy of this deal. We have also upgraded our currency expectations. Accordingly, our new target price arrives at ₹ 915 based on 15x FY21E EPS of ₹ 61.2.

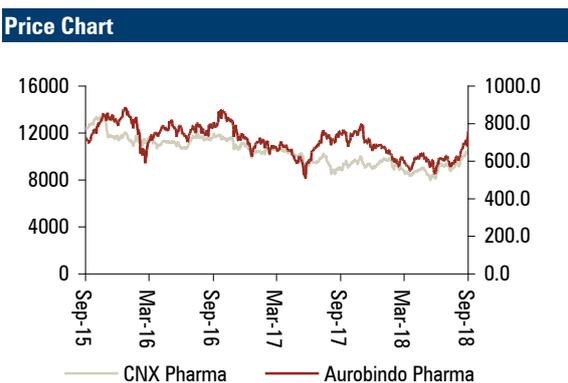
Rating matrix	
Rating	: Buy
Target	: ₹ 915
Target Period	: 12-15 months
Potential Upside	: 20%

What's Changed?	
Target	Changed from ₹ 685 to ₹ 915
EPS FY19E	Changed from ₹ 40.4 to ₹ 42.4
EPS FY20E	Changed from ₹ 45.7 to ₹ 49.9
Rating	Unchanged

Key Financials				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Revenues	16499.8	18439.1	27580.6	30586.1
EBITDA	3771.8	3897.8	5211.7	6056.1
Net Profit	2411.6	2469.4	2906.9	3560.7
Adjusted PAT	2423.2	2469.4	2906.9	3560.7
EPS (₹)	41.4	42.4	49.9	61.2
Adjusted EPS (₹)	41.6	42.4	49.9	61.2

Valuation summary				
	FY18	FY19E	FY20E	FY21E
PE (x)	18.3	17.9	15.2	12.4
Target PE (x)	22.1	21.6	18.3	15.0
EV to EBITDA (x)	12.6	12.3	10.2	8.4
Price to book (x)	3.8	3.2	2.7	2.2
RoNW (%)	20.7	17.7	17.4	17.8
RoCE (%)	20.0	18.3	16.2	18.3

Stock data	
Particular	Amount
Market Capitalisation	₹ 44503 crore
Debt (FY18)	₹ 4634 crore
Cash (FY18)	₹ 665 crore
EV	₹ 48472 crore
52 week H/L (₹)	809/527
Equity capital	₹ 58.6 crore
Face value	₹ 1



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### Change in estimates

(₹ Crore)	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Revenue	18,217.1	18,439.1	1.2	20,572.9	27,580.6	34.1
EBITDA	3,727.8	3,897.8	4.6	4,216.6	5,211.7	23.6
EBITDA Margin (%)	20.5	21.1	64 bps	20.5	18.9	-160 bps
Adj. PAT	2,351.1	2,469.4	5.0	2,659.7	2,906.9	9.3
EPS (₹)	40.4	42.4	5.0	45.7	49.9	9.2

Source: Company, ICICI Direct Research

### Assumptions

(₹ crore)	Current				Earlier	
	FY17	FY18	FY19E	FY20E	FY19E	FY20E
US	6,827.3	7,442.2	8,026.9	15,323.2	8,026.9	8,747.8
Europe	3,277.2	4,354.3	5,615.2	7,033.8	5,479.7	6,728.0
ARV	1,185.3	839.6	649.3	714.3	649.3	714.3
RoW	755.7	897.1	1,013.8	1,165.9	1,013.8	1,165.9
API	3,042.0	2,962.1	3,131.8	3,344.1	3,131.8	3,344.1

Source: Company, ICICI Direct Research

### Exhibit 1: Key Acquisitions

Date	Acquisitions	Consideration
Jan-14	Actavis's Western European operations	€ 30 million
Dec-14	Natrol- US based nutraceuticals branded company	US\$ 132.5 million
Jan-17	Generis Farmaceutica SA in Portugal	€135 million
Feb-17	Four Biosimilar products from TL Biopharmaceutical AG	NA
Jul-18	Apotex's businesses in five European countries (Poland, Czech Republic, the Netherlands, Spain, and Belgium)	€ 74 million
Sep-18	Sandoz US Dermatology and oral solid business	US\$ 900 million

Source: Company, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Revenues	16,499.8	18,439.1	27,580.6	30,586.1	
Growth (%)	19.3	11.8	49.6	10.9	
Raw Material Expenses	6,752.7	7,898.6	12,035.4	13,267.8	
Employee Expenses	2,130.8	2,463.0	3,999.2	4,282.1	
Other Manufacturing Expenses	3,844.5	4,179.7	6,334.3	6,980.1	
Total Operating Expenditure	12,728.1	14,541.3	22,368.9	24,530.0	
EBITDA	3,771.8	3,897.8	5,211.7	6,056.1	
Growth (%)	20.1	3.3	33.7	16.2	
Interest	77.7	168.6	377.1	297.1	
Depreciation	558.0	631.0	1,055.7	1,119.0	
Other Income	102.0	157.3	96.5	107.1	
PBT before Exceptional Items	3,238.0	3,255.5	3,875.5	4,747.1	
Less: Forex & Exceptional Items	11.6	0.0	0.0	0.0	
PBT	3,226.5	3,255.5	3,875.5	4,747.1	
Total Tax	818.3	786.7	968.9	1,186.8	
PAT before MI	2,408.2	2,468.7	2,906.6	3,560.3	
Minority Interest	-0.3	-0.3	-0.3	-0.4	
PAT	2,411.6	2,469.4	2,906.9	3,560.7	
Adjusted PAT	2,423.2	2,469.4	2,906.9	3,560.7	
Growth (%)	22.3	1.9	17.7	22.5	
EPS (Diluted)	41.4	42.4	49.9	61.2	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Equity Capital	58.6	58.6	58.6	58.6	
Reserve and Surplus	11,621.8	13,911.3	16,606.4	19,907.7	
Total Shareholders funds	11,680.4	13,969.9	16,665.0	19,966.3	
Total Debt	4,769.9	4,633.9	9,426.4	7,426.4	
Deferred Tax Liability	235.3	263.5	295.1	330.6	
Minority Interest	1.8	2.0	2.3	2.6	
Long term Provisions	55.9	62.6	70.1	78.5	
Source of Funds	16,743.3	18,932.0	26,459.0	27,804.3	
Gross Block - Fixed Assets	7,078.2	8,528.2	14,170.7	15,020.7	
Accumulated Depreciation	1,374.1	2,005.1	3,060.9	4,179.9	
Net Block	5,704.1	6,523.1	11,109.9	10,840.8	
Capital WIP	1,583.0	1,733.0	1,883.0	2,033.0	
Net Fixed Assets	7,287.2	8,256.1	12,992.9	12,873.9	
Goodwill on Consolidation	816.55	816.55	816.55	816.55	
Investments	311.5	1,311.5	811.5	811.5	
Inventory	5,858.4	6,547.0	9,792.7	10,859.9	
Cash	1,261.6	665.0	374.7	599.1	
Debtors	3,084.4	3,446.9	5,155.7	5,717.6	
Loans & Advances & Other CA	1,983.4	2,180.8	2,397.8	2,636.6	
Total Current Assets	12,187.8	12,839.6	17,721.0	19,813.2	
Creditors	2,627.4	2,936.3	4,391.9	4,870.6	
Provisions & Other CL	1,734.4	1,907.9	2,098.7	2,308.5	
Total Current Liabilities	4,361.9	4,844.1	6,490.6	7,179.1	
Net Current Assets	7,825.9	7,995.4	11,230.4	12,634.1	
LT L&A, Other Assets	343.3	377.7	415.4	457.0	
Deferred Tax Assets	158.8	174.7	192.1	211.4	
Application of Funds	16,743.3	18,932.0	26,459.0	27,804.3	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit/(Loss) after taxation	2,488.8	2,469.4	2,906.9	3,560.7	
Add: Depreciation & Amortization	558.0	631.0	1,055.7	1,119.0	
Net Increase in Current Assets	-1,847.6	-1,248.4	-5,171.6	-1,867.7	
Net Increase in Current Liabilities	778.6	482.3	1,646.5	688.5	
CF from operating activities	1,954.8	2,502.9	814.5	3,797.6	
(Purchase)/Sale of Fixed Assets	-1,906.5	-1,600.0	-5,792.5	-1,000.0	
(Inc)/dec in Investments	-67.8	-1,000.0	500.0	0.0	
Others	97.3	-15.1	-15.9	-16.7	
CF from investing activities	-1,877.0	-2,615.1	-5,308.4	-1,016.7	
Issue of Equity Shares	0.2	0.0	0.0	0.0	
Inc / (Dec) in Debt	1,202.2	-136.0	4,792.5	-2,000.0	
Dividend & Dividend Tax	-264.1	-179.9	-211.8	-259.5	
others	-74.2	-168.6	-377.1	-297.1	
CF from financing activities	864.2	-484.5	4,203.6	-2,556.5	
Net Cash flow	942.0	-596.7	-290.2	224.4	
Opening Cash	319.6	1,261.6	665.0	374.7	
Closing Cash	1,261.6	665.0	374.7	599.1	
Free Cash Flow	48.3	902.9	-4,978.0	2,797.6	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
Adjusted EPS (Diluted)	41.6	42.4	49.9	61.2	
BV per share	200.6	239.9	286.2	342.9	
Dividend per share	3.0	3.1	3.6	4.5	
Cash Per Share	21.7	11.4	6.4	10.3	
Operating Ratios (%)					
Gross Profit Margins	59.1	57.2	56.4	56.6	
EBITDA margins	22.9	21.1	18.9	19.8	
Net Profit margins	14.7	13.4	10.5	11.6	
Inventory days	129.6	129.6	129.6	129.6	
Debtor days	68.2	68.2	68.2	68.2	
Creditor days	58.1	58.1	58.1	58.1	
Asset Turnover	1.0	1.0	1.1	1.1	
EBITDA Conversion Rate	51.8	64.2	15.6	62.7	
Return Ratios (%)					
RoE	20.7	17.7	17.4	17.8	
RoCE	20.0	18.3	16.2	18.3	
RoIC	23.8	20.3	17.5	20.0	
Valuation Ratios (x)					
P/E	18.3	17.9	15.2	12.4	
EV / EBITDA	12.6	12.3	10.2	8.4	
EV / Net Sales	2.9	2.6	1.9	1.7	
Market Cap / Sales	2.7	2.4	1.6	1.4	
Price to Book Value	3.8	3.2	2.7	2.2	
Solvency Ratios					
Debt / Equity	0.4	0.3	0.6	0.4	
Debt / EBITDA	1.3	1.2	1.8	1.2	
Current Ratio	2.5	2.5	2.7	2.7	

Source: Company, ICICI Direct Research

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