Motilal Oswal | MOSt mid-cap Research

9 May 2016

4QFY16 Results Update | Sector: Health Care

Aarti Drugs

BSE SENSEX	S&P CNX
25688	7866

Shares O/s (cr)	2.4
52-W H/L Range (INR)	775/443
1/6/12 Month Performance	6/-15/-33
Market Cap. (INR cr)	1126
Market Cap. (US$ m)	173

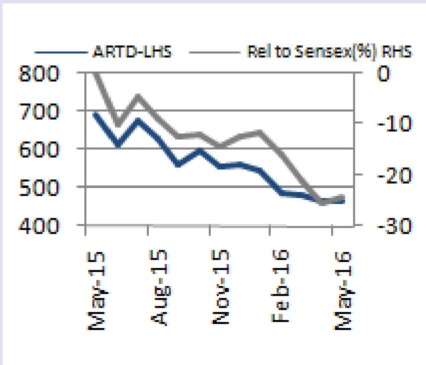
CMP: INR460 TP: INR560 (+22%) BUY

YEAR March	SALES (INRCr)	A.PAT (INRCr)	A.EPS (INR)	A.EPS Gr.(%)	PE (X)	P/BV (X)	EV/ EBITDA(X)	DIV. YLD (%)	ROCE (%)
FY16	1,135	69	28.5	-9%	16	3.1	6.3	1.7%	17%
FY17E	1,293	81	33.4	17%	14	2.8	5.5	2.1%	17%
FY18E	1,479	94	38.9	16%	12	2.4	4.8	2.6%	18%

Results Overview- In-line results; Sales recover; Currency devaluation in LATAM countries impacts competitiveness; Cut FY17/18 est. by 7%

- 4QFY16 results were in-line with our estimates with Revenues, EBITDA and PAT growing at 13%, 7% and 4% respectively. Expanded capacities in metformin in the previous quarter and anti-protozoals in the current quarter resulted in a recovery in sales growth to a 5 quarter high of 13%.
- Lowercrude prices impacted sales to Africa and Middle East. Certain LATAM countries witnessed a steep depreciation in currency which impacted the company's competitiveness in these markets. Currencies of Brazil and Mexico were lower by 36% and 21% respectively in 4QFY16 against the year ago period. This compares to 8% depreciation in INR.
- The company will witness an improvement in topline growth in FY17E when it starts the sale of high value products initially in the anti-diarrheal and anti-diabetic segment viz. metformin and later in anti-biotics. We believe FY17E topline and bottomline growth will recover to 14% and 17% respectively.

INRCr	4QFY15	3QFY16	4QFY16	yoy	qoq	FY15	FY16	yoy
Total Income	278	269	315	13%	17%	1085	1135	5%
Expenditure	235	226	269	14%	19%	918	959	4%
EBITDA	43	43	46	7%	6%	166	176	6%
Other Income	-1	0	0			1	0	-79%
Interest	10	11	12	18%	3%	39	44	13%
Depreciation	8	9	9	16%	1%	31	37	19%
E/O Gain	0	0	0			1	0	-100%
PBT	24	23	25	3%	9%	99	96	-3%
Tax	6	6	6	2%	10%	22	27	18%
PAT	18	17	19	4%	9%	76	69	-10%
EBITDA (%)	15.5%	16.3%	14.6%			15.3%	15.5%	
Tax rate (%)	26%	25%	25%			23%	28%	



Valuation and view

- Aarti Drugs is a high quality proxy play on the pharma industry. The company is climbing higher in the API value chain by selectively expanding into those APIs which are being currently imported and are of higher value.
- We reduce our earnings estimates for the company by 7% each for FY17/18E. Despite this we expect the company to grow its profits at 17% CAGR over FY16-18E.
- We lower our target multiple for Aarti from 18x to 14.4x (at 20% discount to formulation companies) owing to a deceleration in growth and a de-rating in the pharma sector itself, on which the company is a proxy play. We maintain our BUY rating on the stock with a target price of INR 560/share (earlier INR 705).

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