Result Update
13 Feb 2017

Aurobindo Pharma

Maintain Buy with target price of Rs 1054 (previous target Rs 1012)

Current	Previous
CMP : Rs 679	
Rating : BUY	Rating : BUY
Target : Rs 1054	Target : Rs 1012

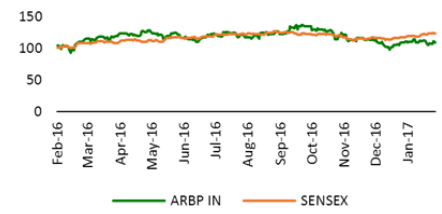
(NR-Not Rated)

STOCK INFO	
INDEX	
BSE	524804
NSE	AUROPHARMA
Bloomberg	ARBP IN
Reuters	ARBN.NS
Sector	Pharma
Face Value (Rs)	1
Equity Capital (Rs mn)	585
Mkt Cap (Rs mn)	397,506
52w H/L (Rs)	895 / 582
Avg Daily Vol (BSE+NSE)	2,174,810

STOCK PERFORMANCE(%)	3m	6m	12m
ARBP IN Equity	(14.3)	(8.9)	(1.7)
SENSEX	3.0	2.0	19.3

Source: Bloomberg, IndiaNivesh Research

ARBP IN Equity v/s SENSEX



Source: Bloomberg, IndiaNivesh Research

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Despite large number of approvals high growth remains elusive. Expansion of capacities in US is likely to help in monetizing large number of approvals in place. Maintain Buy with target price of Rs 1054 (previous target Rs 1012)

Aurobindo Pharma's (ARBP) financial performance for Q3FY17 was in-line with our estimates. Net sales increased by 12% y-y impacted by slow sales in Europe & ROW. However US sales were in-line with estimates. Due to controlled costs at all levels gross margin & EBITDA margin were maintained. ARBP management has sounded positive on growth prospects both in oral/solids as well as injectables in US in remaining part of fiscal. The company is likely to launch 13 new products in US in Q4FY17. Integration of European business (Actavis) & Natrol is going as guided earlier. ARBP is expanding capacities in Aurolife & Auromed which will help it in monetizing larger number of opportunities & prepare the company against any adverse action by US administration regarding inward looking manufacturing policies.

We remain positive on ARBP on the back of robust ANDA pipeline, subject to regulatory approval, and improvement in profitability from turnaround of Actavis and Natrol.

At CMP of Rs 679, the stock is trading at attractive valuation of 15.2x FY17E EPS of Rs 44.6 and 14x FY18E EPS of Rs 48.4 & 12.9x FY19E EPS of Rs 52.7. We value ARBP at (unchanged) 20x FY19 EPS to arrive at target of Rs 1054 (Rs 1012 earlier).

Rs.mn	*Q3FY17*	*Q3FY16*	*Y-O-Y %*	*Q2FY17*	*Q-O-Q %*	*INSL Est*	*Variance(%)*
Revenue	38,445	34,321	*12.0*	*37,135*	*3.5*	37,968	*1.3*
EBIDTA	9,152	8,230	*11.2*	*9,292*	*(1.5)*	9,049	*1.1*
Adjusted PAT	5,811	5,217	*11.4*	*5,857*	*(0.8)*	5,736	*1.3*
Rep. PAT	5,811	5,350	*8.6*	*6,026*	*(3.6)*	5,736	*1.3*

Source: Company, IndiaNivesh Research

Key result highlights:

- Net sales came in at Rs38.45bn, up 12.5% y-y, for the quarter. Y-y sales growth is driven by 11% y-y growth in US sales, 12% growth in ARV & 11.6% growth in API. Only 3% growth in ROW sales & 10% in Europe dragged the overall performance. According to management, US sales were impacted to the extent of 4% by one time charge on account of discounts given in the market.
- Gross margin maintained at 55% & EBITDA margin was recorded at 23.4% (-12 bps y-y, -118 bps q-q). EBITDA & Adjusted PAT both grew by 11.2% y-y to Rs 9.15 bn & Rs5.81 bn respectively

Key Concall highlights:

- US contributed ~45% to total revenues & grew at 11% y-y on back of new launches in the oral & injectable segments & growth in Natrol business. In Q3FY17, ARBP launched total 11 products in US out of which 8 were in oral solids & 3 were in injectable. The management guided to launch ~13 new products over the remaining FY17 out of which ~7-9 products will be from injectable stable. Some of these products are niche opportunities with decent large size.
- Aurobindo US which markets oral solids in US witnessed 9% de-growth q-q due to severe price erosion in existing as well as new products. There was a one-time impact of discounts offered to customers which resulted in around 4% de-growth in sales. In oral solids the company launched 8 new products in Q3FY17 taking total launches to 19 in 9MFY17. ARBP filed 5 ANDA in orals in Q3FY17.
- Management mentioned now the price erosion is visible not only in existing products but even in new launches. This stiff competition is attributed to larger numbers of players getting approvals & customer consolidation. According to management price erosion witnessed by ARBP was to the tune of 7% q-q 7 13% y-y.
- Despite severe price erosion management maintained guidance of 15-20% growth in US on back of new launches in oral solids, injectables, Natrol. AuroHealth & Aurolife.
- ARBP is expanding the capacity of Aurolife by 3x as it is gaining traction in tender business in US.
- Auromedics which manufactures injectables has continued strong growth of 91% y-y recording sales of $45mn in Q3FY17. In this division the company launched 3 new products taking total tally to 10 in 9MfY17. ARBP has filed 89 ANDA in injectables out of which it has received approvals for 50 including 2 received in Q3FY17. Management expects to launch 3 new product in injectables in Q4FY17E.
- AuroHealth which manufactures & markets OTC products in US has expanded its product basket to 85 products & is serving 22 customers.
- Injectable shall be high growth driver for US. The company intends to launch ~7-9 products in this segment & these launches will be early launches which will lead to gaining higher market share. Management guided injectable segment to continue growing at 40-50% compounding rate for at least next 2-3 years.
- ARBP received 22 ANDA approvals in Q3FY17 (including 3 tentative). Till 3QFY17, ARBP has 421 ANDA filing on cumulative basis and 118 ANDAs are pending for approval. The company filed for 9 new ANDAs in Q3FY17 including 5 in oral & 4 in injectable category.
- Europe sales came in at Rs8.55bn, increase of ~10% y-y for the quarter. ARBP continue to improve profitability of Europe business by shifting manufacturing to relatively low cost units in India and improving efficiency of operation of Actavis business. According to management they have shifted 42 products cumulatively till Q3FY17. Management maintained guidance of ~7-8% EBITDA margin for Actavis by FY18.
- ARBP is expecting approval for Meropenem very soon. They have already started preparing launch quantity. The company has had 2 inspections in this regard but awaiting approval.
- ARV sales have been gone up ~12% y-y (+22% q-q) to Rs 3.4 bn in Q3FY17. However management clarified sales did not include DTG sales which shall reflect in numbers from Q1FY18E onwards. The company has started

manufacturing API of DTG & expect gradual ramp up in sales of DTG by Q3-Q4FY18E.

- API sales grew ~12% y-y along with improvement in margins.
- ARBP has taken over a portfolio of 4 products in Biosimilar space from TL Pharma. ARBP will further develop these products & will undertake clinical trials etc. This would mean an approximate expense of ~$80mn on all these 4 products. However management specified that the R&D expense will be spread out to 18-24 months
- ARBP expects to start clinical trials of these 4 biosimilar products by end of FY18E or FY19E. ARBP may look at out-licensing opportunities in this space in order to mitigate risks 7 reduce costs
- ARBP is already developing portfolio of 8 biossimilar products on its own. Post the takeover of products from TL Pharma, the company will have total of 12 products in biosimilar basket.
- R&D spent for the Q3FY17 was Rs1.3bn (3.3% of net sales). However due to acquisition of biosimilar products R&D costs may go up substantially in next 2-3 years. According to management R&D expense can go up to 5-6% of net sales in next 2 years & up to 8-9% of net sales in years when the clinical trials for biosimilar products will start. We believe increased costs will dent the company's margins if it is not able to monetize its large basket of approvals faster.

Outlook: ARBP is likely to launch 13 new products in US in remaining FY17 with approximately 3 in injectable segment. The company has few interesting opportunities to be monetized in FY18 including Meropenem, Vancomycin, Sevelemer, Fortamet, Epzicom, Valcyte & Rosuvastatin, Tenofovir subject to regulatory approvals. We believe the company will be able to make up any loss in US business due to competition/price erosion by launching new products & gaining volume share. Natrol portfolio is likely to witness good growth with addition of new products. Actavis integration is going well & as more products get transferred to Indian sites profitability would improve going forward. We remain positive on ARBP on the back of robust ANDA pipeline, subject to regulatory approval, and improvement in profitability from turnaround of Actavis and Natrol.

Valuation: At CMP of Rs 679, the stock is trading at attractive valuation of 15.2x FY17E EPS of Rs 44.6 and 14x FY18E EPS of Rs 48.4 & 12.9x FY19E EPS of Rs 52.7. We value ARBP at (unchanged) 20x FY19 EPS to arrive at target of Rs 1054 (Rs 1012 earlier).

Quarterly financial summary

(Consolidated nos as per Ind-As)

(Rs Mn)	Q3FY17	Q3FY16	Y-o-Y	Q2FY17	Q-o-Q
Net Sales	**38,445**	**34,321**	**12.0**	**37,135**	**3.5**
Other Operating Income	617	634	(2.7)	619	**(0.3)**
Total Income	**39,062**	**34,955**	**11.7**	**37,754**	**3.5**
Consumption of raw material	17,300	15,536	11.4	16,299	**6.1**
Empoyee Cost	4,421	4,010	10.2	4,266	**3.6**
Other Expenditure	8,189	7,179	14.1	7,898	**3.7**
Total Expenditure	**29,910**	**26,725**	**11.9**	**28,462**	**5.1**
EBITDA	**9,152**	**8,230**	**11.2**	**9,292**	**(1.5)**
Depreciation & Ammortization	1,050	995	5.6	1,102	**(4.7)**
EBIT	**8,102**	**7,235**	**12.0**	**8,190**	**(1.1)**
Other Income	83	69	20.8	83	**0.2**
Interest Expenses/ (income)	225	227	(0.9)	175	**28.3**
Pre-tax Profit	**7,960**	**7,077**	**12.5**	**8,097**	**(1.7)**
Tax	2,148	1,860	15.5	2,240	**(4.1)**
Adjusted Net Profit	**5,811**	**5,217**	**11.4**	**5,857**	**(0.8)**
Minority interest	-	3	(100.0)	1	**(100.0)**
Other adjustments +OCI	-	129	(100.0)	168	**(100.0)**
Reported Net Profit	**5,811**	**5,350**	**8.6**	**6,026**	**(3.6)**
Adj EPS (Rs)	10.0	8.9	11.4	10.0	**(0.8)**
Adj O/ Share (In Million)	584	584	-	584	-

Source: Company, IndiaNivesh Research

Key ratios

	Q3FY17	Q3FY16	Bps	Q2FY17	Bps
Gross Margins	55.0	54.7	27	56.1	(111)
EBITDA margin	**23.4**	**23.5**	**(12)**	**24.6**	**(118)**
Net Margin	15.1	15.2	(8)	15.8	(66)
Material cost+ Purchased goods/Net Sa	45.0	45.3	(27)	43.9	111
Employee Cost/ Net Sales	11.5	11.7	(18)	11.5	1
Other Expenditure/ Net Slaes	21.3	20.9	38	21.3	3
Tax Rate	27.0	25.8	118	27.1	(11)

Source: Company, IndiaNivesh Research

Revenue mix

Gross Sale (Rs Mn)	Q3FY17	Q3FY16	Y-o-Y	Q2FY17	Bps
Formulations	**31,302**	**28,368**	**10.3**	**30,038**	**4.2**
USA	17,451	15,706	11.1	17,351	**0.6**
Europe	8,554	7,786	9.9	8,134	**5.2**
RoW	1,878	1,822	3.1	1,768	**6.2**
ARVs	3,419	3,054	12.0	2,785	**22.8**
APIs	**7,759**	**6,952**	**11.6**	**7,688**	**0.9**
Total sales	**39,061**	**35,320**	**10.6**	**37,726**	**3.5**

Source: Company, IndiaNivesh Research

Financial statement (consolidated)

Income statement

Y E March (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Net sales	120,432	136,506	158,166	174,407	192,536
Growth %	*49.8%*	*13.3%*	*15.9%*	*10.3%*	*10.4%*
Expenditure					
Raw Material	55,056	61,575	70,354	77,582	84,690
Employee cost	13,023	15,508	17,796	19,686	21,797
Other expenses	27,490	29,821	33,318	36,595	40,861
EBITDA	25,636	32,056	39,545	43,685	48,653
Growth %	*23.8%*	*28.9%*	*33.6%*	*19.0%*	*20.0%*
EBITDA Margin %	***21.3%***	***23.5%***	***25.0%***	***25.0%***	***25.3%***
Depreciation	3,326	3,926	4,563	5,927	7,731
EBIT	22,310	28,130	34,981	37,758	40,922
EBIT Margin %	*18.5%*	*20.6%*	*22.1%*	*21.6%*	*21.3%*
Other Income	967	1,663	1,829	2,012	2,213
Interest	1,599	2,568	1,129	1,043	972
PBT	21,678	27,225	35,681	38,727	42,164
Tax	5,966	7,444	9,634	10,456	11,384
Effective tax rate %	27.5%	27.3%	27.0%	27.0%	27.0%
Extraordinary items	-	-	-	-	-
Less: Minority Interest	45	39	-	-	-
Adjusted PAT	**15,712**	**19,782**	**26,047**	**28,271**	**30,780**
Growth%	*9.6%*	*25.9%*	*31.7%*	*8.5%*	*#DIV/0!*
PAT margin %	***13.0%***	***14.5%***	***16.5%***	***16.2%***	***16.0%***
Reported PAT	**15,757**	**19,821**	**26,047**	**28,271**	**30,780**
Growth%	*27.7%*	*25.8%*	*31.4%*	*8.5%*	*8.9%*

Source: Company, IndiaNivesh Research

Balance sheet

Y E March (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Share Capital	292	585	585	585	585
Reserves & Surplus	51,267	69,982	94,108	120,400	149,025
Net Worth	**51,559**	**70,567**	**94,693**	**120,985**	**149,610**
Minority Interest	258	596	596	596	596
Non Current Liabilities					
Long term borrowing	13,615	8,472	8,000	7,500	7,000
Deferred Tax liabilities	2,105	2,365	2,365	2,365	2,365
Long term Provisions	244	235	235	235	235
	15,964	**11,072**	**10,600**	**10,100**	**9,600**
Current Liabilities					
Short term borrowings	25,021	32,290	27,290	22,290	17,290
Trade payables	20,511	25,268	28,870	31,836	34,753
Other current liabilities	13,650	15,374	17,813	19,642	21,684
Short term provisions	2,182	1,827	3,396	3,686	4,013
	61,364	**74,759**	**77,369**	**77,454**	**77,740**
Total Liabilities	**129,145**	**156,994**	**183,258**	**209,135**	**237,546**
Assets					
Net Block	41,253	52,635	63,889	78,891	98,114
Non Current Investments	1	1	1	1	1
Long term laons & Advances	4,903	4,342	4,342	4,342	4,342
Current Assets	**46,157**	**56,979**	**68,232**	**83,234**	**102,458**
Inventories	36,113	40,881	47,368	52,232	57,661
Sundry Debtors	35,392	41,719	48,339	53,303	58,843
Cash & Banak Balances	4,691	8,344	9,224	9,504	6,864
Other Current Assets	1,108	2,617	2,617	2,617	2,617
Loans & Advances	5,684	6,454	7,478	8,246	9,103
	82,988	**100,015**	**115,026**	**125,901**	**135,088**
Total assets	**129,145**	**156,994**	**183,258**	**209,135**	**237,546**

Source: Company, IndiaNivesh Research

Cash flow

Y E March (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
PBT	21,678	27,225	35,681	38,727	42,164
Depreciation	3,326	3,926	4,563	5,927	7,731
Interest	709	793	1,129	1,043	972
Other non cash charges	28	393	-	-	-
Changes in working capital	(8,417)	(7,383)	(6,520)	(5,511)	(6,541)
Tax	(4,956)	(7,358)	(9,634)	(10,456)	(11,384)
Cash flow from operations	**12,368**	**17,596**	**25,220**	**29,730**	**32,942**
Capital expenditure	(7,683)	(15,682)	(15,817)	(20,929)	(26,955)
Free Cash Flow	**4,685**	**1,915**	**9,403**	**8,801**	**5,986**
Other income	564	1,621	-	-	-
Investments	(6,860)	260	-	-	-
Cash flow from investments	**(13,980)**	**(13,801)**	**(15,817)**	**(20,929)**	**(26,955)**
Equity capital raised	68	72	-	-	-
Loans availed or (repaid)	3,408	2,169	(5,472)	(5,500)	(5,500)
Interest paid	(739)	(823)	(1,129)	(1,043)	(972)
Dividend paid (incl tax)	(1,805)	(1,616)	(1,823)	(1,979)	(2,155)
Others					
Cash flow from Financing	**932**	**(198)**	**(8,425)**	**(8,522)**	**(8,626)**
Net change in cash	**(680)**	**3,598**	**978**	**279**	**(2,640)**
Cash at the beginning of the year	1,480	4,611	8,246	9,224	9,504
Adj on consolidation	3,890	136	-	-	-
Cash at the end of the year	4,691	8,344	9,224	9,504	6,864

Source: Company, IndiaNivesh Research

Key ratios

Y E March	FY15	FY16	FY17E	FY18E	FY19E
EPS (Rs) Core	27.0	33.9	44.6	48.4	52.7
EPS Reported	27.1	33.9	44.6	48.4	52.7
Cash EPS (Rs)	32.7	40.6	52.4	58.6	65.9
DPS (Rs)	1.9	2.4	3.1	3.4	3.7
BVPS (Rs)	89	121	162	207	256
ROCE	34.3%	36.2%	34.8%	30.2%	27.0%
ROE	30.5%	28.0%	27.5%	23.4%	20.6%
Inventories Days	109	109	109	109	109
Sundry Debtors Days	107	112	112	112	112
Trades Payable Days	136	150	150	150	150
PER (x)	25.2	20.0	15.2	14.0	12.9
P/BV (x)	7.7	5.6	4.2	3.3	2.7
EV/EBITDA (x)	16.7	13.4	10.7	9.5	8.5
Dividend Yield %	0.3%	0.3%	0.5%	0.5%	0.5%
m cap/sales (x)	3.3	2.9	2.5	2.3	2.1
net debt/equity (x)	0.7	0.5	0.3	0.2	0.1
net debt/ebitda (x)	1.4	1.1	0.7	0.5	0.4

Source: Company, IndiaNivesh Research

AUROBINDO

Date: February 13, 2017

To	To
Listing Department, **NATIONAL STOCK EXCHANGE OF INDIA LIMITED** Exchange Plaza, Bandra Kurla Complex, Bandra (E), **MUMBAI -400 051** **Company Code No. AUROPHARMA**	The Corporate Relations Department **BSE LIMITED** Phiroz Jeejeebhoy Towers, 25th floor, Dalal Street, **MUMBAI -400 001** **Company Code No. 524804**

Dear Sirs,

Sub: Presentation to the Investors / Analysts.

Please find attached the Investor Presentation which will be used in an investor conference in Mumbai on 13th and 14th February, 2017.

The presentation is also being uploaded on the website of the Company –

http://www.aurobindo.com/investor-relations/investors/investor-presentation

Please take the information on record.

Thanking you,

Yours faithfully,
For AUROBINDO PHARMA LIMITED

B.Adi

B.ADI REDDY
Company Secretary

AUROBINDO PHARMA LTD. * HYD. *

AUROBINDO

INVESTOR PRESENTATION

February 2017

Disclaimer

This presentation contains statements that constitute “forward looking statements” including and without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to our future business developments and economic performance.

While these forward looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that we have indicated could adversely affect our business and financial performance.

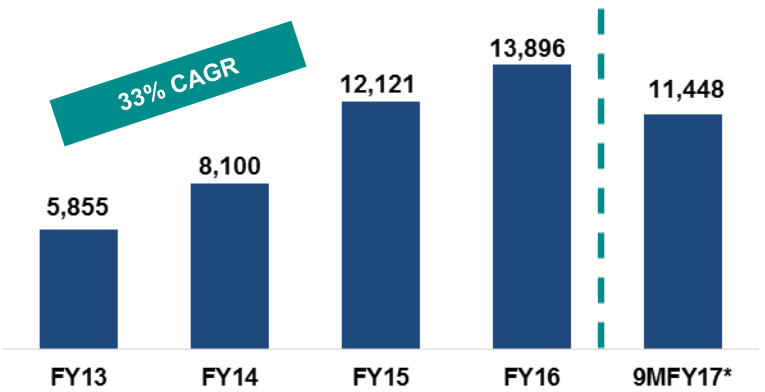
Aurobindo Pharma undertakes no obligation to publicly revise any forward looking statements to reflect future events or circumstances.

For updates and specific queries, please visit our website **www. aurobindo.com**

Company Overview

- Among the Top-5 listed pharmaceutical companies from India by sales(1) and market capitalization(2)
- 7th largest generic company by volume in the US; IMS TRx represents greater than 35% growth year over year(3)
- Broad portfolio of diversified dosage forms including Rx and OTC oral solids, liquids, injectables and ophthalmics
- One of the highest rates of vertical integration, incorporating in-house API in 70% of total formulations, and greater than 90% of oral solids
- Global presence, with critical mass in US and EU markets
- Well entrenched US portfolio of 421(4) filed ANDAs with 262(4) final approvals
- Diversified manufacturing footprint spread across multiple regions and sites, offering extended capability and capacity

Operating Income (INR Cr)



Top 10 Therapy Segments

Category	Size (US$ Bn)	APL's presence
Oncology	74.5	✓
Anti-diabetics	63.6	✓
Pain / acute	59.8	✓
CNS	47.5	✓
Anti-bacterials	40.3	✓
Respiratory	39.6	✓
Mental health	39.1	✓
Anti-viral	35.9	✓
Lipid Regulator	28.4	✓
Dermatology	28.2	X

Top 10 Generics Markets

Markets	% share	APL's presence - FDF	APL's presence - API
USA	40%	✓	✓
Japan	10%	X	✓
France	6%	✓	✓
Germany	6%	✓	✓
Italy	4%	✓	✓
Spain	3%	✓	✓
UK	3%	✓	✓
China	3%	X	✓
Brazil	2%	✓	✓
Mexico	2%	✓	✓

1) FY16 Sales; 2) As on 30th Dec, 2016; 3) Source: IMS National Prescription Audit, 12 months ending December 2016; 4) As on 31 December 2016; *As per Ind AS including excise duty

Source: IMS Health, Industry Reports

The Journey So Far…

1992-2006

- Commencement of export of APIs
- Initial Public Offering (‘95)
- Entered into formulation business (‘02)

Pre-2006

API Focus

2006-08

- Acquired UK based Milpharm
- Acquired formulations facility in US
- Investment in building manufacturing, marketing & IPR capabilities

2010-12

- Commenced operations of Unit VII and Aurolife facilities
- First Controlled Substance product approved in US
- Entered into Peptide business

2006 - 2012

Formulation Focus + Establishing Global Footprint

2013

- Commenced marketing specialty injectables in USA
- Building capabilities in Penem and Oncology

2014

- Acquired Western European commercial operations from Actavis
- Acquired Natrol

2015-17

- Focus on differentiated technology platforms
- Entered into Biosimilars and Vaccines

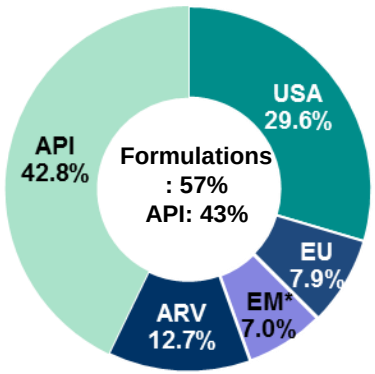
2013-2017

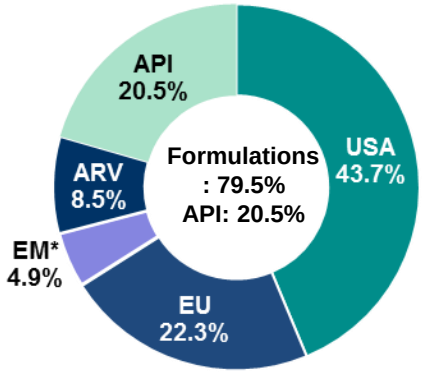
Consolidating Presence in US & EU + Expanding Injectables & Differentiated Offerings

Strong Operational Growth & Diversified Revenue Base

INR Cr	FY13	CAGR	FY16
Net Revenue	5,855	33%	13,896
EBITDA	889	53%	3,206
EBITDA Margin (%)	15.2%		23.1%
PAT	294	89%	1,982
PAT Margin (%)	5.0%		14.3%
ANDA Filed	269		398

Revenue Breakup



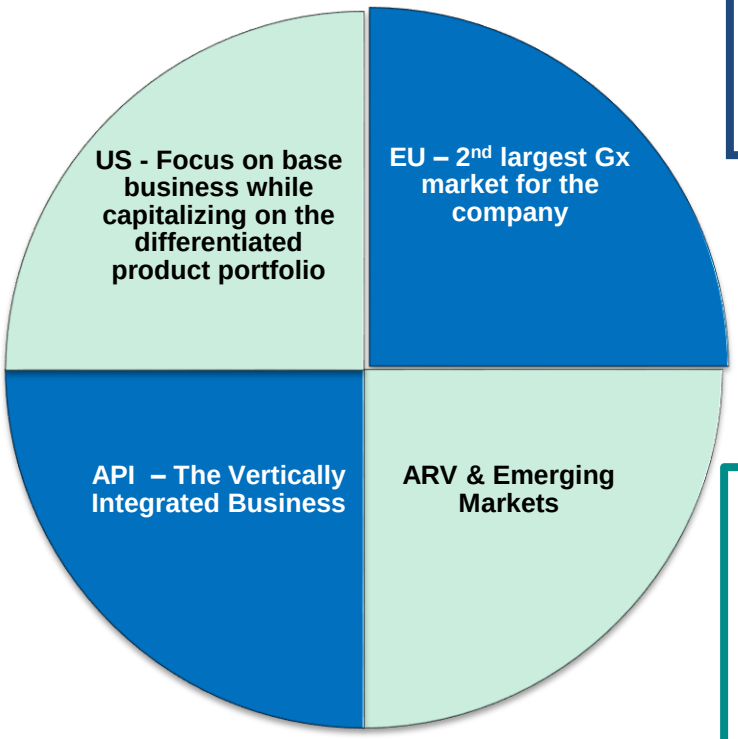


*EM: Emerging Markets

Our Business Segments

US
- Ranked 7th* Rx supplier as per IMS total prescriptions dispensed
- Differentiated pipeline with new launches including injectables, ophthalmics, speciality products and controlled substances
- Expanded presence in dietary supplement business through Natrol
- Manufacturing and R&D presence including Controlled substances

EU
- Among top 15** Gx companies by sales
- Focus markets are France, Germany, Netherlands, Spain, UK, Portugal and Italy
- Augment position through new product launches and extension to select Eastern Europe markets



API
- Cost effective with vertical integration of around 70% of API requirement sourced internally
- One of the leading supplier of APIs from India - serves as a source for various Gx and branded drugs
- Strong regulatory capability with 214*** US DMF filings

ARV – Institutional
- Focus on global tenders; availability across >100 countries
- Maintain competitiveness through development of new products
- First company to receive FDA approval for Dolutegravir 50 mg under PEPFAR program

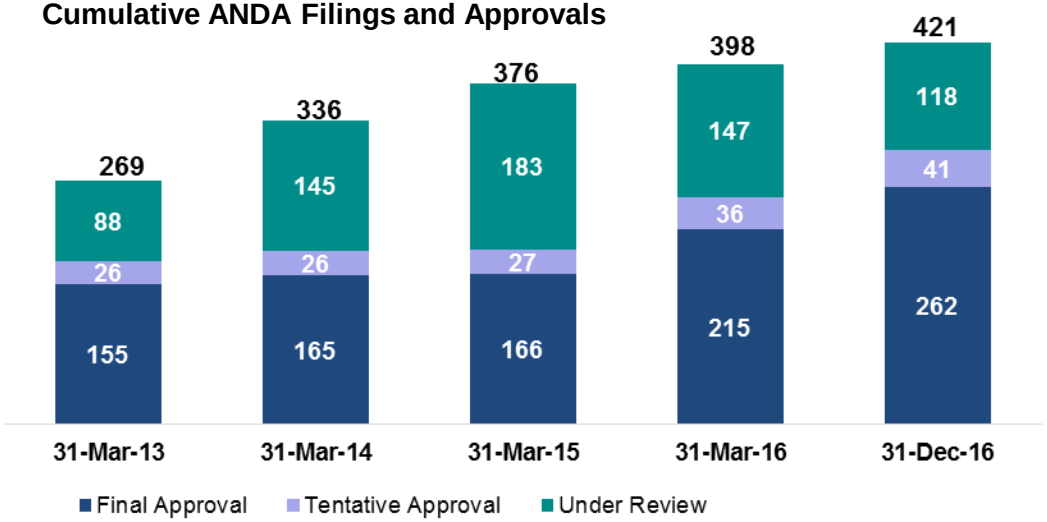
Emerging Markets
- Focus on major markets: Brazil, South Africa, Ukraine, and Mexico
- Expansion into select markets of Asia Pacific, Africa & Middle East

*Source: IMS National Prescription Audit, Total Prescriptions Dispensed, Twelve months ending December 2016
**Source: Market Reports, ***as on 31 Dec 2016

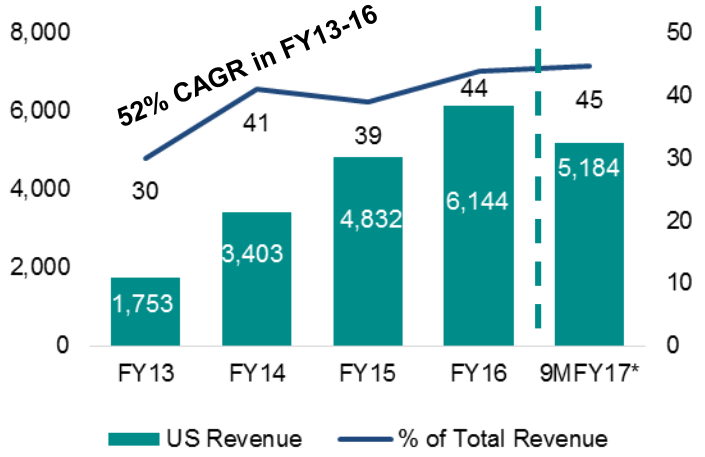
US Business Overview

Aurobindo USA Oral Rx | **AuroMedics** Injectables | **AuroLife Pharma** Manufacturing / R&D | **AuroHealth** Pharma OTC | **Natrol** Dietary Supplements

Cumulative ANDA Filings and Approvals



Gross Sales (INR Cr)



Unit wise ANDA Filings as on 31-December-2016

Site	Details	Final Approval	Tentative Approval**	Under Review	Total
Unit III	Oral Formulations	99	16	10	125
Unit IV	Injectables & Ophthalmics	38	2	35	75
Unit VIB	Cephalosphorins Oral	11			11
Unit VII (SEZ)	Oral Formulations	79	23	56	158
Unit X	Oral Formulations			2	2
Unit XII	Penicillin Oral & Injectables	19		1	20
Aurolife USA	Oral Formulations	16		10	26
AuroNext	Penem Injectables			4	4
Total		**262**	**41**	**118**	**421**

Growth Drivers in the next 3-4 years

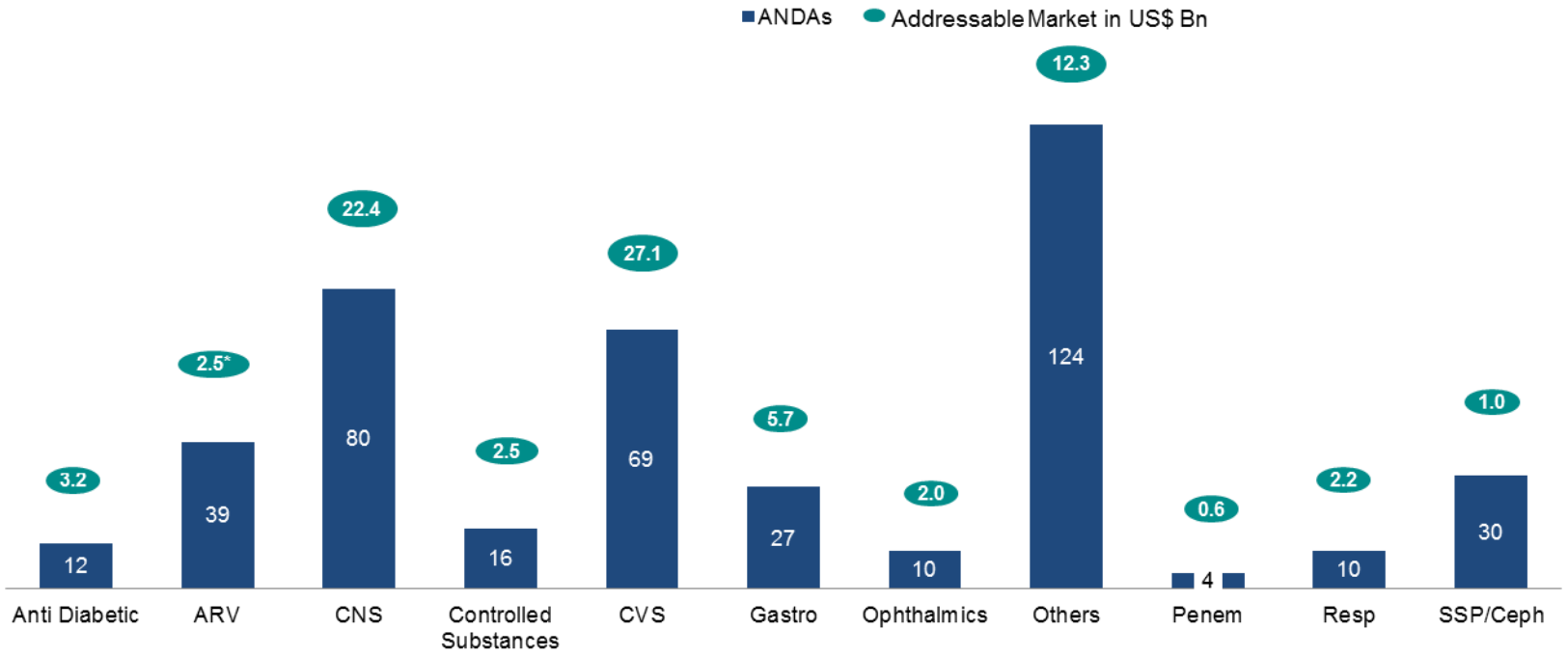
- Broadening portfolio with more balance through accelerated growth in injectable, OTC, and higher complexity products
- Increasing collaboration across the global customer base
- Operational efficiencies and cost leadership in API and formulation manufacturing, supply chain planning and distribution

**Tentative Approvals include 19ANDAs approved under PEPFAR

*As per Ind AS

US: Expanding Portfolio Mix Towards Differentiated Products

Portfolio mix is complemented with the introduction of high-value products



Addressable Market at US$ 81 Bn including ~US$ 50 Bn for Under Review and Tentatively approved ANDAs

Future pipeline to include Oncology, Hormones, Depot injections, Inhalers, Biosimilars, Patches & Films

Addressable market refers to the market size as per IMS. Data is for the total 421 ANDAs filed by the company

*Does not include the addressable market of the products approved under PEPFAR
Source: IMS Data, Dec 2016

Natrol

- Amongst the top 20 branded Dietary Supplements companies in US
- Diverse Customer Base with long term relationships with key distribution and retail partners
- Strong customer partnerships across multiple distribution channels with growth potential within each channel
- R&D capabilities in new innovative delivery formats as time release, fast dissolve and natural foam
- In-house manufacturing capability & regulatory expertise for quality product at competitive prices
- Synergies
  - Expand presence in other attractive global markets
  - Enhance the Research and Development expertise through collaborations

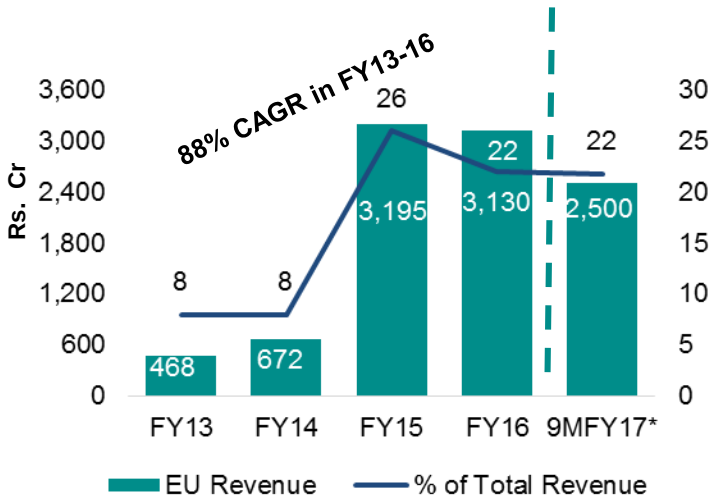
Key Product Segment	
Vitamins, Minerals & Supplements	Sports Nutrition
Diet & Weight Management	Hair, Skin & Nails
Favourable Demand Drivers	
Ageing population	Fitness Focus
Consumer awareness	Rising HC costs

EU Business Overview

France | Germany | Netherlands | Spain | UK | Portugal | Italy | Romania | Belgium

- India's Leading Gx company with strong footprint in Europe
  - Operations in 9 countries with full fledged sales force & support infrastructure
  - Significant presence and position in Top 5 EU markets led by France & Germany
  - Commercialized over 450 INNs across 9 countries of operation
- Presence across Gx, TGx, BGx and Hx segment with established commercial and hospital sales infrastructure
- Expanded analytical testing facilities for sterile and non-sterile products in Malta
- Pipeline of over 200 products under development
- Further strengthened presence in Portugal with acquisition of Generis Farmaceutica SA in Jan 2017

Gross Sales**



Growth Drivers in the next 3-4 years

- Consolidate presence & improve position among Top 10 players in each market
- Expanding into new geographies viz. Poland and Czech Republic
- Portfolio Expansion through targeted Day 1 launches; Orals, Hormones & Penems, Oncology Products, Niche Injectables, Low volume Injectables
- Lower generics penetration in Italy, Spain, Portugal & France offer future growth potential as share of generics improves

APL's position in Top 5 EU countries

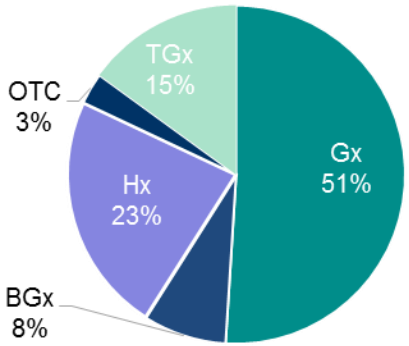
Country	Market size (US$ Bn)	APL Presence	APL's position
Germany	41	✓	8th
UK	28	✓	11th
Italy	25	✓	10th
France	31	✓	6th
Spain	19	✓	9th

*As per Ind AS; ** Internal

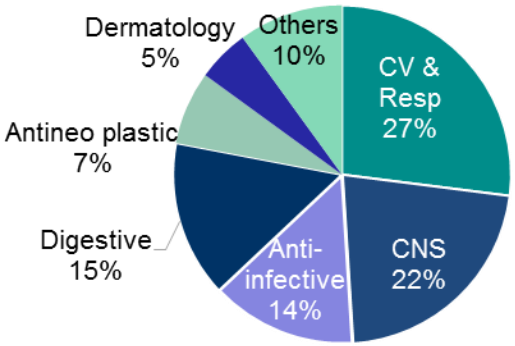
Source: IMS Health, Market Prognosis, September 2015

EU: Portfolio Mix Across Channels

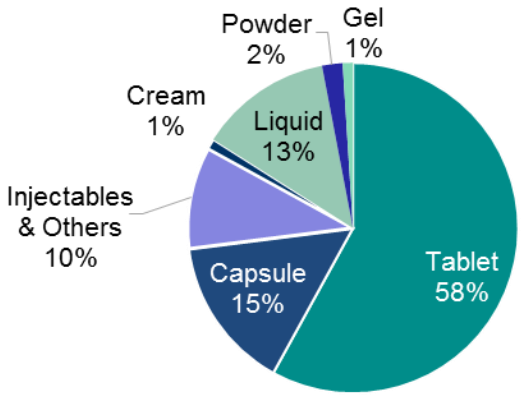
Sales split by Channel



Sales split by Therapeutic Profile



Sales split by Dosage Forms



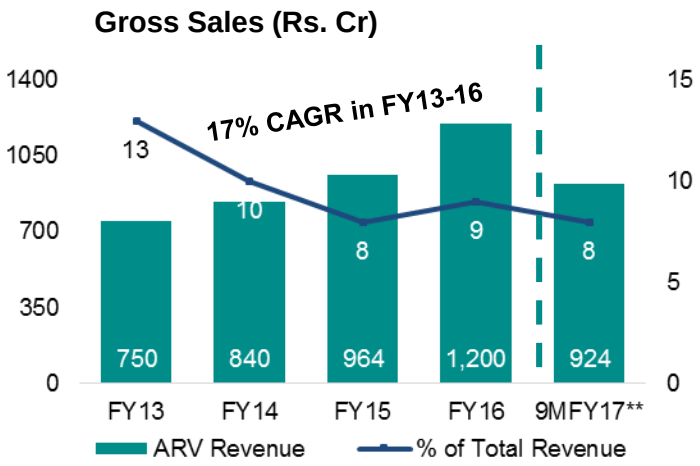
Channels	Gx	BGx	Hx	TGx
Geographies	All 9 countries	7 countries	All 9 countries	Germany, Spain & Netherlands
# of Products	761 (primarily tablets & capsules)	34	343 (predominantly injectables)	765 (including Gx products)
Other Highlights	Amongst top 10 in most markets	Includes leading brands such as Neotigason, Floxapen, Bezalip among others	Focus on high value areas including oncology	Tender based business

ARV Business Overview

- Focus on global tenders floated by Multi-Lateral Organizations like Global Fund, USAID/PEPFAR and Country specific MOH tenders; currently caters to 2.2 million HIV+ patients
- Well integrated supply chain management services and logistics for ARV supplies (29 products) catering to over 100 countries
- Filed over 1,100 ARV dossiers for registrations across the globe

Growth Driver in the next 3-4 years – Dolutegravir (DTG)

- Aurobindo is the first generic company to sign license with ViiV Healthcare for the next generation Integrase Inhibitor – DTG
  - Received the USFDA approval for DTG 50mg under the PEPFAR program
  - WHO announced this drug as a 1st line reserve drug in its 2015 HIV treatment guidelines
  - Play a collaborative role in upgrading millions of patients to the latest "best-in-class" ARV drug
- Filed an ANDA application for a Triple drug combination containing DTG
- Market size is expected to be US$ 500m in 2018 for DTG and combinations @50% conversion*



Products
Efavirenz + Lamivudine + Tenofovir
Zidovudine + Lamivudine + Nevirapine Tabs
Lopinavir + Ritonavir Tabs
Lamivudine + Zidovudine Tabs
Abacavir Sulfate Tabs
Efavirenz + Emtricitabine + Tenofovir Tabs
Lamivudine Tabs

**As per Ind AS

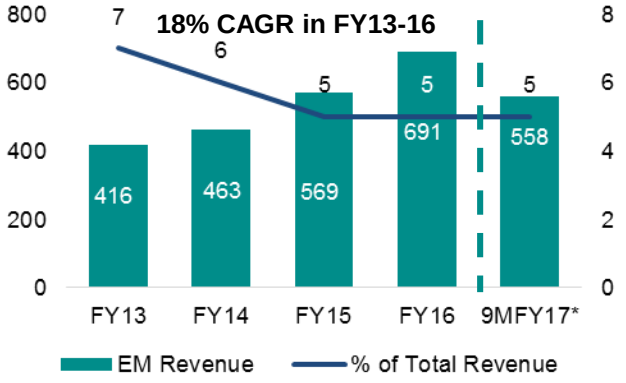
*Source: as per HSBC market report

Emerging Markets Business Overview

Growth Drivers in the next 3-4 years

- Build branded generics presence
- Enhance penetration in selected markets through local manufacturing
- Expand presence with Therapeutic Areas like Oncology and specialty injectables

Gross Sales (Rs. Cr)

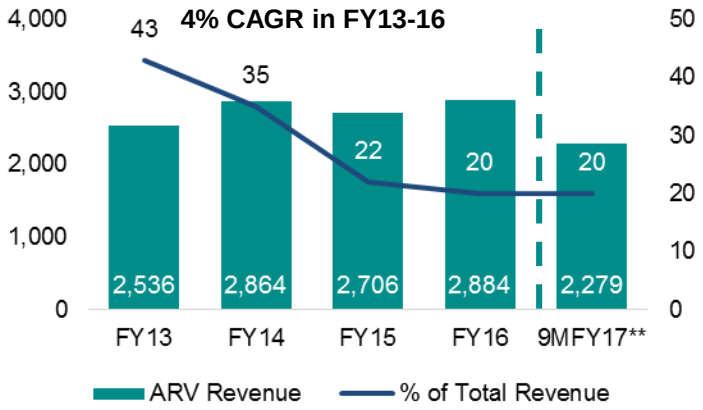


*As per Ind AS

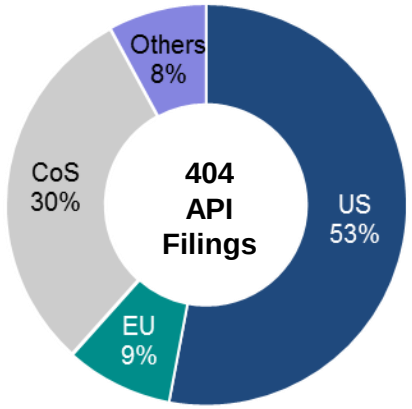
The Base Business : API

- API business continue to focus on high value, specialty, small/mid-size products with a limited competition
- Ensures quality & Reliability of supplies and ability to command cost efficiencies as well as economies of scale
- Focus on continuous improvement of manufacturing process to meet cost and environmental challenges
- Continue to have sustained growth in more advanced regulated markets (EU, Japan & USA)
- API facilities meet advanced market requirements like USFDA, UK MHRA, EU, Japan PMDA, Mexico COFEPRIS, Brazil-ANVISA, Korea FDA etc.
- Manufacturing reaction volumes has been increased over 30% in last 3 years and would further grow in same proportions.
- Additional processing capacities / capabilities would be created in Oncology and allied areas.
- Conventional manufacturing process are migrated into environmentally friendly process and products based on green chemistry.

Gross Sales (Rs. Cr)



Strong Regulatory Capability*



*As on 31 December, 2016 (excludes Multiple registrations); ** As per Ind AS

Enhanced Research & Development Capabilities

5 R&D centers in Hyderabad, India

- Focused on difficult to develop API, niche oral, sterile and specialty injectable
- Concentrating on wide range of Oncology, Hormonal products, Penems, Enzymes, Biocatalysts, vaccines and Peptides
- Developing diverse pipeline of biosimilars in Oncology and Immunology. CHO-GS based cell lines with productivity of ~ 4.0 g/L
- Developing various Biosimilar products and vaccines.
- In the preventive healthcare area, working on various OTC and Dietary Supplement products
- Dedicated solid state characterization lab involving powder characterization capabilities
- New chemical technology has been adopted to improve the productivity and efficiency of the existing processes
- Two of the R&D centres has been audited by USFDA

1 R&D center in Dayton, New Jersey

- Developing microsphere technology based specialty injection products.
- Concentrating on development of various niche oral formulation and controlled substances
- Focus on developing tamper/abuse-resistant technology based products

1 R&D center in Raleigh, North Carolina

- Developing various respiratory and nasal products, including DPIs and MDIs
- Dermal Delivery portfolio including transdermal and topical products

Highly qualified and experienced team of >1,400 professionals

Consolidated Financial Performance

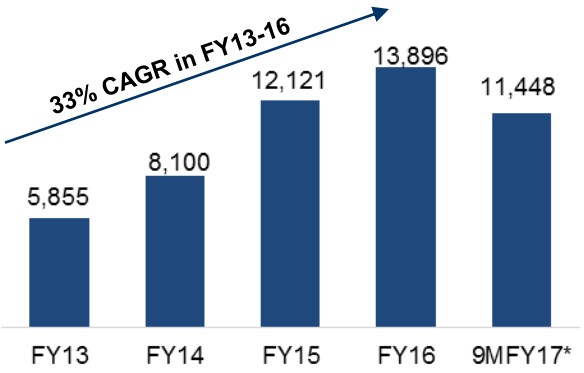
Value INR Cr	Q3 FY17	Q3 FY16	% Chg	Q2 FY17	% Chg
Formulations	3,130.2	2,809.4	11.4	3,003.8	4.2
API	775.9	695.1	11.6	768.8	0.9
Formulations % of sales	*80.1%*	*80.2%*		*79.6%*	
Operating Income (including excise duty)	**3,906.2**	**3,505.6**	**11.4**	**3,775.5**	**3.5**
Gross Margin	2,196.5	1,954.8	12.4	2,145.6	2.4
	56.2%	***55.8%***	***40 bps***	***56.8%***	***(60 bps)***
Overheads	1,301.6	1,137.1	14.5	1,216.4	7.0
EBIDTA (excl. Fx & other income)	894.8	817.7	9.4	929.2	(3.7)
	22.9%	***23.3%***	***(40 bps)***	***24.6%***	***(170 bps)***
Fx (Gain) / Loss	(15.8)	(14.0)		(20.2)	
Other Income	7.9	7.5		8.3	
Finance Cost	14.3	22.7		17.5	
Depreciation	111.1	99.4		110.2	
PBT from ordinary activities	**793.2**	**717.2**	**10.6**	**829.9**	**(4.4)**
PAT (after JV share, minority interest & OCI)	**575.8**	**545.5**	**5.6**	**602.6**	**(4.5)**
EPS	**9.9**	**9.3**		**10.3**	
Avg Fx Rate US$ 1= INR	**67.2189**	**65.7659**		**66.872**	

PAT Reconciliation (INR Cr)	Q3 FY16
As per IGAAP	535.0
Impact on deferred tax (including on unrealized intragroup profits on inventories)	10.2
Impact on foreign currency exchange differences	(0.11)
Difference in measurement of employee benefit expenses	(1.26)
Other Ind AS adjustments	0.5
As per Ind AS	544.3
Other Comprehensive Income	1.2
Profit after OCI	545.5

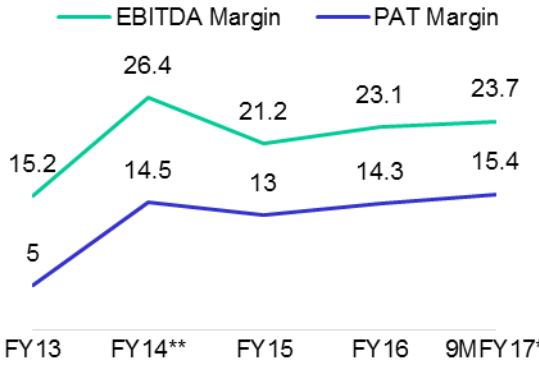
As per Ind AS

Financial Performance

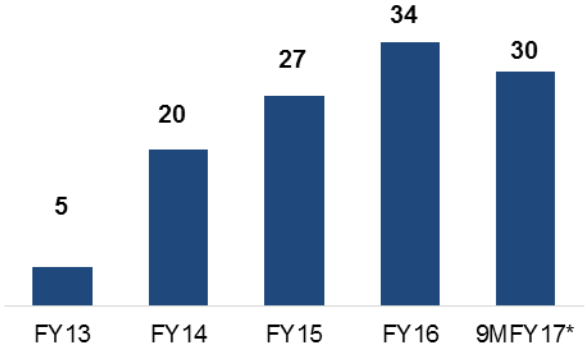
Operating income (INR Cr)



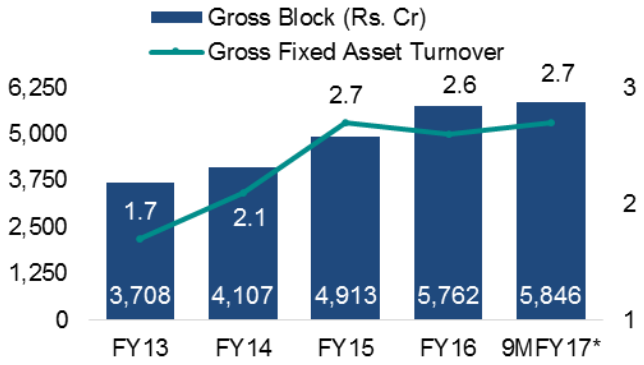
EBITDA & PAT Margin (%)



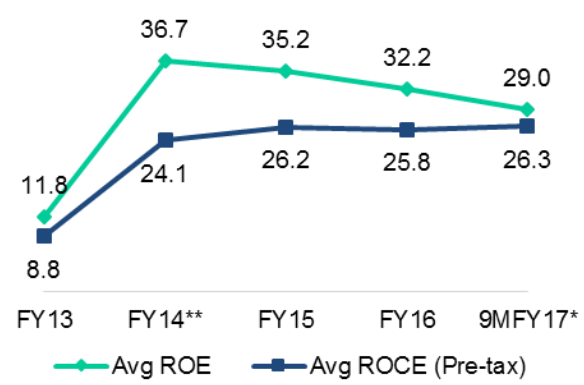
EPS (INR/Share)



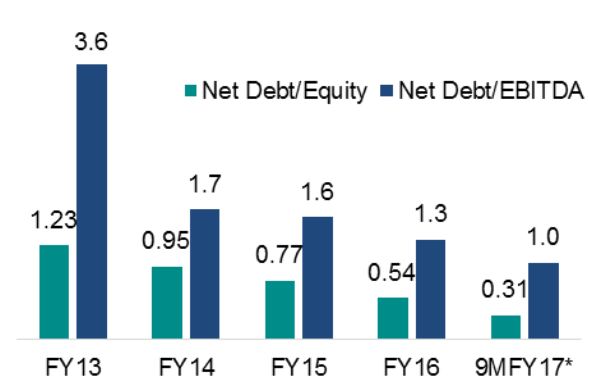
Gross Block & Fixed Asset Turnover



Average ROE & ROCE %



Net Debt/Eq & Net Debt/EBITDA

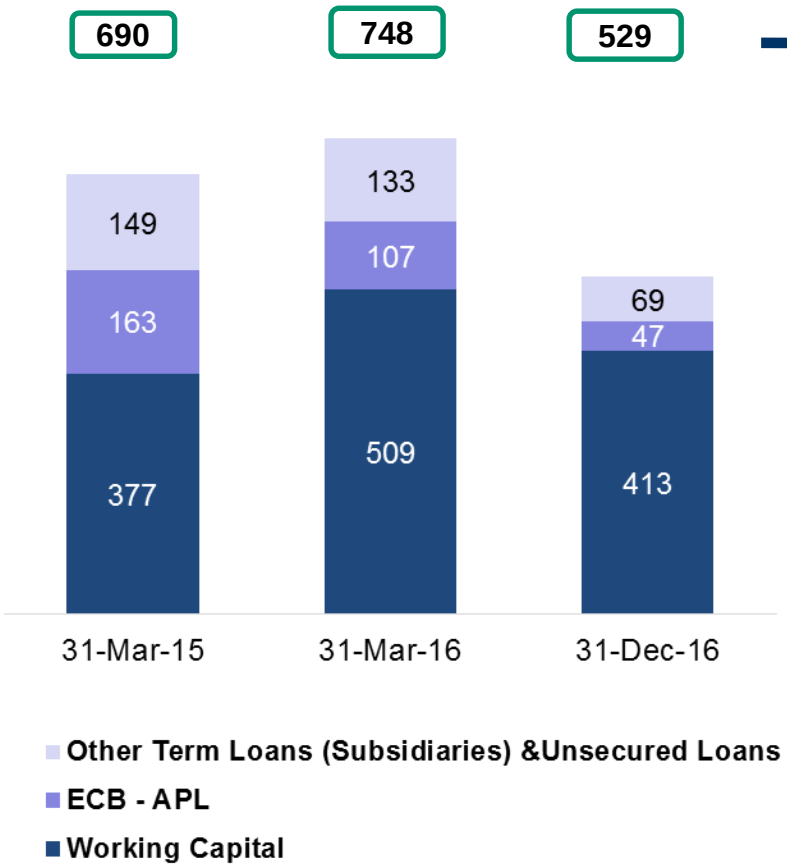


Gross Block is calculated as Tangible Assets + Intangible Assets-Goodwill

* As per Ind AS, **includes sales from limited competition product

Debt Profile

Fx Loan US$ Mn



Debt as on (INR Cr)	Mar-15	Mar-16	Dec-16
Closing Rate1 US$ = INR	62.50	66.255	67.925
Fx Loan restated in INR	4,312.3	4,956.7	3,593.7
Rupee Loan	37.3	46.9	61.9
Sales Tax Deferment	54.9	41.9	0.5
Gross Debt	**4,404.5**	**5,045.6**	**3,656.0**
Cash Balance	450.8	805.2	872.6
Net Debt	**3,953.6**	**4,240.3**	**2,783.4**
Net Debt (US$ Mn)	**632.6**	**640.0**	**409.8**
Finance Cost	**1.9%**	**1.8%**	**1.6%**

Fx Debt and Fx Cash Balance are reinstated

New Business and Technology Initiatives to Support Growth

Peptides

- Manufacturing peptides from short to long chain molecules supporting mg to kg scale
- Highly Experienced team of scientists; developed technologies for over 10 products
- Four DMFs filed & 10+ more products will be filed in FY18
- Forward integrating by developing microspheres with an addressable market of US$ 3bn

Oncology and Hormones

- Dedicated R&D center and manufacturing facility set up to develop and manufacture oncology and hormonal products, both for solid and parenteral dosage forms
- Current Product Portfolio includes 8 hormonal products & 54 Oncology products
- Exhibit batches for 13 Oncology products & 7 hormonal products are scheduled in FY16-17

Biosimilars

- Commissioned dedicated R&D centre and in the process of setting up a manufacturing facility
- Acquired 4 biosimilar molecules from TL Biopharmaceutical AG
- Clinical trials for Bevacizumab to begin in FY18

Enzymes

- Develops biocatalysts with applications in the pharma and chemical industry
- Provides chemical transformations screening and invention of new routes utilizing biocatalysis
- Supplies AuroZymes Enzyme screening panels and supports any scale of manufacturing

Vaccines

- JV to develop pneumococcal conjugate vaccine
- Efforts to achieve commercial launch of branded products in 2018

Other Technology Initiatives

Working on differentiated technology platforms viz Depot injections, Inhalers, Patches and Films

Key Investments for Future Growth

Brownfield Expansions

- New dedicated block for lyophilized vials at Unit IV (General Injectable facility), India
- New finished dosage formulations blocks at Unit VII (SEZ), India
- Tripling production capacity at AuroLife, USA

Greenfield Projects

- Oral Solid finished dosage formulations facility at Naidupet (SEZ), India
- Commissioned specialty products (Hormones and Oncology) facility (Eugia), India
- Finished dosage formulations for European markets at Vizag, India
- New campus at USA for central automated warehouse, OTC liquids & packaging facility and Others
- New Formulations Development center in USA
- Dedicated manufacturing facility for Biosimilars at Hyderabad, India

Way Forward

USA	Orals	Market share gain for existing products and introduction of new products (currently 118* ANDAs under review/tentatively approved)
	Specialty	41* ANDA filings under review/tentatively approved for injectables along with a pipeline of Oncology, Peptides and Penem
	OTC	Expand penetration of existing OTC products and capability to capitalize on future OTC conversions
	Dietary Supplements	Enhance the acquired Natrol business profitably through a combination of cost and growth synergies
EU		Margin expansion and ramp up of own filings, expansion into new Eastern European territories
ARV		Launch of Dolutegravir and its combination apart from growing existing market
Emerging Markets		Expansion in new business opportunities
API		Enhanced capacities to support growth in advanced regulatory markets including USA, Europe and Japan
New Opportunities		Building differentiated product portfolio across Oncology, Hormones, Depot Injections, Peptides, Inhalers, Patches, Films, Vaccines and Biosimilars

*As on 31st Dec, 2016
Oral segment includes 'Under PEPFAR' tentatively approved ANDAs

Annexure

Gross Sales Break-Up

INR Bn	FY15					FY16					FY17			
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	9M
USA	11.1	11.6	11.8	13.3	47.7	14.1	14.7	15.6	16.3	60.8	17.0	17.4	17.5	51.8
Europe	8.0	7.7	8.6	7.7	31.9	7.4	7.6	7.8	8.4	31.3	8.3	8.1	8.6	25.0
Emerging Market	1.2	1.4	1.2	1.2	4.9	1.6	1.6	1.6	1.6	6.5	1.9	1.8	1.9	5.6
ARV	2.2	1.4	3.3	2.7	9.6	3.0	2.8	3.1	3.3	12.1	3.0	2.8	3.4	9.2
Formulations Sales	**22.5**	**22.0**	**24.9**	**24.8**	**94.2**	**26.2**	**26.7**	**28.1**	**29.7**	**110.6**	**30.3**	**30.0**	**31.3**	**91.7**
Betalactum	4.5	4.5	4.6	4.4	17.9	4.8	4.3	4.5	5.0	18.6	4.9	5.1	5.3	15.3
Non-Betalactum	2.2	2.4	2.2	2.4	9.1	2.5	2.6	2.5	2.7	10.3	2.4	2.6	2.5	7.5
API Sales	**6.7**	**6.9**	**6.7**	**6.8**	**27.1**	**7.2**	**6.9**	**7.0**	**7.7**	**28.8**	**7.3**	**7.7**	**7.8**	**22.8**
Gross Sales	29.2	28.9	31.6	31.6	121.3	33.4	33.6	35.0	37.4	139.5	37.7	37.7	39.1	114.5
Formulations as % of Gross Sales	**77%**	**77%**	**79%**	**79%**	**78%**	**78%**	**80%**	**80%**	**80%**	**79%**	**80%**	**80%**	**80%**	**80%**

- Formulations segment witnessed continuous growth and is now 80% of total sales up from 63% in Q1 FY14
- Vertical integration with in-house API for around 70% of its Formulation products

FY17 numbers are as per Ind AS

5 Year Financial Snapshot

Value INR Bn	FY12	FY13	FY14	FY15	FY16
Net Operating Income	**46.3**	**58.6**	**81.0**	**121.2**	**138.9**
Gross margin % of operating income	45.5%	48.9%	55.5%	54.6%	55.7%
EBITDA (before Fx and other income) % to Operating income	13.2%	15.2%	26.4%	21.2%	23.1%
Depreciation / Amortization	2.0	2.5	3.1	3.3	3.9
Finance Cost	1.0	1.3	1.1	0.8	0.9
PBT (before exceptional item)	**1. 1**	**3.7**	**15.3**	**21.7**	**27.2**
PAT before exceptional items	**2.0**	**2.9**	**11.7**	**15.7**	**19.8**
Total Shareholder Funds	23.4	26.1	37.5	51.6	70.6
Total Gross Debt	31.0	34.4	37.7	44.6	47.1
Net Debt	30.3	32.3	35.9	39.9	38.7
Gross Fixed Assets (net of Goodwill)	30.3	37.1	41.1	49.1	57.6
Ratios					
Gross Debt / Shareholders' funds (x)	1.3	1.3	1.0	0.9	0.7
Net Debt / EBIDTA (x)	5.0	3.6	1.7	1.6	1.2
Asset Turnover Ratio (x)	1.7	1.7	2.1	2.7	2.6

Filing details as on 31st Dec 2016

Category	As at Mar 13	As at Mar 14	As at Mar 15	As at Mar 16	As at Dec 16	Approvals
Formulations						
US*	269	336	376	398	421	303 (FA: 262, TA:41)
Europe**	1,341	1,542	1,756	2,224	2,428	1,574 Dossiers (175 products)
SA**	314	334	345	376	396	182 Registrations (89 products)
Canada***	49	72	83	105	115	94 products
Total	**1,973**	**2,284**	**2,560**	**3,103**	**3,360**	
API						
US	172	181	192	205	214	
Europe**	1,443	1,504	1,601	1,689	1,724	
CoS	109	106	114	118	123	
Others**	565	627	681	715	742	
Total	**2,289**	**2,418**	**2,588**	**2,727**	**2,803**	

In total 404 APIs are filed across geographies with multiple registrations

*Includes filings made from AuroLife Pharma LLC, USA (net of ANDAs withdrawn)

**includes multiple registration; ***excludes withdrawn

For Europe Formulations, as on 31th Dec, 2016 additional 1,468 MAs have been transferred from Actavis

Extensive Manufacturing Base with High Quality Control and Compliance

Finished Dose Formulations

Site	Product Capabilities
Unit III	Non antibiotics, ARVs / Orals
Unit IV	Injectables (Non-antibiotics)&Ophthalmics
Unit VI B	Cephalosporin / Orals
Unit VII	Non antibiotics, ARVs / Orals
Unit XII	Antibiotics, injectables, Orals
AuroNext	Penem formulations
Brazil Unit	Antibiotics
Eugia*	Oncology & Hormones
AuroLife	Non antibiotic & Controlled substances
AuroHealth	Pharma OTC / Orals and Liquids
Natrol	Nutraceuticals
Unit X*	Non antibiotics, Solid Orals
Unit XV	Non antibiotics, Solid & Liquid Orals (EU)
Unit XVI	Antibiotics, Injectables
APL Healthcare	Pharma OTC, Solid Orals

Active Pharma Ingredients

Site	Product Capabilities
Unit I	CVS, CNS, Anti-Allergics, Non-Sterile
Unit IA	Cephalosporin
Unit II	Intermediates for non antibiotics, Penems
Unit V	Antibiotics (Sterile & Non-sterile)
Unit VIA	Cephalosporins (Sterile)
Unit VIII	ARV, CVS, CNS (Non-sterile)
Unit IX	Intermediates
Unit XI	Non antibiotics
Unit XI U	Antibiotics (Non-sterile)
Unit XIV	CVS, Anti fugal
Silicon LS	Penems (Non-sterile)
AuroNext	Penems (Sterile)
AuroPeptide	Peptides

Large manufacturing capabilities approved by key regulators for a diversified product portfolio with technology & expertise for specialty formulations

Vertically integrated operations from conception to commercialization

High specification manufacturing plants approved by key regulators equipped by site dedicated control laboratories located in India

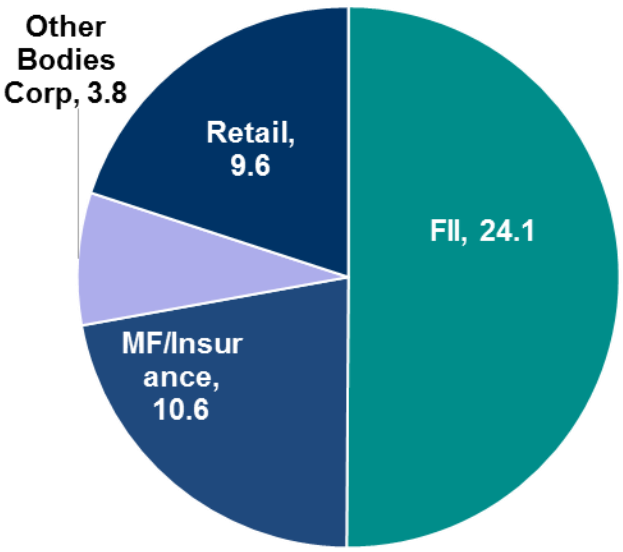
API plants equipped with particle size modifications systems to supply compacted and micronized materials

* Under construction / Yet to be operationalized

Shareholding Pattern

Group	As on 31 Mar 15	As on 31 Mar 16	As on 31 Dec 16
Promoter Group	54.0%	53.9%	51.9%
FII	29.6%	27.4%	24.1%
MF / Insurance	6.2%	7.2%	10.6%
Other Bodies Corporates	1.6%	2.4%	3.8%
Retail Investors	8.6%	9.1%	9.6%
Total	**100%**	**100%**	**100%**
Equity Shares (in Cr)	29.2	58.5	58.5
Face Value (INR)	1	1	1
Equity Capital (INR Cr)	29.2	58.5	58.5
M-Cap at close (INR Bn)	356.7	435.9	432.9
Shareholder family (# '000)	**75.2**	**115.9**	**167.6**

Non-Promoter Holding 48.1%



Thank You

For updates and specific queries, please visit our website **www. aurobindo.com**

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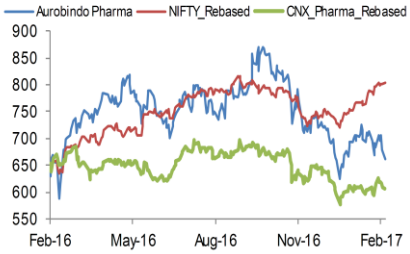
Aurobindo Pharma Ltd.

13 February 2017

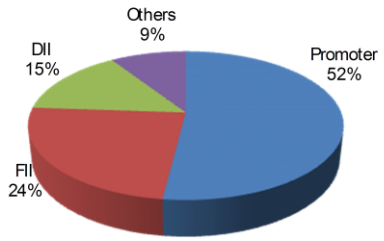
Results disappoint but growth story intact — Strong Buy

Sector	: Pharmaceuticals
Target Price	: Rs 917
Current Market Price	: Rs 660
Market Cap	: Rs 385,849 mn
52-week High/Low	: Rs 895/582
Daily Avg. Volume	: 2,043,069
Shares in issue	: 585 mn
Face Value	: Rs 1
Beta	: 0.8
Year End	: 31st March
BSE Scrip Code	: 524804
NSE Scrip Code	: AUROPHARMA
Bloomberg Code	: ARBP IS
Reuters Code	: ARBN.BO
Nifty	: 8,805
BSE Sensex	: 28,351
Analyst	: Fathima Khan

Price Performance:



Shareholding Pattern



Result update – 3Q FY17

Financial performance

- Aurobindo's revenues grew 12.6% y-o-y and 3.4% q-o-q to Rs 39,141 mn in 3Q FY17 marginally above our expectations. Revenue was driven by 12.0% y-o-y growth in US formulations and 10.3% growth in Europe formulations business while ARVs grew 12.0% y-o-y during the quarter. API sales grew 11.6% y-o-y during the quarter.
- EBITDA increased 12.5% y-o-y but decreased 3.7% q-o-q to Rs 9,028 mn during 3Q FY17. EBITDA margin remained flat q-o-q but decreased 171 bps y-o-y to 23.1% in 3Q FY17 mainly due to higher than expected Cost of Goods Sold and other expense as percentage of revenues, falling short of our expectations for the quarter.
- Adjusted net profit decreased 3.9% q-o-q but increased 13.8% y-o-y to Rs 5,628 mn during 3Q FY17. Adjusted net margin decreased 109 bps q-o-q but remained stagnant y-o-y at 14.4% in 3Q FY17 falling short of our expectations for the quarter.
- Adjusted diluted EPS was Rs 9.7 in 3Q FY17 compared to Rs 10.1 in 2Q FY 17 and Rs 8.5 in 3Q FY16.

Outlook

- Business from US grew tepidly due to one-time charge back and deferment of launch of key molecules. However, European business continued to revive on back of successful shifting of manufacturing base of 42 products to India. However, we expect US business to revive in the coming quarters which launch of key molecules like Epzicom and Meropenem. ARV sales are expected to benefit from meaningful contribution from DTG sales from 2H FY18 onwards.
- The company continues to invest in developing vaccines, microsphere products and some oncology injectables which present large market opportunity with limited competition. These efforts expected to rewarded post FY 2018.
- As of 31 December 2016, Aurobindo had filled cumulative 412 ANDAs with US FDA, out of which 262 ANDAs have been approved (including 41 tentative approvals of which 19 are approved under PEPFAR). During the quarter, 9 new ANDAs including 5 oral products and 4 injectable were filed with US FDA. The company received 19 ANDA approvals (17 Oral and 2 injectable) by US FDA during the quarter. The company transferred 42 products from Europe to India as on 31st December 2017. Shifting of manufacturing of these products from Europe to India helps rationalize cost and improve Actavis profitability which has just turned around. FY 2018 is expected to witness significant number of approvals, driving top-line as well as profitability during the years. The company launched 11 new

products, 8 oral and 3 injectables during the quarter in US. New product launches are expected to drive the company's top-line to grow at a CAGR of 13.1% over FY16-18E. EBITDA margin is expected to benefit from better product mix going forward. We estimate adjusted diluted EPS to be Rs 40.5 and Rs 48.5 in FY 2017 and FY 2018 respectively.

- Considering 3Q FY17 results which fell short of our expectation, we revised downward our estimates for FY 2017.

Valuation

We believe the company's margins will continue to improve aided by launch of new products resulting in better product mix over the long term. Hence, we have valued the business at 19x FY 2018E EPS of Rs 48.5 i.e Rs 922 per share. We assume a target EV/EBITDA multiple of 13x for FY 2018 EBITDA, to arrive at a target price of Rs 919 per share. Aurobindo's DCF valuation is Rs 914 per share. Consequently, using a weighted average methodology we arrive at a share price of Rs 917, generating a 38.8% upside potential in the medium term.

Exhibit 1: 3Q FY17 results (all figures in INR mn, unless specified)

	3Q FY16	2Q FY17	3Q FY17	Q-o-Q change	Y-o-Y change	KSL estimates	Variation in KSL estimates
Total revenues	34,747	37,837	39,141	3.4%	12.6%	40,825	(4.1%)
EBITDA	8,022	9,375	9,028	(3.7%)	12.5%	9,941	(9.2%)
EBITDA margin	23.1%	24.8%	23.1%	(171)bps	(2)bps	24.4%	(129)bps
Adj. net profit*	4,943	5,855	5,628	(3.9%)	13.8%	6,289	(10.5%)
Adj. net margin*	14.2%	15.5%	14.4%	(109)bps	15 bps	15.4%	(103)bps
Adj. EPS (Diluted) (Rs)*	8.5	10.1	9.7	(3.9%)	14.2%	10.8	(10.5%)

**Adjusted for extraordinary items*
Source: Company data, Khambatta Research

Exhibit 2: Revision in estimates (all figures in INR mn, unless specified)

	Previous FY 2017	Revised FY 2017	FY 2018
Total revenue	160,486	156,351	178,763
EBITDA	39,144	37,423	43,797
EBITDA margin	24.4%	23.9%	24.5%
Adjusted net profit*	24,825	23,589	28,255
Adjusted net margin*	15.5%	15.1%	15.8%
Adjusted diluted EPS (Rs)*	42.6	40.5	48.5

**Adjusted for extraordinary items*
Source: Company data, Khambatta Research

Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Strong Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Market-perform recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Underperform recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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Aurobindo Pharma Ltd.

13 February 2017

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AXIS DIRECT

16 FEB 2017 | Quarterly Update

AUROBINDO PHARMA

PHARMACEUTICALS

BUY

Target Price: Rs 800

US pricing, higher R&D to pressure margins

Aurobindo's (ARBP) Q3FY17 EBITDA (up 9% YoY) was 4% below our estimate. Gross/ EBITDA margin declined 180 bps/170 bps QoQ on increased price erosion of key oral solid products (gAbilify, gEntecavir) in US. While injectables grew over 80%, the growth could soften given withdrawal (post injunction) of isosulfan blue. Reduction in net debt (USD 410 mn vs. USD 484 mn in Sep'16) was positive. We expect increased R&D expenses (biosimilars/ liposomal injectables) in FY18/19 to weigh down operating margin.

We cut FY18/19E EPS by 6%/7% given increasing pricing pressure in US and higher R&D costs. We revise TP to Rs 800 (17x Dec'18) vs. Rs 860 earlier. While we expect near term pressure, we maintain **BUY** as we expect growth to pick up with increased capacity in FY18.

CMP	: Rs 706
Potential Upside	: 13%

MARKET DATA

No. of Shares	: 585 mn
Free Float	: 48%
Market Cap	: Rs 413 bn
52-week High / Low	: Rs 895 / Rs 582
Avg. Daily vol. (6mth)	: 2.3 mn shares
Bloomberg Code	: ARBP IB Equity
Promoters Holding	: 52%
FII / DII	: 24% / 11%

- **US (45% of sales) growth slowed to** 10% YoY/flat QoQ (in USD terms) vs. 15% YoY in H1FY17 owing to increased price erosion (7% vs. 4-6% in past) and rebates (4%) in key products. Auro's injectable franchise continued its strong growth trajectory and grew over 80% YoY to USD 42.5 mn. EU business (22% of sales) grew 9% YoY (5% QoQ) despite a mere 1% YoY increase in Euro/INR while EU EBITDA margin has improved to 6-8%. Strong growth witnessed within lower margin businesses - ARV (12% YoY), RoW (16% YoY) and API revenue grew 12% YoY. This also led to gross/ EBITDA margin pressure
- **Slowing US growth in near term; to improve from FY18:** Q3 sales were muted given delay in launches (only 8 launches despite 19 approvals) and capacity constraints apart from pricing pressure. It expects 40 to 45 launches in FY18 including gEpzicom (April'17), gViread (Q4FY18) and gToprol XL (end FY18) in oral solids and additional launches from injectables (Vancomycin, Meropenem). While it has guided for a limited number of meaningful launches in FY18/19, ARBP could launch gRestasis, gFortamet as well (TAD^ for Aug'17) if litigation outcome is favorable (30 month stay expires in Jun'19). ARBP expects volumes to increase as capacities improve: Unit XV for EU (thus freeing Unit VII) from Q1FY18, new injectable lines (Q2FY18) & Unit X (new OSD unit) at Naidupet.

Financial summary (Consolidated)

Y/E March	FY16	FY17E	FY18E	FY19E
Sales (Rs mn)	138,887	154,255	177,711	195,440
Adj PAT (Rs mn)	20,300	23,167	25,695	28,155
Con. EPS* (Rs)	-	42.0	49.7	55.0
EPS (Rs)	34.7	39.6	43.9	48.1
Change YOY (%)	25.1	14.1	10.9	9.6
P/E (x)	20.4	17.8	16.1	14.7
RoE (%)	33.2	29.0	25.3	22.2
RoCE (%)	27.6	25.5	23.9	22.6
EV/E (x)	13.9	12.4	11.1	9.9
DPS (Rs)	2.5	2.5	2.5	2.5

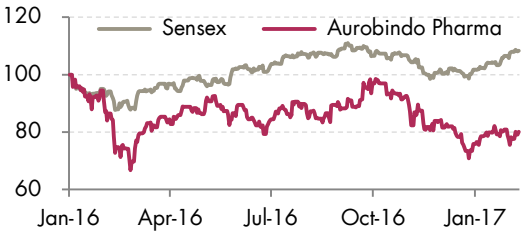
Source: *Consensus broker estimates, Company, Axis Capital

^TAD: Target Action Date

Key drivers

Growth (%)	FY17E	FY18E	FY19E
US	9	13	12
Europe	9	24	6
EBITDA margin	23.8	23.1	22.8
core-EPS	14	11	10

Price performance



(...continued from page 1)

- **Net debt reduction to USD 600 mn by Mar'17:** Net debt declined to USD 410 in Dec'16 (vs. 484 in Sep'16) on account of improvement in working capital and operating cashflows in Q3. There has been some factoring in Q3'17 as well, after USD 150 mn of debt factoring in Q1'17. However, net debt is expected to rise up in Q4FY17, owing to acquisitions of Generis in Portugal (for USD 145-150 mn) and biosimilar portfolio from TL Biopharma (4 products acquired addressing USD 20 bn market opportunity). ARBP expects FY17 net debt to be below USD 600 mn (vs. USD 640 mn in FY16).
- **Key concall highlights:** (1) **R&D expense to increase** to ~5 to 6% in FY18 led by increased expenditures towards liposomal, depo – injectables, peptides and biosimilar products. ARBP expects clinical trials of its key biosimilar product to start in CY18/19 in regulated markets and would consider out-licensing post Phase I to lower costs (to reduce the P&L impact). (2) **EU scale up continues**: Has moved production of another 5 products to India in Q3 (cumulatively transferred 42 products). Further improvement in margins expected post consolidation of Generis acquisition from current levels of 6% to 8% (Generis has EBITDA margin of ~21%).

Exhibit 1: Change in revenue mix (lower US & higher ARV/API) led to lower margin

(Rs mn)	Q3'16	Q2'17	Q3'17	YoY (%)	QoQ (%)
Net revenue	35,056	37,755	39,062	11	3
Gross margin (%)	55.8	58.0	56.2	47 bps	-179 bps
Employee Expenses	4,016	4,266	4,456	11	4
% of revenue	11	11	11	-5 bps	10 bps
Other Expenses	7,355	8,349	8,560	16	3
% of revenue	21	22	22	93 bps	-22 bps
EBITDA	**8,177**	**9,292**	**8,949**	**9**	**(4)**
EBITDA margin (%)	**23.3**	**24.6**	**22.9**	**-42 bps**	**-170 bps**
Other income	75	83	79	5	(4)
Forex(gain)/ loss	(140)	(202)	(158)	13	(22)
Depreciation	994	1,102	1,111	12	1
Interest	227	175	143	(37)	(19)
PBT	7,172	8,299	7,932	11	(4)
Tax	1,742	2,240	2,177	24.9	(2.8)
Tax rate	24	27	27	315 bps	45 bps
Reported PAT	**5,443**	**6,056**	**5,786**	**6**	**(4)**
Adj. PAT*	**5,334**	**5,913**	**5,674**	**6**	**(4)**

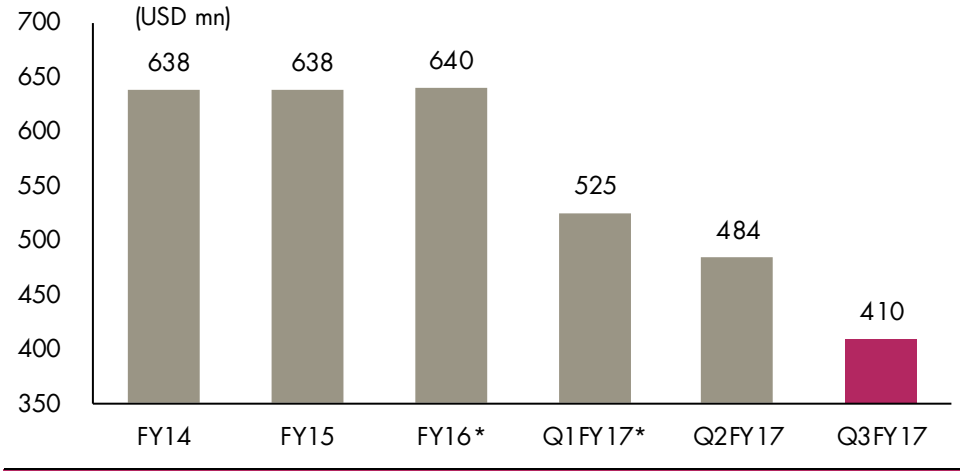
Source: Company As per Ind-AS *PAT adjusted for forex

Exhibit 2: Flat US sales (QoQ) from increased pricing pressures and capacity constraints

(Rs mn)	Q3'16	Q2'17	Q3'17	YoY (%)	QoQ (%)
US (USD mn)	236	259	259	10	(0)
US	15,581	17,351	17,451	12	1
Europe	7,836	8,134	8,554	9	5
ARV	3,054	2,785	3,419	12	23
RoW	1,623	1,768	1,878	16	6
Formulations	**28,094**	**30,038**	**31,302**	**11**	**4**
API	**6,951**	**7,688**	**7,759**	**12**	**1**
Gross revenue	**35,056**	**37,754**	**39,062**	**11**	**3**

Source: Company

Exhibit 3: ARBP expects net debt below USD 600 mn by Mar'17



Source: Company, Axis Capital *Note FY16 debt adjusted for bill-discounting (as per Ind-As); Q1FY17 adjusted for debt factoring of USD 150 mn

Conference call highlights

US business (45% of sales; USD 259 mn +10% YoY/ flat QoQ in USD terms): Growth was lower on account of increased pricing erosion in select products (gAbilify, gEntecavir, etc) and lack of launches due to capacity constraint (despite strong approvals) and 4% one-time impact on sales in Q3. ARBP launched 8 new products in Q3 with 13 new launches targeted for Q4

- Expect volumes to increase going ahead into FY18 with 40 to 45 launches expected in the year. A few large products including gEpzicom, gViread & gFortamet ER (TAD in August'17/ possible launch in FY18 if litigation is positive) as well as ophthalmic products could come through to drive growth
- ARBP had 22 approvals (incl. 3 TAs) in Q3FY17 (vs. 37 approvals in H1, 49 approvals in FY16)
- **Injectables:** Total sales were USD 43 mn in Q3. Remains on track for 50% YoY growth for the next several years. 3 additional launches in Q3 (10 in 9MFY17) and expects 3 launches in Q4.
  - **Vancomycin:** Expects launch in Q2FY18
  - **Isosulfan Blue** sales have halted as a preliminary injunction was awarded (under appeal), but does not expect this to affect sales momentum (maintains growth guidance of 50% YoY)

- **gEpzicom and gViread:** Launches are expected in Q1FY18 and Q4FY18
- **gForatmet**: ARBP has TAD in Aug'17 and is working to launch earlier than its 30 month stay (June 2019) if litigation outcome is favorable
- **Esomeprazole:** Very small level of sales in Q3 as no big customers was acquired. Expects this to improve going ahead
- **Metoprolol XL**: Filing by end of FY18
- **Aurolife:** Has seen further demand from government tenders in Q3. Aims to treble capacity over coming years as growth would come from controlled substances (10 filings made, 15 expected in FY18). Annual base of this business is ~USD 50 to 55 mn.
- **Natrol:** Performance is as expected. Short to medium term growth will be from increasing penetration of current portfolio as well as enriching pipeline through innovation (dietary supplements etc)
- **Price erosion:** was 13% YoY/7% QoQ, largely in oral solids segment in the quarter. Drivers of this continue to be channel consolidation and pricing competition from new approvals. No significant shortages in supply of late which could have helped to contain price erosion

EU business (22% of sales): Higher growth expected ahead as further consolidation of business would lead to margin improvement (current EBITDA margin at ~6 to 8%). ARBP has transferred manufacturing of 5 products to India in Q3 with 42 in total as on date. 63 products have been dispatched from Unit XII and Unit III to European markets. Manufacturing at India facility (Unit XV) will come online soon.

R&D: R&D expenses was Rs 1.32 bn (3.3% of Q3 sales vs 3.9% of Q2'17). ARBP filed 9 ANDAs (5 in orals and 4 in injectables) in Q3'17 (23 in 9M'17; 22 in FY16)

- **Penems:** Awaiting approval of Meropenem from USFDA post facility audit for the product. Penems facility (Auronext) would be able to become profitable once more products come through
- Clinical trials for acquired biosimilars by CY18 to CY19 with P&L impact to be spread across 2 years. Would explore out-licensing in some markets (eg. EMs) after Phase I trials to lower cost of development
- Expects R&D to be at ~5 to 6% over the next couple of years given increase in expenditure towards liposomal, peptides and biosimilar products. R&D would be higher in FY18 from depo-injectable products

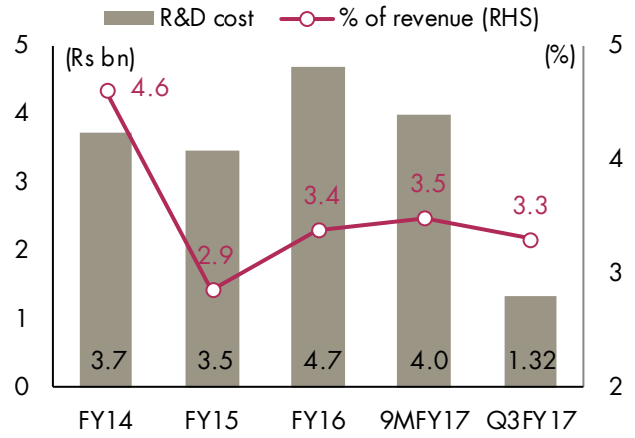
Acquisition of 4 biosimilar products from TL Biopharmaceutical AG: The molecules had branded sales of USD 20 bn in 2016. TL will supply all the developmental data for 4 molecules and Aurobindo will develop, commercialize and market these products globally. Of the 4 biosimilars, 3 are monoclonal antibodies in oncology. Regulatory filing for these products is intended in 2020-22 with focus on clinical trials in regulated markets. Has set up a fully functional R&D center for biologics development and is also establishing a state-of-art manufacturing facility in Hyderabad, Telangana which would be ready by Q2FY18.

P&L: Other expenses (ex-R&D) were higher on account of a provision of USD 4.5 mn made towards a particular customer which is one-time in nature

Net debt currently stands at USD 410 mn (USD 484 mn in Sep'16 post USD 150 mn of debt factoring in Q1'17) There has been some factoring in Q3'17 as well, after USD 150 mn of debt factoring in Q1'17. Net debt of USD 584 mn in Mar'16 was reclassified as USD 640 mn given inclusion of bill-discounting (as per IND-AS adjustments). Improvement in net debt on account of improved working capital and operating cash flows in Q3. However, acquisition in Portugal will increase debt from Q4; Expect debt at below USD 600 mn by end of FY17.

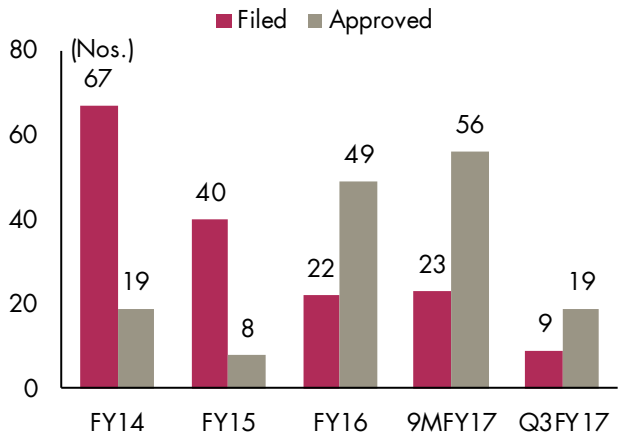
Capex: USD 55 mn of capex during the quarter.

Exhibit 4: R&D expense expected to increase to ~5%...



Source: Company

Exhibit 5: ...to support continued filing momentum



Source: Company

Exhibit 6: Facility-wise ANDA filings

	Filed				Approved				Pending			
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-16	Jun-16	Sep-16	Dec-16	Mar-16	Jun-16	Sep-16	Dec-16
Total Orals	309	312	317	322	202	217	227	244	107	95	88	78
Unit VII (SEZ)	148	151	155	158	69	81	89	102	79	70	66	56
Total Injectables	81	83	86	90	41	44	49	51	40	39	37	39
Unit IV	67	68	71	75	30	33	38	40	37	35	33	35
Total	**390**	**403**	**412**	**421**	**243**	**269**	**284**	**303**	**147**	**134**	**126**	**118**

Source: Company Note: 303 FAs includes 41 TAs

Exhibit 7: Market share trends in key products

Generic name	Brand name	Brand sales / market size (USD mn)	#No. of players	Market share					
				Jun'15	Dec'15	Mar'16	Jun'16	Sept'16	Dec'16
Rosuvastatin Calcium*	Crestor	6,780	9	-	-	-	-	9%	10%
Pantoprazole Sodium.Inj.	Protonix	94	3	-	-	10%	13%	7%	5%
Valganciclovir	Valcyte	440	4	-	-	-	5%	10%	29%
Isosulfan Blue	Lymphazurin	57	2	-	-	15%	46%	53%	71%
Aripiprazole	Abilify	4,764	7	-	3%	6%	7%	7%	5%
Entecavir	Baraclude	206	4	-	6%	18%	41%	43%	35%
Eptifibatide Inj.	Interiglin	137	2	-	1%	68%	59%	55%	48%
Cefixime OS	Suprax	80	2	12%	21%	24%	26%	23%	27%
Tazo-pip	Zosyn	635	7	22%	20%	14%	10%	7%	10%
Duloxetine*	Cymbalta	5,100	16	22%	24%	24%	24%	24%	25%
Valsartan+HCTZ	Diovan HCT	1,700	8	25%	29%	30%	29%	31%	33%
Lamivudine+ Zidovudine	Combivir	275	7	20%	23%	16%	8%	9%	6%
Metformin	Glucophage	-	>10	16%	25%	25%	17%	15%	15%

Source: Bloomberg, Company, Axis Capital; *sold through partner Citron Pharma

Exhibit 8: R&D investments for the future

Key areas of Investments	Key initiatives	No of Products	Filings
OTC (Over the counter) & softgel products	Acquired production facility in Lawrenceville, NJ US	35	Yes (ANDA filings)
Peptides	♦ Filed 3 DMF's and work ongoing on more ♦ Forward integrating by developing microspheres (Mkt. size USD 3 bn)	More than 10	2015 (DMF filings)
Oncology & Hormonal products	Dedicated R&D centre to develop solid and parenteral dosages- Exhibit batches for 5 hormones and 15 oncology products are scheduled in FY16-17	63	2015-16 (DMF filings)
Penems (injectables)	♦ Filings of all products (four) complete	4	ANDA filings
Synthetic nutraceuticals	Process development work completed	-	-
Dry Powder Inhalers (DPI), Patches, Films and Depot injections	Underdevelopment	-	-

Source: Company

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Net sales	138,887	154,255	177,711	195,440
Other operating income	74	100	100	100
Total operating income	**138,961**	**154,355**	**177,811**	**195,540**
Cost of goods sold	(61,575)	(67,044)	(76,212)	(82,274)
Gross profit	77,386	87,311	101,599	113,266
Gross margin (%)	*55.7*	*56.6*	*57.2*	*58.0*
Total operating expenses	(45,330)	(50,536)	(60,606)	(68,752)
EBITDA	**32,056**	**36,776**	**40,994**	**44,514**
EBITDA margin (%)	*23.1*	*23.8*	*23.1*	*22.8*
Depreciation	(3,926)	(5,001)	(5,414)	(5,827)
EBIT	**28,130**	**31,774**	**35,579**	**38,686**
Net interest	(927)	(741)	(711)	(651)
Other income	682	853	896	985
Profit before tax	**27,704**	**31,886**	**35,764**	**39,020**
Total taxation	(7,444)	(8,769)	(10,014)	(10,926)
Tax rate (%)	*26.9*	*27.5*	*28.0*	*28.0*
Profit after tax	20,261	23,117	25,750	28,094
Minorities	39	50	(55)	61
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	20,300	23,167	25,695	28,155
Adj. PAT margin (%)	*14.6*	*15.0*	*14.5*	*14.4*
Net non-recurring items	(480)	-	-	-
Reported net profit	19,820	23,167	25,695	28,155

Balance sheet (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Paid-up capital	585	585	585	585
Reserves & surplus	69,982	88,790	113,125	139,919
Net worth	70,567	89,376	113,710	140,504
Borrowing	40,762	49,418	47,418	43,418
Other non-current liabilities	2,364	2,364	2,364	2,364
Total liabilities	**114,289**	**141,753**	**164,087**	**186,882**
Gross fixed assets	62,110	84,766	91,766	98,766
Less: Depreciation	(19,713)	(24,714)	(30,128)	(35,955)
Net fixed assets	42,398	60,053	61,638	62,811
Add: Capital WIP	10,238	11,773	13,539	15,570
Total fixed assets	52,635	71,826	75,178	78,381
Total Investment	2	2	2	2
Inventory	40,881	44,375	51,122	56,222
Debtors	41,719	33,809	49,662	54,616
Cash & bank	8,344	6,398	3,940	16,101
Loans & advances	10,795	11,569	12,440	13,681
Current liabilities	42,704	36,725	38,756	42,622
Net current assets	61,652	69,925	88,908	108,499
Other non-current assets	-	-	-	-
Total assets	**114,289**	**141,753**	**164,087**	**186,882**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17E	FY18E	FY19E
Profit before tax	27,704	31,886	35,764	39,020
Depreciation & Amortisation	3,926	5,001	5,414	5,827
Chg in working capital	*(5,558)*	*(1,311)*	*(20,318)*	*(5,936)*
Cash flow from operations	**19,223**	**30,161**	**14,639**	**31,979**
Capital expenditure	*(15,682)*	*(22,656)*	*(7,000)*	*(7,000)*
Cash flow from investing	**(15,682)**	**(22,656)**	**(7,000)**	**(7,000)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(5,173)*	*8,656*	*(2,000)*	*(4,000)*
Dividend paid	*(1,342)*	*(1,584)*	*(1,584)*	*(1,584)*
Cash flow from financing	**(14,874)**	**6,331**	**(4,295)**	**(6,235)**
Net chg in cash	(11,332)	13,836	3,344	18,744

Key ratios

Y/E March	FY16	FY17E	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	34.7	39.6	43.9	48.1
CEPS (Rs)	40.6	48.1	53.2	58.1
DPS (Rs)	2.5	2.5	2.5	2.5
Dividend payout ratio (%)	7.4	6.3	5.7	5.2
GROWTH				
Net sales (%)	14.7	11.1	15.2	10.0
EBITDA (%)	25.0	14.7	11.5	8.6
Adj net profit (%)	25.4	14.1	10.9	9.6
FDEPS (%)	25.1	14.1	10.9	9.6
PERFORMANCE				
RoE (%)	33.2	29.0	25.3	22.2
RoCE (%)	27.6	25.5	23.9	22.6
EFFICIENCY				
Asset turnover (x)	1.5	1.3	1.2	1.2
Sales/ total assets (x)	1.0	0.9	0.9	0.9
Working capital/ sales (x)	0.4	0.4	0.4	0.5
Receivable days	109.6	80.0	102.0	102.0
Inventory days	139.6	137.8	136.4	135.9
Payable days	86.3	85.3	84.4	84.1
FINANCIAL STABILITY				
Total debt/ equity (x)	0.7	0.6	0.5	0.3
Net debt/ equity (x)	0.5	0.5	0.4	0.2
Current ratio (x)	2.4	2.9	3.3	3.5
Interest cover (x)	30.3	42.9	50.0	59.4
VALUATION				
PE (x)	20.4	17.8	16.1	14.7
EV/ EBITDA (x)	13.9	12.4	11.1	9.9
EV/ Net sales (x)	3.2	3.0	2.6	2.3
PB (x)	5.9	4.6	3.6	2.9
Dividend yield (%)	0.4	0.4	0.4	0.4
Free cash flow yield (%)	0.9	1.8	1.8	6.0

Source: Company, Axis Capital

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INDIA

BUY

Aurobindo Pharma

Pharma

Result update **10 February 2017**

Diversified product basket, maintain Buy

We maintain our Buy rating on Aurobindo Pharma (APL), with a TP of Rs1,110 (earlier Rs1,060) based on 18x March'19E EPS of Rs61.7. APL's Q3FY17 results were below our expectations. APL reported 11% YoY sales growth, a 40bps decline in margin to 22.9%, and 6% YoY net profit growth. Its entry into specialised segments such as injectable, penam, microspheres, hormones, oncology, depot injections and peptides would help improve margins. APL has developed a strong pipeline of 421 ANDA for the US market. The management expects approvals for many of its injectable in FY18. APL is among our top picks in the pharma sector.

- **US formulations grew 12% YoY:** APL's formulations business (80% of revenues) grew 11% YoY to Rs31.30bn from Rs28.09bn, led by strong growth in the US business. Its US formulations (45% of revenues) grew by 12% YoY to Rs17.45bn from Rs15.58bn due to new product launches. Formulations in the EU and RoW (27% of revenues) grew by 10% YoY to Rs10.43bn from Rs9.46bn due to good growth in the emerging market business. ARV formulations business (9% of revenues) grew by 12% YoY. The company's API business (20% of revenues) grew 12% YoY to Rs7.76bn from Rs6.95bn. The management expects the US business to drive future growth from new launches.
- **Margins set to improve:** APL's EBIDTA margins declined by 40bps YoY to 22.9% from 23.3% due to decline in rise in other expenses. Its material cost declined by 40bps to 43.8% from 44.2%. Personnel expenses declined by 10bps to 11.4% from 11.5%. Other expenses grew by 90bps to 21.9% from 21.0%. APL has made a provision of $4.5mn (Rs305mn) as chargeback in the US. We expect new product launches, ARV tender supplies, controlled substances, and the injectable businesses in the US to aid in margin improvement.
- **Net profit grew by 6% YoY:** APL's net profit grew by 6% YoY to Rs5.76bn from Rs5.43bn. The company's tax rate grew to 27.4% from 24.3% of PBT. Forex gain was Rs158mn as against forex gain of Rs140mn. We expect its net profit to grow further led by strong revenue growth and expected margin improvement.
- **Attractive valuations and key risks:** We maintain our Buy rating on the scrip, with a TP of Rs1,110 based on 18x March'19E EPS of Rs61.7, and with an upside of 57% from CMP. APL is among our top picks in the pharma sector. Key risks to our assumptions include slower growth in the US business and regulatory risks for its manufacturing facilities.

Particulars (Rs mn)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	Q3FY17E	% Var.
Net sales	**39,062**	**35,056**	***11.4***	**37,755**	***3.5***	**40,315**	***(3.1)***
Raw material cost	17,097	15,508	*10.2*	15,848	*7.9*	17,400	*(1.7)*
Employee cost	4,456	4,016	*11.0*	4,266	*4.5*	4,600	*(3.1)*
Other expenses	8,560	7,355	*16.4*	8,349	*2.5*	8,400	*1.9*
EBIDTA	**8,949**	**8,177**	***9.4***	**9,292**	***(3.7)***	**9,915**	***(9.7)***
EBIDTA margin (%)	*22.9*	*23.3*		*24.6*		*24.6*	
Depreciation	1,111	994	*11.8*	1,102	*0.8*	1,300	*(14.5)*
Interest	143	227	*(37.0)*	175	*(18.3)*	180	*(20.6)*
Other income	79	75	*5.3*	83	*(4.8)*	90	*(12.2)*
PBT	7,932	7,171	*10.6*	8,300	*(4.4)*	8,585	*(7.6)*
Prov. For tax	2,177	1,742	*25.0*	2,240	*(2.8)*	2,400	*(9.3)*
Adj. PAT	**5,758**	**5,443**	***5.8***	**6,064**	***(5.0)***	**6,180**	***(6.8)***

Source: Company, Centrum Research Estimates

Target Price	Rs1,110
CMP*	Rs707
Upside	*57.0%*
Previous Target	Rs1,060
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
ARBP IN	*1.0*	*(5.2)*	*2.2*
Nifty	*6.2*	*2.6*	*22.0*

Key Data	
Bloomberg Code	ARBP IN
Curr Shares O/S (mn)	584.0
Diluted Shares O/S(mn)	584.0
Mkt Cap (Rsbn/USDbn)	413.6/6.2
52 Wk H / L (Rs)	895/582
5 Year H / L (Rs)	895/49.8
Daily Vol. (3M NSE Avg.)	2174810

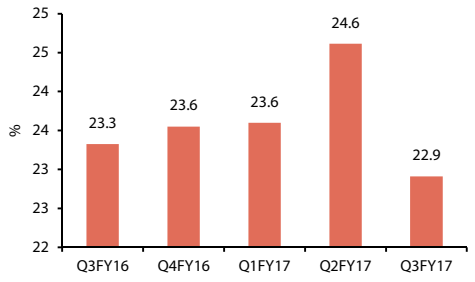
**as on 9th February 2017 Source: Bloomberg, Centrum Research*

Shareholding pattern *(%)

	Dec-16	Sept-16	June-16	Mar-16
Promoter	*51.9*	*53.8*	*53.8*	*53.8*
FIIs	*24.1*	*26.7*	*26.1*	*27.4*
DIIs	*11.0*	*7.8*	*8.0*	*7.2*
Others	*13.0*	*11.7*	*12.1*	*11.6*

*Source: BSE, *as on 9th February 2017*

Trend in EBIDTA margin (%)



Source: Company, Centrum Research Estimates

Earnings Revision

Particulars (Rs mn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	1,59,598	1,70,770	(6.5)	1,93,355	1,98,655	*(2.7)*
EBITDA	37,609	41,181	(8.7)	46,995	49,995	*(6.0)*
EBITDA Margin (%)	*23.6*	*24.1*	*(50)bps*	*24.3*	*25.2*	*(90)bps*
PAT-adj.	23,689	26,561	(10.8)	30,295	34,345	*(11.8)*

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY17E			FY18E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	1,59,598	157,914	*1.1*	1,93,355	18,0461	*7.1*
EBITDA	37,609	37,851	*(0.6)*	46,995	44,213	*6.3*
PAT	23,689	24,442	*(3.1)*	30,295	28,999	*4.5*

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
36	1	2	945	1,110	*(14.8)*

**as on 9th February 2017 Source: Bloomberg, Centrum Research*

Ranjit Kapadia, *ranjit kapadia@centrum.co.in;* 91 22 4215 9645

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	1,21,204	*49.6*	25,636	*21.2*	15,668	*34.5*	26.9	*35.2*	*19.4*	33.3	11.6
FY16	1,38,683	*14.4*	31,779	*22.9*	19,466	*24.2*	33.4	*32.0*	*20.7*	22.2	14.7
FY17E	1,59,598	*15.1*	37,609	*23.6*	23,529	*20.9*	40.5	*29.0*	*20.0*	19.1	12.6
FY18E	1,93,355	*21.2*	46,995	*24.3*	30,095	*27.9*	51.8	*28.4*	*22.9*	15.0	9.8
FY19E	2,21,680	*14.6*	55,595	*25.1*	35,835	*19.1*	61.7	*26.3*	*23.1*	12.6	7.9

Source: Company, Centrum Research Estimates

Concall highlights

Major products and key markets

- The management informed that the company filed 9 ANDAs with US FDA (5 oral, 4 injectable) during Q3FY17 and also received approvals for 22 ANDAs (19 final and 3 tentative) during the same period.
- As per management 9 ANDAs were filed in Q3FY17(5 oral, 4 injectable).
- The management expects a higher number of approvals in Q4FY17.
- The management indicated that 42 products of Actavis have been site transferred to Vizag, and has plans to transfer 72 more products to Vizag.
- APL plans to enter new therapeutic areas in the US with new launches across oncology, microsphere, peptide, liposomal, hormones, oral contraceptives, depot injections and complex substance filings. The upside from these businesses is expected FY18 onwards.
- The management indicated that the vertical integration of in-house APIs stood at ~70%.
- The management indicated that pricing pressure in the US has led to 6-7% reduction in prices. The price reduction during the year was ~20% which was partly offset by volume growth and new product launches.
- APL is the leading player in ARV and faces limited competition due to few players in this space.
- APL has acquired four biosimilar molecules from TL Biopharma, Switzerland for an undisclosed sum. Three of them are in the anticancer segment. The company is likely to commence clinical trials in FY18.

US FDA approvals and new product launches

- APL filed 421 ANDAs with US FDA, of which 303 have been approved (including 41 tentative); hence, it has a rich product pipeline for the US market. APL has developed a pipeline of 15 injectable oncology products for the US market. The company has received tentative approvals for 21 ANDAs under PEPFAR.
- No major observations regarding its manufacturing facilities are pending with the US FDA.
- As per the management, APL has filed 3 DMFs for peptides and has plans to generate a strong pipeline.
- APL had filed 214 DMFs with US FDA of which 4 were in Q3FY17.
- The management stated that the controlled substance business generates revenues of $50-55mn (Rs3.4-3.7bn) per annum.

Financials

- The management indicated a net debt of $410mn (Rs27.9bn) by end of Q3FY17. About 98% of the debt is in foreign currency. The average interest cost is ~2%.
- Forex gain was Rs158mn in the third quarter as against forex gain of Rs140mn a year ago.
- Other expenses include a $4.5mn (Rs300mn) provision for customers claiming chargebacks.
- The management has guided for R&D expenses of ~5% of revenues during FY17. This is likely to surge to 5-6% in FY18 and FY19 due to clinical trial of biosimilars.
- The management indicated reduction in the material cost due to a change in the product mix.
- APL incurred $55mn (Rs3.74bn) on capex in Q3FY17.
- The management has guided tax rate of 26-27% for FY17 and 27% for FY18.

Sales Composition

APL's revenue rose 12% to Rs39.06bn in Q3FY17 from Rs35.06bn a year ago, led by good growth in its US formulations business. APL's formulations business (80% of revenues) grew by 11% YoY to Rs31.30bn from Rs28.09bn, driven by strong growth in the US market. Formulations sales in the US (45% of revenues) grew by 12% YoY to Rs17.45bn from Rs15.58bn due to new product launches and volume growth. The US formulation business witnessed ~6% price reduction. Formulations sales in the EU and RoW (27% of revenues) grew by 10% YoY to Rs10.43bn from Rs9.46bn due to good growth in emerging markets. APL's ARV formulations business (9% of revenues) grew at 12% YoY. The growth in the formulations business was mainly driven by the US and ARV businesses.

The company's API business (20% of revenues) grew 12% YoY to Rs7.76bn from Rs6.95bn due to higher growth of betalactum products. The vertical integration of in-house API stood at ~70%. Betalactam API business (13% of revenues) grew 17%YoY to Rs5.25bn from Rs4.49bn. The non-betalactam API business (7% of revenues) grew 2% YoY to Rs2.51bn from Rs2.46bn.

The details are as follows:

Exhibit 1: Sales composition

Particulars (Rs mn)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	Q3FY17E	% Var.
FORMULATIONS							
Formulations-USA	17,451	15,581	*12.0*	17,351	*0.6*	18,000	*(3.1)*
Formulations-EU & ROW	10,432	9,457	*10.3*	9,902	*5.4*	11,300	*(7.7)*
Formulations-ARV	3,419	3,054	*12.0*	2,785	*22.8*	3,300	*3.6*
Formulations-total	**31,302**	**28,092**	***11.4***	**30,038**	***4.2***	**32,600**	***(4.0)***
API							
API-Betalactum	5,250	4,493	*16.8*	5,113	*2.7*	5,400	*(2.8)*
API- Non betalactum	2,509	2,459	*2.0*	2,575	*(2.6)*	2,300	*9.1*
API-Total	**7,759**	**6,952**	***11.6***	**7,688**	***0.9***	**7,700**	***0.8***
Dossier income	1	11	*(90.9)*	28	*(96.4)*	15	*(93.3)*
Total income	**39,062**	**35,055**	***11.4***	**37,754**	***3.5***	**40,315**	***(3.1)***
Excise duty	0	0	*NA*	0	*NA*	0	*NA*
Net sales	39,062	35,055	*11.4*	37,754	*3.5*	40,315	*(3.1)*

Source: Company, Centrum Research

Acquisitions well- integrated

The Actavis generics business in Europe and Natrol nutraceutical business in the US are well integrated with APL and are performing well. The Actavis business' EBIDTA margin stood at ~7% in Q3FY17. Also, Natrol performed in line with management's expectations. As per the management, Natrol is expected to grow at a 15% CAGR over the next two to three years and currently does not face any capacity constraints.

We expect APL to report good performance, driven by strong growth in the US market from controlled substances, new ANDA approvals and the injectable business. The company is likely to benefit from ARV tender supplies. The recent acquisition of four biosimilar molecules from TL Pharmaceuticals, Switzerland would help it enter into a new line of business of biosimilars.

At the CMP of Rs707, the stock trades at 19.1x FY17E EPS of Rs40.5 and 15.0x FY18E EPS of Rs51.8 and 12.6x FY19E EPS of Rs61.7. We maintain our Buy rating on the scrip, with a TP of Rs1,110 based on 18x March'19E EPS of Rs61.7, and with an upside of 57.0% from CMP. We have revised FY17E and FY18E EPS estimates downwards by 11% and 12% respectively. APL is among our top picks in the pharma sector. Key risks to our assumptions include slower growth in the US business and regulatory risks for its manufacturing facilities.

Exhibit 2: Earnings revision

Particulars	FY17E			FY18E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	1,59,598	1,70,770	*(6.5)*	1,93,355	1,98,655	*(2.7)*
EBIDTA	37,609	41,181	*(8.7)*	46,995	49,995	*(6.0)*
EBIDTA margin (%)	*23.6*	*24.1*	*(50)bps*	*24.3*	*25.2*	*(90)bps*
Net profit	23,689	26,561	*(10.8)*	30,295	34,345	*(11.8)*

Source: Centrum Research Estimates

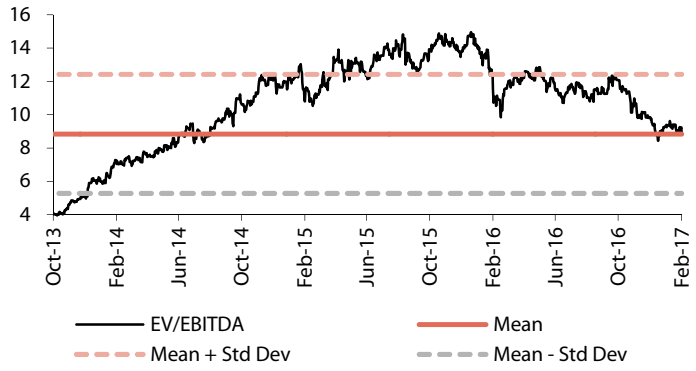
Valuation

Exhibit 3: Sensitivity Analysis

Sensitivity to key variables – FY17E	% change	% impact on EBITDA	% impact on EPS
Sales	*1*	*4.2*	*6.7*
Material cost	*1*	*(1.8)*	*(2.9)*

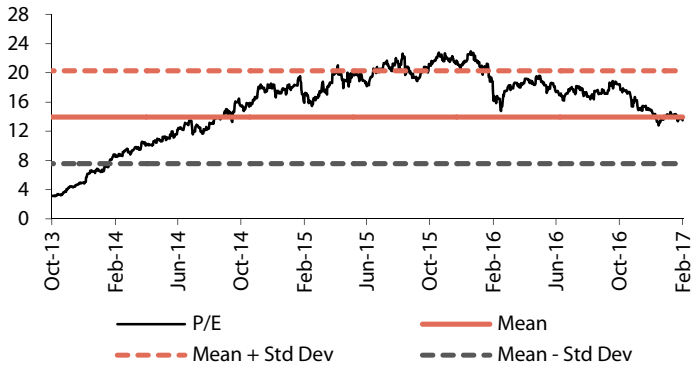
Source: Company, Centrum Research Estimates

Exhibit 4: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Aurobindo	**4,13,595**	***18.1***	***21.6***	***24.5***	***22.9***	***23.6***	***24.3***	**22.2**	**19.1**	**15.0**	**14.7**	**12.6**	**9.8**	***32.0***	***29.0***	***28.4***	***0.4***	***0.4***	***0.5***
Cipla	4,72,399	*15.4*	*18.1*	*16.3*	*18.3*	*17.8*	*19.1*	33.8	28.3	21.4	21.9	16.6	13.1	*13.3*	*12.0*	*13.9*	*0.3*	*0.5*	*0.7*
Dr. Reddy's Labs	5,00,609	*1.7*	*(5.4)*	*(2.7)*	*24.0*	*19.7*	*20.8*	24.9	32.7	27.5	17.1	19.0	14.9	*16.6*	*10.8*	*11.8*	*0.6*	*0.8*	*1.0*
Lupin	6,71,696	*18.8*	*21.8*	*19.2*	*26.4*	*26.9*	*27.7*	35.8	24.7	21.4	23.4	15.4	13.1	*22.9*	*23.9*	*23.1*	*0.5*	*0.6*	*0.7*

Source: Company, Centrum Research Estimates Prices as on 9TH February 2017

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 7: Quarterly Financials -consolidated

PARTICULARS (Rs mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
P & L								
Revenues	31,621	32,989	33,652	35,056	37,468	37,666	37,755	39,062
Material cost	13,736	15,124	15,121	15,508	16,271	16,777	15,848	17,097
Personnel expenses	3,733	3,612	3,730	4,016	4,088	4,321	4,266	4,456
Other Expenses	7,591	7,003	7,009	7,355	8,285	7,679	8,349	8,560
Total Expenses	25,060	25,739	25,860	26,879	28,644	28,777	28,463	30,113
EBIDTA	6,561	7,251	7,792	8,177	8,824	8,889	9,292	8,949
Other income	67	294	122	75	206	159	83	79
PBDIT	6,628	7,544	7,914	8,252	9,030	9,048	9,375	9,028
Interest	226	208	241	227	251	206	175	143
Depreciation	847	890	926	994	1113	1062	1102	1111
Forex gain /(loss)	12	(106)	(439)	140	46	70	202	158
Profit before tax	5,567	6,340	6,308	7,171	7,712	7,850	8,300	7,932
Tax provision	1534	1634	1767	1742	2097	2008	2240	2177
Net profit before minority	4,033	4,706	4,541	5,429	5,615	5,842	6,060	5,755
Share of profit of JV	(5)	19	(5)	14	(14)	8	(4)	31
Net profit	4,028	4,725	4,536	5,443	5,601	5,850	6,056	5,786
Growth (%)								
Revenues	*35.7*	*13.3*	*16.8*	*10.7*	*18.5*	*14.2*	*12.2*	*11.4*
EBIDTA	*(11.7)*	*10.2*	*22.3*	*33.5*	*34.5*	*22.6*	*19.3*	*9.4*
Net profit	*(19.7)*	*13.7*	*21.9*	*41.6*	*39.1*	*23.8*	*33.5*	*6.3*
Margin (%)								
EBIDTA	*20.7*	*22.0*	*23.2*	*23.3*	*23.6*	*23.6*	*24.6*	*22.9*
Profit before tax	*17.6*	*19.2*	*18.7*	*20.5*	*20.6*	*20.8*	*22.0*	*20.3*
Net margin before EO	*12.7*	*14.3*	*13.5*	*15.5*	*14.9*	*15.5*	*16.0*	*14.8*

Source: Company, Centrum Research

Exhibit 8: Key performance indicators

Key performance indicator	FY15	FY16	FY17E	FY18E	FY19E
Sales Growth %	*49.6*	*14.4*	*15.1*	*21.2*	*14.6*
Material cost %	*45.4*	*44.4*	*43.3*	*43.0*	*42.7*

Source: Centrum Research Estimates

Financials -consolidated

Exhibit 9: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	1,21,204	1,38,683	1,59,598	1,93,355	2,21,680
Material cost	55,055	61,575	69,060	83,130	94,755
% of revenues	*45.4*	*44.4*	*43.3*	*43.0*	*42.7*
Employee cost	13,023	15,508	18,460	21,810	24,600
% of revenues	*10.7*	*11.2*	*11.6*	*11.3*	*11.1*
Other Expenses	27,490	29,821	34,469	41,420	46,730
% of revenues	*22.7*	*21.5*	*21.6*	*21.4*	*21.1*
EBIDTA	25,636	31,779	37,609	46,995	55,595
EBIDTA margin (%)	*21.2*	*22.9*	*23.6*	*24.3*	*25.1*
Depreciation & Amortisation	3,326	3,926	4,700	5,300	6,060
EBIT	22,310	27,853	32,909	41,695	49,535
Interest Expenses	843	2,567	700	500	430
PBT from operations	21,467	25,286	32,209	41,195	49,105
Other income	212	1,663	500	700	850
PBT	21,679	26,949	32,709	41,895	49,955
Tax provision	5,966	7,444	9,100	11,700	14,000
Effective tax rate (%)	*27.5*	*27.6*	*27.8*	*27.9*	*28.0*
Net profit	15,713	19,505	23,609	30,195	35,955
Minority interest	45	39	80	100	120
Reported net profit	15,668	19,466	23,529	30,095	35,835
Adj. Net profit	15,668	19,466	23,529	30,095	35,835

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Growth Ratios (%)					
Revenues	*49.6*	*14.4*	*15.1*	*21.2*	*14.6*
EBIDTA	*20.3*	*24.0*	*18.3*	*25.0*	*18.3*
Adj. Net Profit	*34.5*	*24.2*	*20.9*	*27.9*	*19.1*
Margin Ratios (%)					
EBIDTA margin	*21.2*	*22.9*	*23.6*	*24.3*	*25.1*
PBT from operations margin	*17.7*	*18.2*	*20.2*	*21.3*	*22.2*
Adj. PAT margin	*12.9*	*14.0*	*14.7*	*15.6*	*16.2*
Return Ratios (%)					
RoCE	*19.4*	*20.7*	*20.0*	*22.9*	*23.1*
RoE	*35.2*	*32.0*	*29.0*	*28.4*	*26.3*
RoIC	*19.9*	*20.8*	*21.6*	*24.6*	*26.0*
Turnover ratios (days)					
Gross Block Turnover (x)	2.7	2.3	2.2	2.4	2.4
Debtors	107	110	107	110	108
Creditors	62	67	98	100	97
Inventory	109	107	111	109	109
Cash Conversion Cycle	153	150	120	119	120
Solvency Ratio					
Debt-Equity	0.7	0.6	0.3	0.1	0.1
Net Debt-Equity	0.7	0.5	0.2	0.1	(0.1)
Current Ratio	2.4	2.4	2.2	2.1	2.3
Interest Coverage Ratio	0.0	0.1	0.0	0.0	0.0
Gross Debt/EBIDTA	1.5	1.3	0.8	0.4	0.3
Per Share (Rs)					
FDEPS (adjusted)	26.9	33.4	40.5	51.8	61.7
CEPS	32.6	40.1	48.5	60.8	72.0
Book Value	176.6	120.2	157.1	204.7	261.6
Dividend	4.5	2.5	3.0	3.5	4.0
Dividend Payout (%)	*6.7*	*8.0*	*7.4*	*6.9*	*6.8*
Valuations (x) (Avg Mkt Cap)					
PER	33.3	22.2	19.1	15.0	12.6
P/BV	5.1	6.2	4.9	3.8	3.0
EV/EBIDTA	11.6	14.7	12.6	9.8	7.9
Dividend Yield (%)	*0.4*	*0.4*	*0.4*	*0.5*	*0.5*
5-yr Avg AOCF/EV yield(%)	*2.2*	*2.0*	*2.9*	*3.8*	*5.1*

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

Share capital	FY15	FY16	FY17E	FY18E	FY19E
Share capital	292	585	585	585	585
Reserves & surplus	51,266	69,705	91,306	1,19,164	1,52,455
Total shareholders Funds	51,558	70,290	91,891	1,19,749	1,53,040
Total Debt	38,635	40,762	31,620	17,620	16,300
Minority interest	258	596	680	750	810
Deferred tax Liab.	2,057	2,365	2,410	2,530	2,570
Total Liabilities	**92,508**	**1,14,013**	**1,26,601**	**1,40,649**	**1,72,720**
Gross Block	51,071	67,080	77,390	86,500	95,420
Less: Acc. Depreciation	14,708	18,034	21,292	24,977	28,713
Net Block	36,363	49,046	56,098	61,523	66,707
Capital WIP	2,700	1,200	1,500	2,000	2,400
Intangible assets	2,190	2,390	2,620	2,700	3,110
Net Fixed Assets	**41,253**	**52,636**	**60,218**	**66,223**	**72,217**
Investments	197	2	2	2	2
Inventories	36,113	40,604	48,700	57,500	66,300
Debtors	35,392	41,719	46,700	58,500	65,400
Loans & Advances	10,237	10,464	12,500	14,200	15,000
Cash & Bank Balance	4,688	8,365	12,259	10,851	28,615
Other assets	1,215	2,948	2,760	2,960	3,220
Total Current Assets	**87,645**	**1,04,100**	**1,22,919**	**1,44,011**	**1,78,535**
Trade payable	20,646	25,423	42,780	52,980	58,680
Other current Liabilities	13,515	15,219	2,270	2,270	2,470
Provisions	2,426	2,083	11,488	14,337	16,885
Net Current Assets	**51,058**	**61,376**	**66,381**	**74,424**	**1,00,500**
Total Assets	**92,508**	**1,14,013**	**1,26,601**	**1,40,649**	**1,72,720**

Source: Company, Centrum Research Estimates

Exhibit 12: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
CF before WC changes	20,785	24,979	26,304	33,585	40,045
Working Capital Changes	(8,417)	(7,383)	(1,111)	(9,452)	(8,312)
CF from Operations	**12,368**	**17,596**	**25,193**	**24,133**	**31,733**
Adj OCF (OCF-Interest)	12,921	18,285	25,193	24,133	31,733
Change in fixed assets	(7,459)	(15,492)	(12,053)	(11,225)	(11,645)
Adj. FCF (AOCF-Capex)	5,462	2,793	13,140	12,909	20,089
CF from Investing	**(10,169)**	**(13,763)**	**(12,199)**	**(11,235)**	**(11,995)**
CF from Financing	**932**	**(198)**	**(11,230)**	**(16,437)**	**(4,105)**
Net change in Cash	**3,131**	**3,635**	**1,764**	**(3,538)**	**15,634**

Source: Company, Centrum Research Estimates

Appendix A

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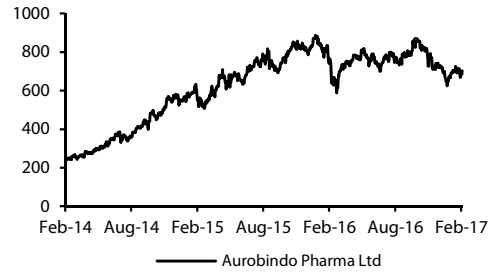
Aurobindo Pharma price chart



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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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10 February 2017
Q3FY17 Results Update | Sector: Healthcare

Aurobindo Pharma

BSE SENSEX	S&P CNX
28,330	8,778

Bloomberg	ARBP IN
Equity Shares (m)	585
M.Cap.(INRb)/(USDb)	413.4 / 6.2
52-Week Range (INR)	895 / 582
1, 6, 12 Rel. Per (%)	-8/-10/-21
Avg Val, INRm	1,731.9
Free float (%)	48.1

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	139.0	152.9	181.0
EBITDA	32.1	36.4	44.0
PAT	19.8	23.7	28.2
EPS (INR)	33.9	40.5	48.1
Gr. (%)	25.5	19.7	18.7
BV/Sh (INR)	120.6	158.6	204.2
RoE (%)	32.5	29.0	26.5
RoCE (%)	20.8	19.9	20.3
P/E (x)	20.9	17.4	14.7
P/BV (x)	5.9	4.5	3.5

Estimate change	⟷
TP change	⟷
Rating change	⟷

CMP: INR706 TP: INR1,050(+49%) Buy

Results impacted by one-offs; deleveraging continues

- **One-offs impacted results:** Aurobindo reported consolidated revenue of INR39.1b (up ~12% YoY; ~1% above estimate). However, EBITDA of INR8.9b (up 8.7%) was ~5% below our estimate and adjusted PAT of INR5.6b (up 7.4% YoY) was 7.5% below our estimate. Miss in numbers can largely be attributed to 4% lower growth in the US due to one-time charge-backs / rebates and one-off item of ~USD4m in other expenses.
- **Ramp-up in US key; key launches expected in coming quarters:** US sales grew ~12%YoY to ~USD260m, which was marginally below our estimate (by ~6%) due to one-time charge-backs (to the tune of 4%), deferment of key launches and pricing pressure (base business down ~13% YoY and 7% QoQ). The company received final approval for 19 ANDAs and was able to launch 11 products in the US in the quarter. We expect US sales momentum to pick in coming quarters on the back of key launches including Epzicom and Meropenem. ARBP also expects to launch Fortamet in FY18.
- **EU business – healthy growth coupled with margin expansion bodes well:** EU business grew 9.2% YoY and delivered EBITDA margin of 6-8% v/s mid-single-digit loss three years ago.
- **Key earnings call takeaways:** (1) Net debt reduced to USD410m at the end of 3QFY17 (down ~USD74m sequentially despite capex of USD55m in 3Q); (2) Price erosion in US was ~7% QoQ; (3) R&D expense as a percentage of sales expected to be 5-6% in FY18/19; (4) Transferred manufacturing of 42 products (to be sold in EU) to India till now; plans to transfer >60 by the end of 4Q; (5) Planning to increase Auro Life capacity in the US by 3x; (6) DTG sales to pick-up meaningfully from 2HFY18.
- **Strong earnings growth trajectory, improving cash flows to drive valuations:** ARBP trades at 14x FY18E EPS, at >25% discount to peers. The valuation gap is expected to narrow on account of the company's increasing profitability, strong earnings growth trajectory (19% CAGR till FY19E), and improving free cash flow. ARBP remains one of our top picks in the sector, with a target price of INR1,050 (20x 1HFY19E EPS).

Quarterly Performance (Consolidated)

Y/E March	FY16				FY17				FY16	FY17E	FY17	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est
Net Sales	**32,989**	**33,651**	**34,955**	**37,468**	**37,666**	**37,755**	**39,062**	**38,463**	**138,961**	**152,944**	**38,595**	**1.2%**
YoY Change (%)	13.3	16.8	10.4	18.5	14.2	12.2	11.7	2.7	14.6	10.1	10.4	
EBITDA	**7,251**	**7,791**	**8,230**	**8,824**	**8,890**	**9,292**	**8,949**	**9,272**	**32,056**	**36,401**	**9,456**	**-5.4%**
Margins (%)	22.0	23.2	23.5	23.5	23.6	24.6	22.9	24.1	23.1	23.8	24.5	
Depreciation	890	926	995	1,113	1,062	1,102	1,111	1,093	3,926	4,368	1,050	
Interest	208	241	227	251	206	175	143	291	927	815	200	
Other Income	294	122	69	206	159	83	79	229	3,137	3,496	150	
PBT before EO expense	**6,446**	**6,746**	**7,077**	**7,666**	**7,780**	**8,098**	**7,774**	**8,117**	**30,339**	**34,713**	**8,356**	
Extra-Ord expense	106	439	-129	-46	-70	-202	-158	0	660	-430	0	
PBT	**6,340**	**6,306**	**7,206**	**7,711**	**7,850**	**8,300**	**7,932**	**8,117**	**29,680**	**35,143**	**8,356**	
Tax	1,634	1,767	1,860	2,097	2,008	2,240	2,177	2,107	7,444	8,532	2,250	
Rate (%)	25.8	28.0	25.8	27.2	25.6	27.0	27.4	26.0	25.1	24.3	26.9	
Minority Interest	-19	4	-3	-14	-8	3	-31	-14	-39	-50	-15	
Reported PAT	**4,725**	**4,536**	**5,350**	**5,629**	**5,850**	**6,057**	**5,786**	**6,024**	**22,275**	**26,661**	**6,121**	**-5.5%**
Adj PAT	**4,784**	**4,856**	**5,251**	**5,582**	**5,789**	**5,912**	**5,640**	**6,010**	**20,304**	**23,399**	**6,106**	**-7.6%**
YoY Change (%)	15.8	20.9	32.3	38.7	21.0	21.8	7.4	7.7	36.6	15.2	16.3	
Margins (%)	14.5	14.4	15.0	14.9	15.4	15.7	14.4	15.6	14.6	15.3	15.8	

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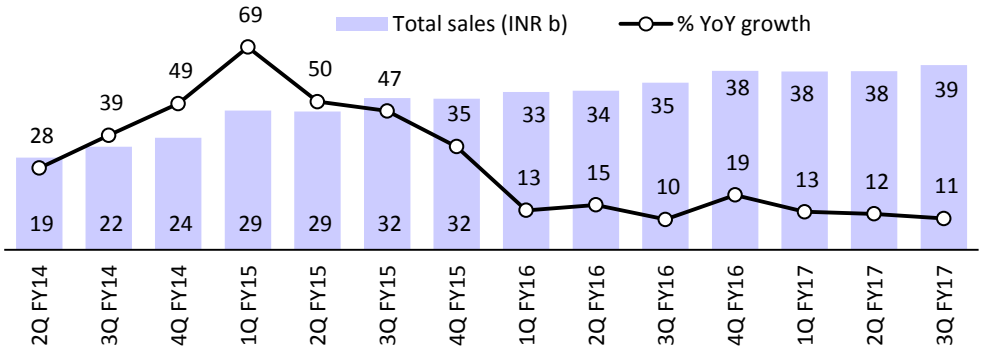
Business highlights

In 3QFY17, overall sales grew 11.7%Yoy to INR39b. US sales grew by ~11%YoY to ~USD260m which was marginally below our estimates (by ~6%) due to one time charge backs (to the tune of 4%), deferment of key launches and pricing pressure (base business down ~13% YoY and 7% QoQ). EU and RoW business grew 8.6%YoY to INR10.4b in 3QFY17. API segment also supported growth and reported 11.6% YoY growth to INR7.76b. ARV formulations segment supported growth with 11.9% growth YoY to INR3.4b.

Exhibit 1: Revenue growth led by Formulations and API business

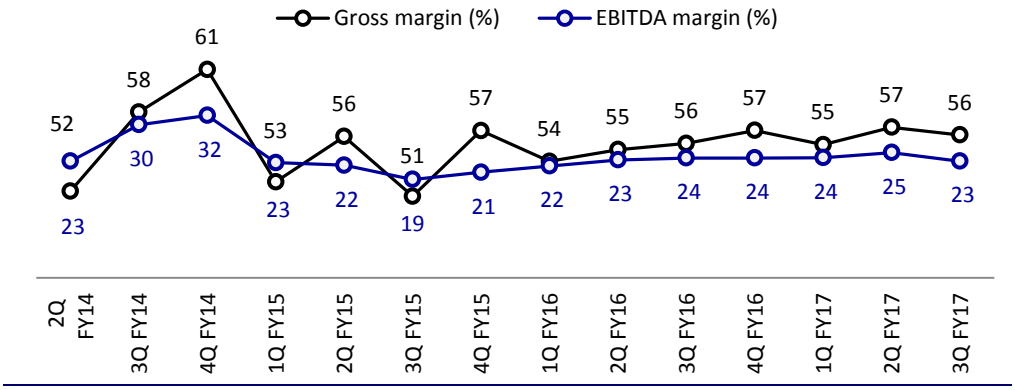


Source: Company, MOSL

EBITDA margins largely impacted due to one offs

EBITDA increased 8.7% YoY to INR8.9b (v/s estimate of INR 9.4b). EBITDA margins contracted 60bps YoY and stood at 22.9% in 3QFY17 (MOSL estimate: 24.5%); primarily due to lower US sales (largely due to charge backs and pricing pressure) and USD4m of one off cost. Gross margins expanded 70bps YoY and stood at 56.2% in 3QFY17.

Exhibit 2: EBITDA margin declined 60bps YoY



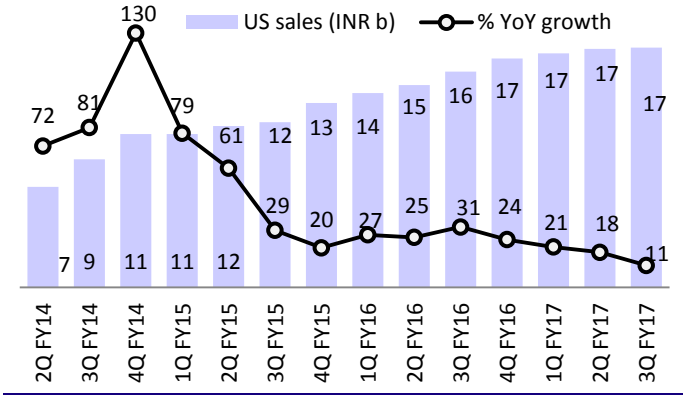
Source: Company, MOSL

US (45% of sales): US business grew 11%YoY to INR17.4b in 3QFY17, owing to higher volumes and new product launches during the quarter. 8 oral solids and 3 injectable products were launched in the US in 3QFY17. Going ahead, Aurobindo is expected to launch 20-25 products every year in US market, sustaining the current growth momentum over next two years.

Additionally the company filed 9 ANDA's in the US in 3QFY17; 5 oral solids and 4 injectable ANDA's. Cumulatively, Aurobindo has filed 421 ANDAs in the US and has

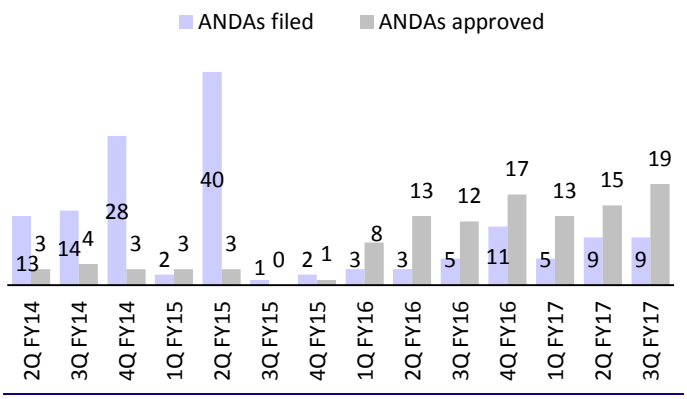
received approvals for 303 products (includes 41 tentative approvals). At 118, Aurobindo has one of the largest ANDA pipeline awaiting approval for the US market among Indian companies.

Exhibit 3: US sales grew 11%YoY growth



Source: Company, MOSL

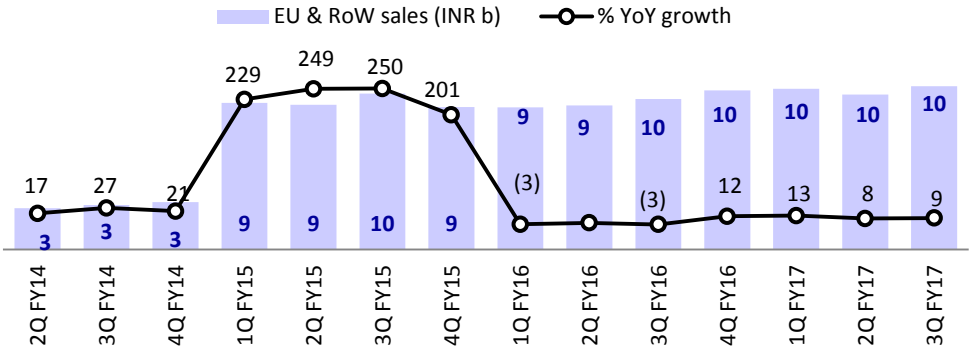
Exhibit 4: ANDA filed v/s approved (quarterly trend)



Source: Company, MOSL

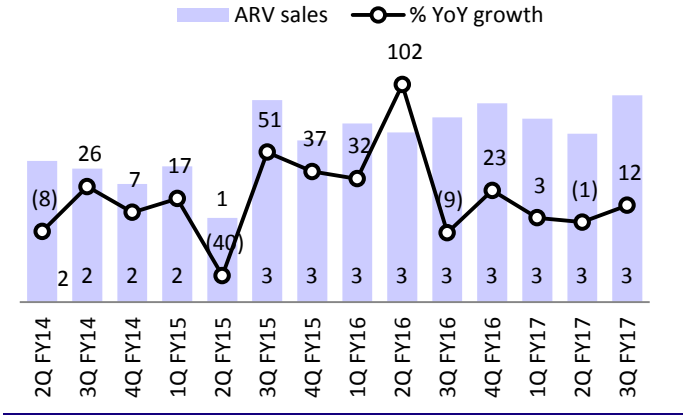
Europe & RoW (26.7% of sales): In 3QFY17, Europe and RoW business improved 8.6%YoY to INR10.4b. Europe grew 9.2%YoY to INR8.5b while RoW sales grew 15.8%YoY to INR1.87b in 3Q. Turnaround within the Europe business remains on track. Aurobindo Pharma transferred manufacturing of 5 products from Europe to India in 3QFY17; cumulatively manufacturing of 42 products has been site transferred as on 31 December 2016. Overall, we expect EU & RoW segment to exhibit 9% CAGR over FY16-19E.

Exhibit 5: EU & RoW sales improved ~9% YoY



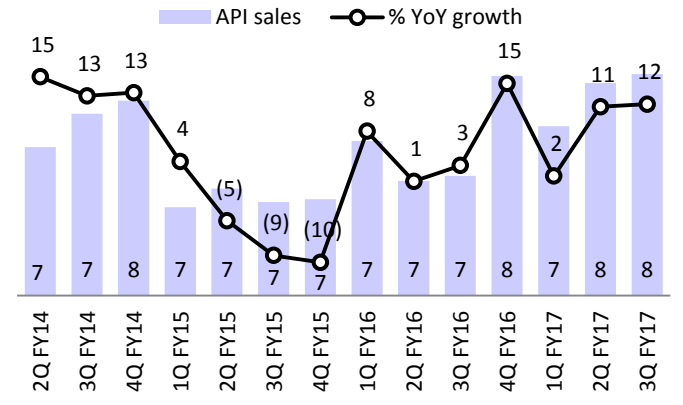
Source: Company, MOSL

Exhibit 6: Dolutegravir would be the next growth driver



Source: Company, MOSL

Exhibit 7: Strong growth in Betalactum resulted in increased API growth



Source: Company, MOSL

Operating metrics

Exhibit 1: Key operating metrics

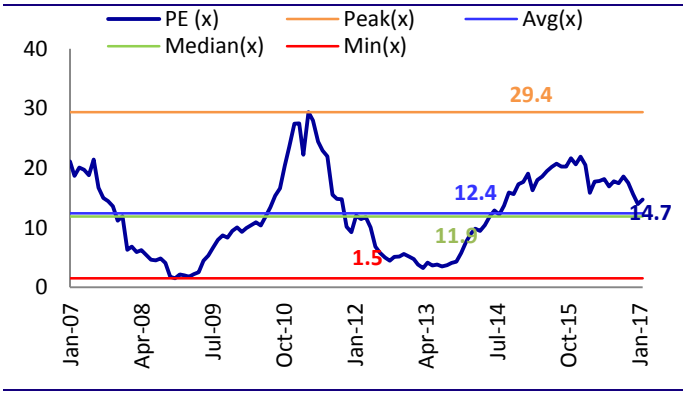
	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Revenue Mix (%)													
Formulations	65.9	68.1	77.2	76.6	79.0	78.8	78.3	79.5	80.3	79.5	80.5	79.6	80.1
ARV form.	10.1	8.2	7.6	4.8	10.4	8.4	8.8	8.3	8.6	8.7	8.0	7.4	8.8
US generic form.	42.7	47.1	37.9	40.2	37.5	42.0	42.3	43.8	44.5	44.0	45.2	46.0	44.7
EU and ROW form.	13.0	12.8	31.7	31.6	31.0	28.5	27.2	27.4	27.2	26.8	27.2	26.2	26.7
APIs	34.1	31.9	22.8	23.4	21.0	21.2	21.7	20.5	19.7	20.5	19.5	20.4	19.9
Betalactum	21.8	20.7	15.3	15.4	14.1	13.8	14.3	12.7	12.7	13.3	13.1	13.6	13.4
Non Betalactum	12.3	11.2	7.5	8.0	6.9	7.4	7.3	7.8	7.0	7.2	6.4	6.8	6.4
Revenue Growth (%)	**38.7**	**49.4**	**68.6**	**50.1**	**46.9**	**34.9**	**13.4**	**15.2**	**10.2**	**18.5**	**12.8**	**12.1**	**10.6**
Formulations	57.5	75.8	106.7	82.1	76.2	56.0	15.0	19.5	12.1	19.6	15.9	12.4	10.3
ARV form.	25.9	6.6	16.9	(40.4)	51.5	37.0	31.7	101.7	(8.5)	23.0	2.6	(0.6)	12.0
US generic form.	81.4	129.6	78.6	60.7	29.0	20.1	26.7	25.4	30.8	24.3	20.5	17.8	11.1
EU and ROW form.	27.4	21.4	229.4	249.2	249.6	200.7	(3.0)	(0.3)	(3.4)	11.7	13.1	7.6	8.6
APIs	12.8	13.2	3.6	(4.6)	(9.4)	(10.4)	7.8	0.9	3.1	14.5	1.6	11.2	11.6
Betalactum	3.8	13.3	2.7	0.1	(4.9)	(9.9)	6.1	(5.0)	(0.8)	13.9	3.6	19.6	16.8
Non Betalactum	33.0	13.1	5.5	(12.4)	(17.5)	(11.2)	11.5	12.2	10.9	15.7	(2.2)	(2.3)	10.0
As % of sales													
Raw material	42.0	38.6	47.5	43.9	48.6	43.4	45.8	44.9	44.4	43.4	44.5	43.2	43.8
Staff cost	10.0	10.1	10.6	11.7	11.6	11.8	10.9	11.1	11.5	10.9	11.5	11.3	11.4
Other expenses	18.0	19.6	19.4	22.3	20.4	24.0	18.1	17.8	17.4	17.8	17.2	17.0	21.5
Tax Rate	24.3	24.8	26.1	27.4	29.0	27.6	25.8	28.0	25.8	27.2	25.6	27.0	27.4
Margins (%)													
Gross Margins	58.0	61.4	52.5	56.1	51.4	56.6	54.2	55.1	55.6	56.6	55.5	56.8	56.2
EBITDA Margins	30.1	31.9	22.6	22.1	19.3	20.7	22.0	23.2	23.5	23.5	23.6	24.6	22.9
PAT margins	19.3	20.4	14.2	13.9	12.5	12.7	14.4	14.4	15.0	14.9	15.3	15.7	14.4

Source: Company; MOSL

Valuation and view

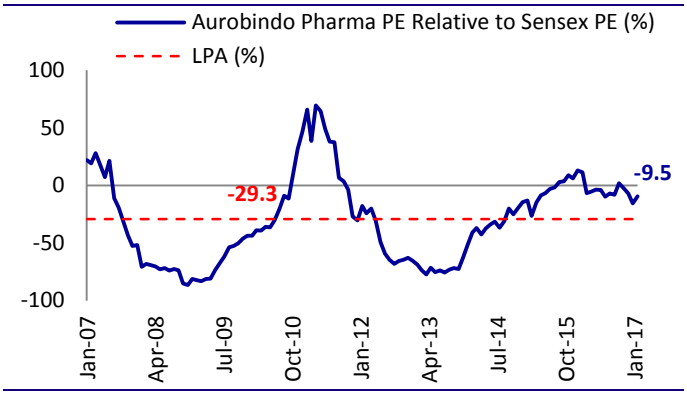
At its CMP, ARBP trades at 14x FY18E, which is at a >25% discount to its peers. Going forward, the valuation gap is expected to narrow down on account of the company's increasing profitability, strong earnings growth trajectory (19% CAGR till FY19E) and improving free cash flow. ARBP remains one of our top picks in the sector with a target price of INR1050, based on 20x 1H FY19E PER

Exhibit 2: PE Band (x)



Source: Company, MOSL

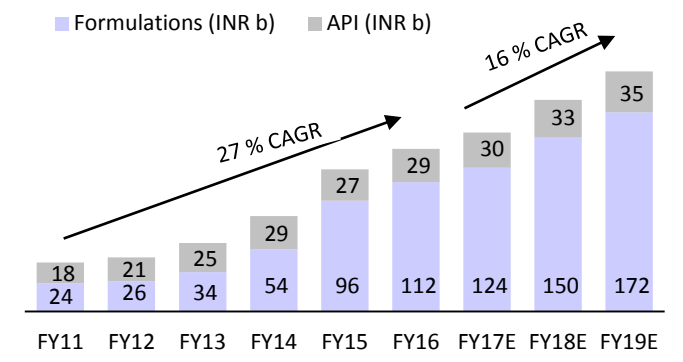
Exhibit 3: PE relative to Sensex



Source: Company, MOSL

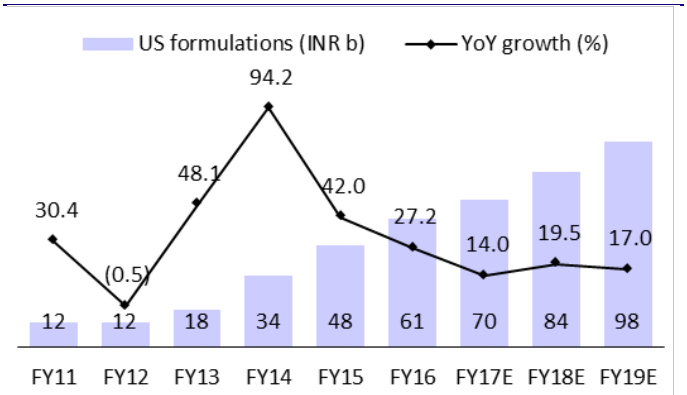
Story in charts

Exhibit 1: Formulation led sales growth (INR b)



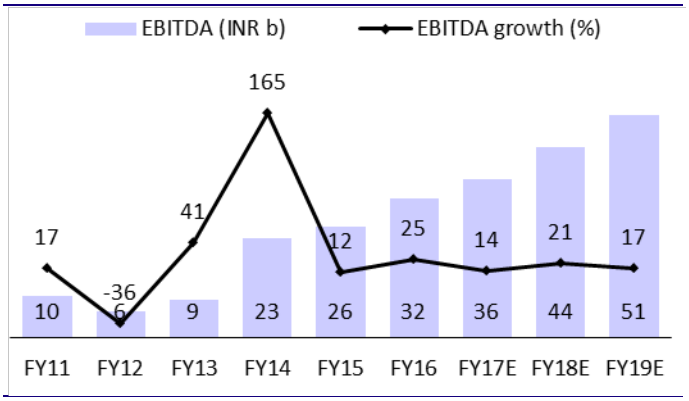
Source: Company, MOSL

Exhibit 2: US Sales to grow at 17% CAGR over FY16-19E



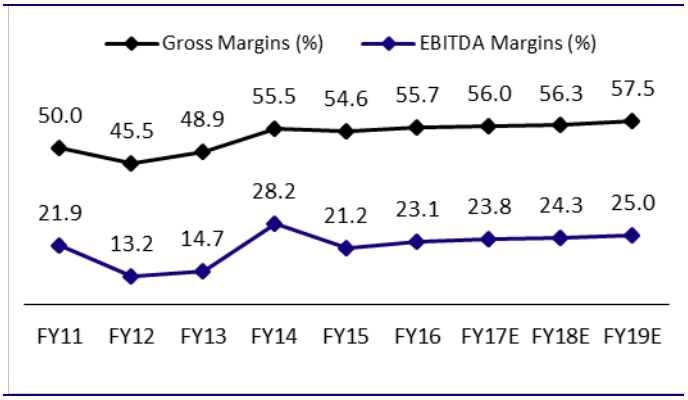
Source: Company, MOSL

Exhibit 3: EBITDA growth to sustain in FY16-19E



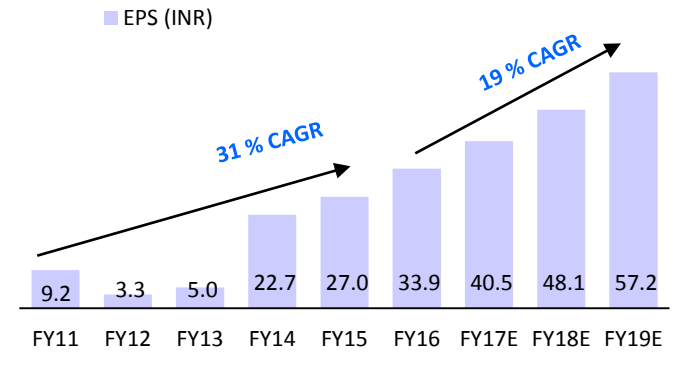
Source: Company, MOSL

Exhibit 4: EBITDA margins improving with product mix



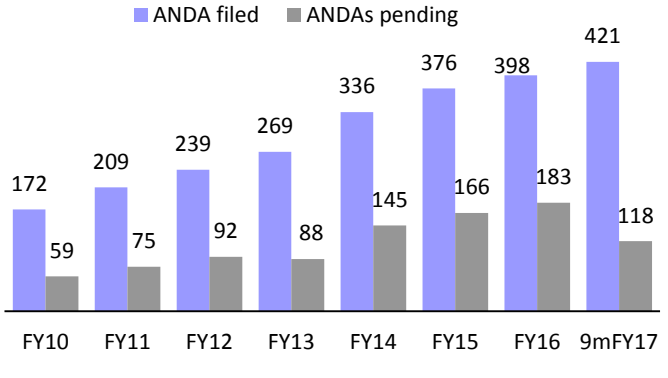
Source: Company, MOSL

Exhibit 5: EPS growth to sustain at 19% over FY16-19E



Source: Company, MOSL

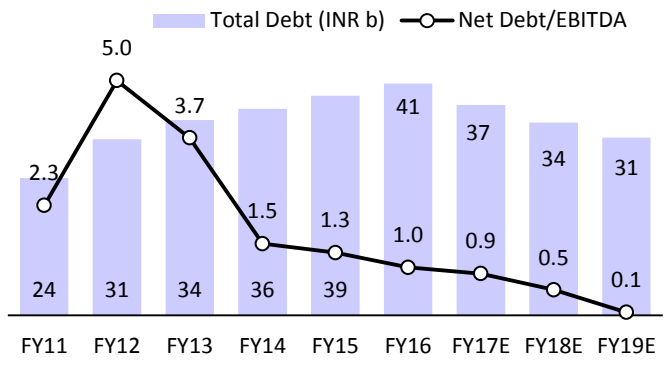
Exhibit 6: Rich ANDA pipeline



Source: Company, MOSL

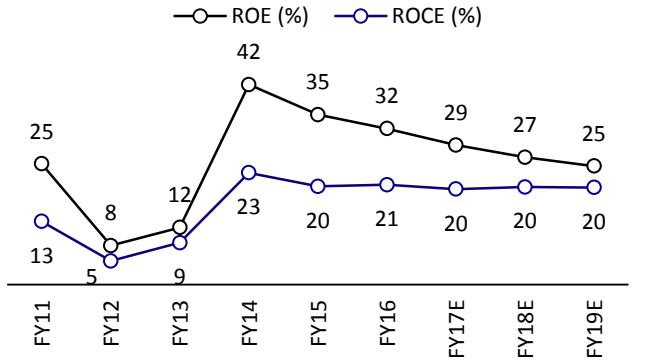
Story in charts

Exhibit 7: Improving cash flows to reduce the debt



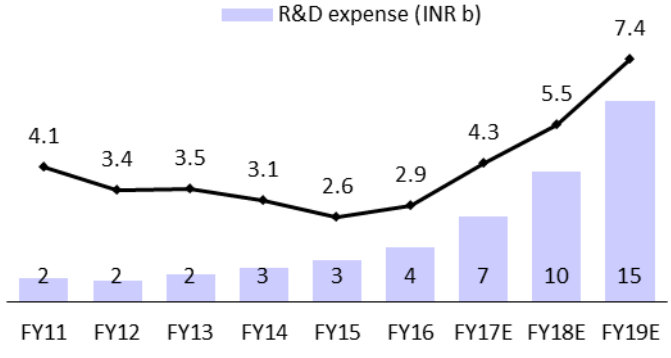
Source: Company, MOSL

Exhibit 8: Healthy return ratios (%)



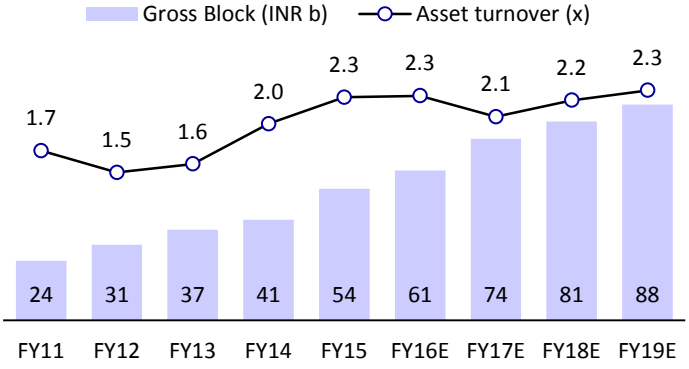
Source: Company, MOSL

Exhibit 9: R&D expense to increase going ahead



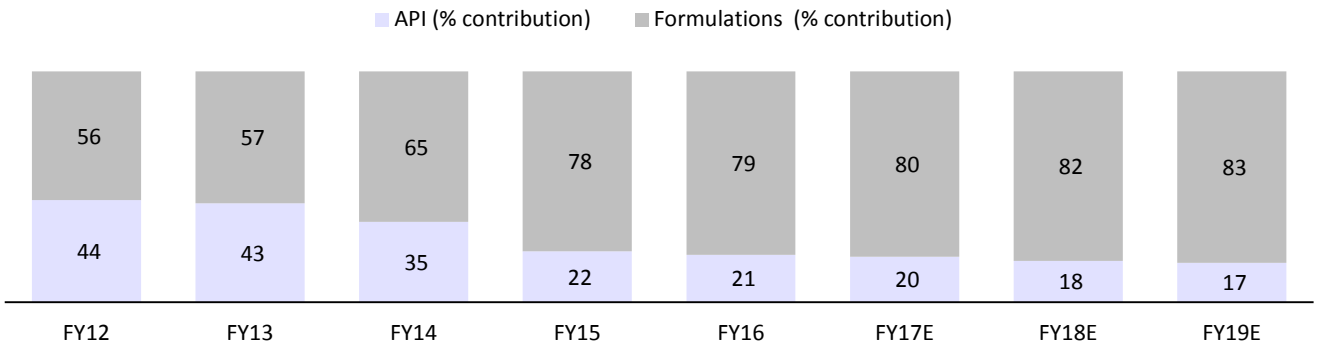
Source: Company, MOSL

Exhibit 10: Asset turnover improving ...



Source: Company, MOSL

Exhibit 11: Higher Contribution from Formulations sales



Source: Company, MOSL

Financials and Valuations

Income Statement (INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net Sales	**46,274**	**58,553**	**80,998**	**121,205**	**138,961**	**152,944**	**180,967**	**205,605**
Change (%)	5.6	26.5	38.3	49.6	14.6	10.1	18.3	13.6
EBITDA	**6,101**	**8,610**	**22,828**	**25,636**	**32,056**	**36,401**	**43,975**	**51,401**
EBITDA Margin (%)	13.2	14.7	28.2	21.2	23.1	23.8	24.3	25.0
Depreciation	2,005	2,487	3,125	3,326	3,926	4,368	4,897	5,338
EBIT	**4,096**	**6,122**	**19,703**	**22,310**	**28,130**	**32,032**	**39,078**	**46,064**
Interest	1,028	1,313	1,079	843	927	815	926	747
Other Income	247	285	232	808	682	550	600	750
Extraordinary items	-5,445	-1,353	-2,031	-596	-660	430	0	0
PBT	**-2,129**	**3,741**	**16,825**	**21,679**	**27,225**	**32,197**	**38,753**	**46,067**
Tax	-888	827	3,635	5,966	7,444	8,532	10,657	12,668
Tax Rate (%)	41.7	22.1	21.6	27.5	27.3	26.5	27.5	27.5
Min. Int. & Assoc. Share	-6	-25	-38	-45	-39	-50	-55	-55
Reported PAT	**-1,235**	**2,939**	**13,228**	**15,758**	**19,820**	**23,715**	**28,151**	**33,454**
Adjusted PAT	**1,939**	**2,939**	**13,228**	**15,758**	**19,820**	**23,715**	**28,151**	**33,454**
Change (%)	-63.9	51.6	350.1	19.1	25.8	19.7	18.7	18.8

Balance Sheet (INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	582	582	583	584	585	585	585	585
Reserves	22,814	25,475	36,919	50,975	69,982	92,234	118,922	150,912
Net Worth	**23,397**	**26,058**	**37,502**	**51,559**	**70,567**	**92,819**	**119,507**	**151,497**
Debt	30,959	34,355	36,339	38,636	40,762	37,030	33,907	31,259
Deferred Tax	-16	680	2,054	2,058	2,364	2,411	2,459	2,508
Total Capital Employed	**54,442**	**61,202**	**76,151**	**92,511**	**114,289**	**132,867**	**156,493**	**185,897**
Gross Fixed Assets	30,863	37,080	41,066	53,821	61,224	74,224	81,224	88,224
Less: Acc Depreciation	8,916	11,246	14,613	17,405	19,713	24,081	28,977	34,315
Net Fixed Assets	**21,947**	**25,834**	**26,453**	**36,416**	**41,511**	**50,143**	**52,246**	**53,909**
Capital WIP	6,454	2,185	3,097	4,196	10,238	15,000	15,000	15,000
Investments	385	223	198	198	2	200	200	200
Current Assets	**33,536**	**43,982**	**64,386**	**87,647**	**104,356**	**107,162**	**130,699**	**161,357**
Inventory	15,456	19,236	23,675	36,113	40,881	44,249	51,999	57,457
Debtors	12,400	15,970	26,366	35,392	41,719	46,093	54,538	61,963
Cash & Bank	709	2,085	1,786	4,691	8,344	4,921	10,262	28,037
Loans & Adv, Others	4,972	6,692	12,559	11,451	13,412	11,900	13,900	13,900
Curr Liabs & Provns	**7,880**	**11,576**	**18,747**	**36,587**	**42,704**	**40,525**	**42,539**	**45,456**
Curr. Liabilities	7,174	10,685	17,389	34,161	40,641	39,600	41,614	44,531
Provisions	706	891	1,358	2,426	2,063	925	925	925
Net Current Assets	**25,656**	**32,406**	**45,640**	**51,060**	**61,652**	**66,638**	**88,160**	**115,901**
Total Assets	**54,442**	**61,202**	**76,151**	**92,511**	**114,289**	**132,867**	**156,493**	**185,897**

Financials and Valuations

Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	**3.3**	**5.0**	**22.7**	**27.0**	**33.9**	**40.5**	**48.1**	**57.2**
Cash EPS	6.8	9.3	28.1	32.7	40.6	48.0	56.5	66.3
Book Value	40.2	44.7	64.3	88.3	120.6	158.6	204.2	258.9
DPS	0.5	0.8	1.5	2.3	2.0	2.5	2.5	2.5
Payout (incl. Div. Tax.)	-23.6	14.9	6.6	8.3	5.9	6.2	5.2	4.4
Valuation(x)								
P/E	0.0	0.0	31.1	26.2	20.9	17.4	14.7	12.4
Price / Book Value	0.0	0.0	11.0	8.0	5.9	4.5	3.5	2.7
EV/Sales	0.0	0.0	5.5	3.7	3.2	2.9	2.4	2.0
EV/EBITDA	0.0	0.0	19.6	17.4	13.9	12.2	9.9	8.1
Dividend Yield (%)	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.4
Profitability Ratios (%)								
RoE	8.1	11.9	41.6	35.4	32.5	29.0	26.5	24.7
RoCE	4.9	8.7	23.3	20.4	20.8	19.9	20.3	20.2
RoIC	5.4	9.2	24.2	20.9	22.8	22.6	23.2	24.4
Turnover Ratios (%)								
Asset Turnover (x)	0.8	1.0	1.1	1.3	1.2	1.2	1.2	1.1
Debtors (No. of Days)	96	97	116	105	107	107	107	107
Inventory (No. of Days)	122	120	107	109	107	106	105	102
Creditors (No. of Days)	96	118	137	136	150	144	137	136
Leverage Ratios (%)								
Net Debt/Equity (x)	1.3	1.2	0.9	0.7	0.5	0.3	0.2	0.0

Cash Flow Statement

(INR Million)

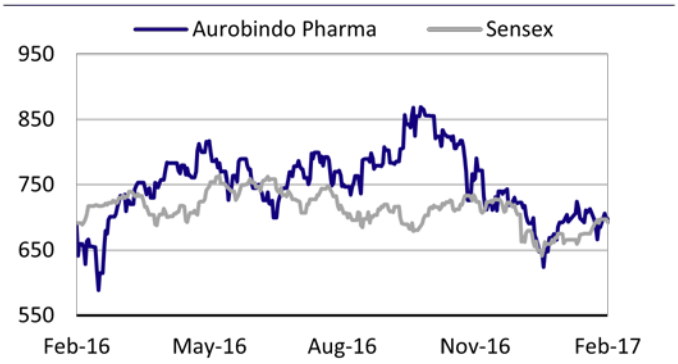
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Adjusted EBITDA	6,101	8,610	22,828	25,636	32,056	36,401	43,975	51,401
Non cash opr. exp (inc)	247	285	232	808	682	550	600	750
(Inc)/Dec in Wkg. Cap.	-1,288	-5,374	-13,533	-2,515	-6,939	-8,409	-16,181	-9,966
Tax Paid	-327	-132	-3,635	-5,966	-7,444	-8,532	-10,657	-12,668
Other operating activities	-5,445	-1,353	-2,031	-596	-660	430	0	0
CF from Op. Activity	**-712**	**2,036**	**3,863**	**17,367**	**17,696**	**20,439**	**17,737**	**29,517**
(Inc)/Dec in FA & CWIP	-6,446	-2,106	-4,656	-14,389	-15,062	-17,762	-7,000	-7,000
Free cash flows	**-7,157**	**-70**	**-793**	**2,978**	**2,633**	**2,677**	**10,737**	**22,517**
(Pur)/Sale of Invt	0	-163	-25	0	-196	198	0	0
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	**-6,446**	**-2,269**	**-4,681**	**-14,388**	**-15,259**	**-17,564**	**-7,000**	**-7,000**
Inc/(Dec) in Net Worth	474	159	-910	-386	359	0	0	0
Inc / (Dec) in Debt	6,828	3,403	2,131	2,298	2,464	-3,721	-3,110	-2,636
Interest Paid	-1,028	-1,313	-1,079	-843	-927	-815	-926	-747
Divd Paid (incl Tax) & Others	-276	-641	379	-1,142	-681	-1,762	-1,360	-1,359
CF from Fin. Activity	**5,998**	**1,608**	**520**	**-73**	**1,215**	**-6,298**	**-5,396**	**-4,742**
Inc/(Dec) in Cash	**-1,159**	**1,376**	**-298**	**2,905**	**3,652**	**-3,422**	**5,341**	**17,775**
Add: Opening Balance	1,867	709	2,085	1,786	4,691	8,344	4,921	10,262
Closing Balance	**708**	**2,084**	**1,786**	**4,691**	**8,343**	**4,921**	**10,262**	**28,037**

Corporate profile

Company description

A well integrated pharma company, Aurobindo Pharma (ARBP) features among the top 10 companies in India in terms of consolidated revenues. ARBP exports to over 125 countries across the globe with more than 70% of its revenues derived out of international operations.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-16	Jun-16	Sep-15
Promoter	53.8	53.8	53.9
DII	7.7	8.0	6.1
FII	26.7	26.1	28.9
Others	11.8	12.1	11.1

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Hdfc Trustee Company Limited A/C Hdfc Growth Fund	4.0
Sbi Arbitrage Opportunities Fund	2.3
Abu Dhabi Investment Authority - Behave	1.3
Birla Sun Life Trustee Company Private Limited Ac Birla Sun Life Balanced 95 Fund	1.3
Rakesh Jhunjhunwala	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
K Ragunathan	Chairman
K Nithyananda Reddy	Vice Chairman & Whole Time Dir
N Govindarajan	Managing Director
B Adi Reddy	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
P V Ramprasad Reddy	Avnit Bimal Singh
D Rajagopala Reddy	M Sitarama Murthy
M Madan Mohan Reddy	M Sivakumaran
P Sarath Chandra Reddy	

*Independent

Exhibit 6: Auditors

Name	Type
KPMG	Internal
S Chidambaram	Secretarial Audit
S R Batliboi & Associates LLP	Statutory
Sagar & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	40.5	42.0	-3.5
FY18	48.1	49.4	-2.6
FY19	57.2	55.0	4.0

Source: Bloomberg

NOTES

Disclosures

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Aurobindo Pharma (AURPHA) ₹ 679

US pricing pressure dents margins...

- Revenues grew 11% YoY to ₹ 3906 crore (I-direct estimate: ₹ 3870 crore) on account of 12% growth in the US to ₹ 1745 crore (I-direct estimate: ₹ 1925 crore). Europe business grew 9% YoY to ₹ 855 crore (I-direct estimates: ₹ 772 crore)
- EBITDA margins declined 42 bps YoY to 22.9% (I-direct estimates: 24.5%) mainly on account of higher other expenses. EBITDA grew 9% to ₹ 895 crore (I-direct estimate: ₹ 948 crore)
- Adjusted net profit (ex forex gain/loss) grew 6.1% YoY to ₹ 563 crore (I-direct estimate: ₹ 605 crore) mainly due to a better operational performance, which was partly offset by a higher tax rate

Galloping US business reduces stress

After filing its first ANDA in the US in 2003, the company has come a long way as the current ANDA filings are at 421. The US revenue run rate has grown from ~US$100 million in FY09 to ~US$935 million as on FY16. Note that this was despite the USFDA embargo in FY12-13 on unit VI and unit III. In rupee terms, US sales have grown at a CAGR of 51% to ₹ 6145 crore in FY12-16. US formulations now constitute 44% of total turnover, up from 26% in FY12. US traction has also boosted investors' confidence, which was affected by warning letters, piling debts besides non-business political adversaries. We expect US sales to grow at a CAGR of 18% on a higher base to ₹ 10138 crore in FY16-19E.

Transformation, capacity optimisation to improve margins, cash flows

The API: formulations ratio has improved from 43:57 in FY12 to 22:78 in FY16. Another USP of the company is its vertically integrated model with huge capacity, unmatched by most peers. The company owns a network of 22 manufacturing facilities. These can be optimised by 1) continuous US filings and launches 2) incremental launches and filings in the RoW markets and 3) site transfers and supplies for products covered under the Actavis deal. Higher capacity utilisation is likely to improve the operating leverage thereby maintaining the margin improvement trend.

Debt no more a fear factor

The company's debts kept on piling over the last few years as the capacity built up was in full flow. Working capital loans are 65-70% of overall debts. A depreciating rupee worsened matters even further as most debt was US$ denominated. However, with consistent and incremental US cash flows, the situation improved markedly. While the D/E ratio improved from 1.9x to 0.5x, the debt/EBITDA improved from 4.5x to 1.2x in FY09-16. As the capex cycle moderates by FY18, the company expects to utilise maximum FCF for debt repayment.

Injectable focus to underpin US growth amid pricing pressure

The Q3 numbers once again highlighted eminent pricing pressure in the US oral solid business. The scenario is unlikely to change in the near future. However, the company continues to thrive in the US, backed by a robust product pipeline and niche launches. Moreover, we expect the percentage of injectables, which are relatively insulated from pricing pressure in the US portfolio, to grow from 10% in FY16 to 20-25% by FY19. We believe launches continuum, especially in the injectable space, can effectively neutralised channel consolidation and pricing pressure headwinds. Other important segment i.e. Europe is likely to fetch better margins on the back of product transfers to India and focussed approach. We have ascribed a target price of ₹ 965, based on 19x (earlier 20x) FY19E EPS of ₹ 50.7.

Rating matrix

Rating	:	Buy
Target	:	₹ 965
Target Period	:	15-18 months
Potential Upside	:	42%

What's Changed?

Target	Changed from ₹ 1100 to ₹ 965
EPS FY17E	Changed from ₹ 41.5 to ₹ 40.9
EPS FY18E	Changed from ₹ 48.1 to ₹ 40.7
EPS FY19E	Changed from ₹ 54.9 to ₹ 50.7
Rating	Unchanged

Quarterly Performance

	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Revenue	3,906.2	3,505.6	11.4	3,775.5	3.5
EBITDA	894.8	817.7	9.4	929.2	-3.7
EBITDA (%)	22.9	23.3	-41.8	24.6	-170.4
Net Profit	578.6	544.3	6.3	605.6	-4.5

Key Financials

(₹ Crore)	FY16	FY17E	FY18E	FY19E
Revenues	13831.2	15562.9	17774.6	20185.7
EBITDA	3140.7	3680.3	3814.4	4636.9
Net Profit	1915.6	2387.6	2372.4	2952.9
Adjusted PAT	1981.6	2344.5	2372.4	2952.9
EPS (₹)	32.8	40.9	40.7	50.7
Adjusted EPS (₹)	33.9	40.1	40.7	50.7

Valuation summary

	FY16	FY17E	FY18E	FY19E
PE (x)	20.7	16.6	16.7	13.4
Target PE (x)	29.4	23.6	23.7	19.0
EV to EBITDA (x)	13.8	11.5	11.0	8.8
Price to book (x)	5.6	4.3	3.5	2.8
RoNW (%)	28.1	25.3	20.7	20.8
RoCE (%)	23.3	24.3	21.3	23.0

Stock data

Particular	Amount
Market Capitalisation	₹ 39739 crore
Debt (FY16)	₹ 3933 crore
Cash (FY16)	₹ 719 crore
EV	₹ 42953 crore
52 week H/L (₹)	895/582
Equity capital	₹ 58.5 crore
Face value	₹ 1

Price performance (%)

	1M	3M	6M	1Y
Aurobindo Pharma	1.8	-7.0	-7.5	-4.8
Sun Pharma	3.7	-0.8	-21.0	-23.2
Lupin	0.1	-2.5	-7.2	-21.7
Dr Reddy's	-1.2	-7.9	-0.5	2.1

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Variance analysis

₹ cr	Q3FY17	Q3FY17E	Q3FY16	Q2FY17	YoY (%)	QoQ (%)	Comments
Revenue	3,906.2	3,869.7	3,505.6	3,775.5	11.4	3.5	YoY growth on account of 12% growth in the US led by growth in injec segment and incremental product launches
Raw Material Expenses	1,709.7	1,664.0	1,550.8	1,629.9	10.2	4.9	
Employee Expenses	445.6	445.0	401.6	426.6	11.0	4.5	
Other Expenditure	856.0	812.6	735.5	789.8	16.4	8.4	Included US$ 4.5 million of one-off pending settlement
EBITDA	894.8	948.1	817.7	929.2	9.4	-3.7	
EBITDA (%)	22.9	24.5	23.3	24.6	-42 bps	-170 bps	YoY contraction mainly due to higher other expenses. Miss vis-à-vis I-d estimates was mainly due higher-than-expected raw material and othe expenses and pricing pressure in the US (7% QoQ)
Interest	14.3	18.9	22.7	17.5	-37.2	-18.7	
Depreciation	111.1	110.2	99.4	110.2	11.9	0.9	
Other Income	7.9	8.6	7.5	8.3	5.0	-4.3	
PBT before EO & Forex	777.4	827.6	703.2	809.8	10.5	-4.0	
Forex & EO	-15.8	0.0	-14.0	-20.2	12.9	-21.7	
PBT	793.2	827.6	717.2	829.9	10.6	-4.4	
Tax	217.7	223.5	174.2	224.0	24.9	-2.8	
Tax Rate (%)	27.4	27.0	24.3	27.0	315 bps	45 bps	
PAT before MI	575.5	604.2	543.0	606.0	6.0	-5.0	
MI	-0.1	-0.8	0.4	-0.1	-125.0	0.0	
Net Profit	578.6	605.0	544.3	605.6	6.3	-4.5	
Adj. Net Profit (Ex forex)	562.8	605.0	530.3	585.5	6.1	-3.9	YoY growth mainly in sync with EBITDA, which was partly offset by a higher tax rate. Miss vis-à-vis I-direct estimate due to lower-than-expe operational performance
Key Metrics							
US	1,745.1	1,924.7	1,558.1	1,735.1	12.0	0.6	YoY growth mainly due to strong growth in injectable segment and incremental product launches. Price erosion in oral segment was 7% Q
Europe	855.4	772.2	783.6	813.4	9.2	5.2	
RoW	187.8	185.8	162.1	176.8	15.9	6.2	
ARV	341.9	305.4	305.4	278.5	12.0	22.8	
API	775.9	730.0	695.1	768.8	11.6	0.9	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY17E			FY18E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	15,539.4	15,562.9	0.2	17,977.4	17,774.6	-1.1	
EBITDA	3,744.6	3,680.3	-1.7	4,396.0	3,814.4	-13.2	
EBITDA Margin (%)	24.1	23.6	-45 bps	24.5	21.5	-299 bps	Reduction in margins mainly due to higher R&D guidance
Adj. PAT	2,424.5	2,344.5	-3.3	2,797.7	2,372.4	-15.2	Changed mainly in sync with EBITDA
EPS (₹)	41.5	40.1	-3.3	48.1	40.7	-15.3	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier	
(₹ crore)	FY15	FY16	FY17E	FY18E	FY17E	FY18E
US	4,831.7	6,143.8	7,168.8	8,448.3	7,314.6	8,821.8
Europe	3,194.7	3,125.3	3,365.4	4,070.9	3,357.8	3,525.9
ARV	963.9	1,199.9	1,268.2	1,369.7	1,247.0	1,346.7
RoW	568.3	696.4	760.5	874.6	758.6	872.4
API	2,706.2	2,883.9	3,092.5	3,247.2	3,046.6	3,198.9

Source: Company, ICICIdirect.com Research

Company Analysis

Aurobindo Pharma was set up by first generation entrepreneurs PV Ramprasad Reddy and K Nithyananda Reddy in 1986. Based in Hyderabad, the company is an integrated pharmaceutical company, which started as an API manufacturer. In 2001, it moved up the value chain by foraying into formulations while from 2007 onwards it started scaling up the formulation business. APL's manufacturing facilities have been approved by several leading regulatory agencies like USFDA, UKMHRA, WHO, Health Canada, MCC South Africa and Anvisa Brazil. The company owns 22 manufacturing facilities, including eight key formulations facilities in India and abroad. The company owns three R&D centres. The current employee strength is more than 8000, which includes more than 750 scientists.

In FY16, the API: formulations ratio is at 22:78. US formulations constitute 44% of revenues followed by APIs & RoW formulations (26%), Europe (23%) and ARV formulations (9%).

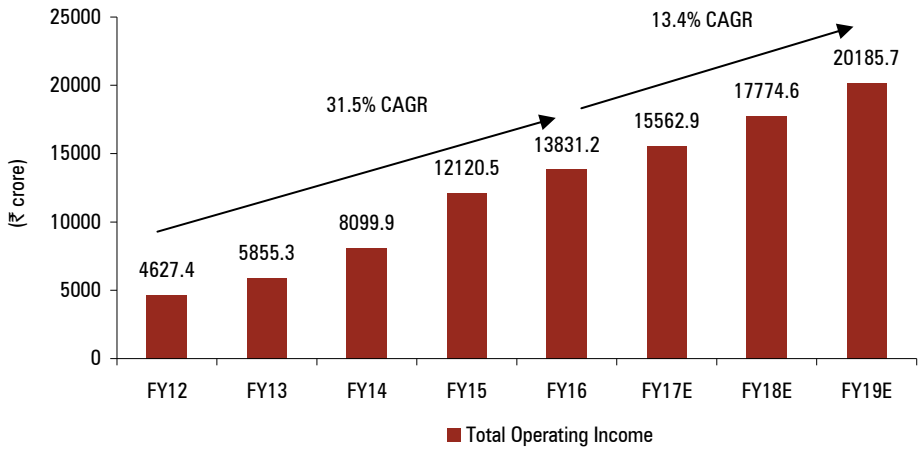
The company faced a USFDA embargo in 2011 for two of its units for non-compliance with cGMP. It also went through political turmoil due to Telangana issue and alleged favours received by promoters through political connections.

Aurobindo acquired commercial operations in seven Western European countries from Actavis. The company has acquired personnel, commercial infrastructure, products, marketing authorisation and dossier license rights in these seven countries. The acquisition brought in a pipeline of ~1200 products from different segments and an additional pipeline of over 200 products under its foray. Net sales for acquired businesses were ~€320 million. GPMs were ~30%. They were fetching losses of ~€23 million at the EBITDA level.

The company also acquired the assets of nutritional supplement maker Natrol Inc for a consideration of ~US$132.5 million. With this acquisition, the company has forayed in the nutritional OTC business in the US and other international markets.

Overall, we expect revenues to grow at 13% CAGR in FY16-19E to ₹ 20186 crore on the back of Actavis consolidation & incremental US launches.

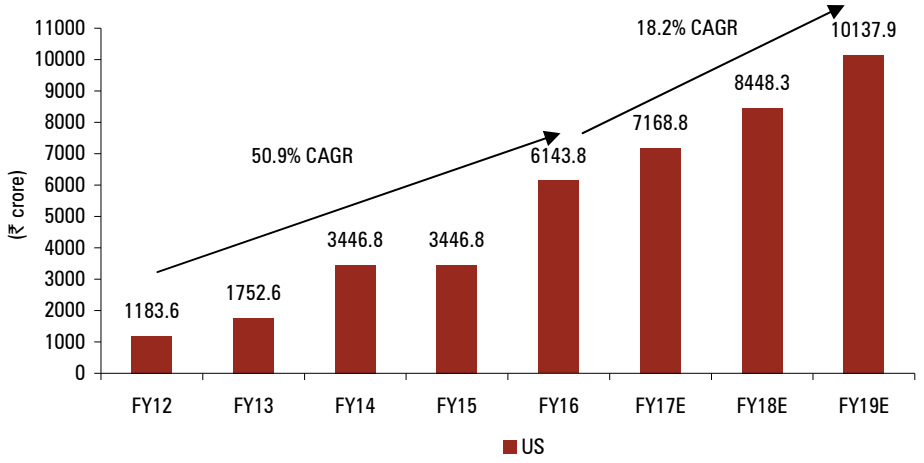
Exhibit 1: Revenues to grow at CAGR of 13% in FY16-19E



Source: Company, ICICIdirect.com Research

After filing ANDA in the US in 2003, the company has come a long way as current ANDA filings are at 421. The US revenue run rate has grown from ~US$100 million in 2009 to ~US$935 million as on 2016. Note that this was despite the USFDA embargo in FY12-13 on unit VI and unit III. The much hyped Pfizer deal, which eventually fell apart, also had an impact on US sales as the company had to invest in the front end network. In rupee term, US sales have grown at 51% CAGR to ₹ 10138 crore in FY11-16. US formulations now constitute 44% of the turnover, up from 26% in FY12. The US traction has also boosted investors' confidence, which was affected by warning letters, piling debts besides non-business political adversaries. We expect US sales to grow at a CAGR of 18% on a higher base to ₹ 10138 crore in FY16-19E.

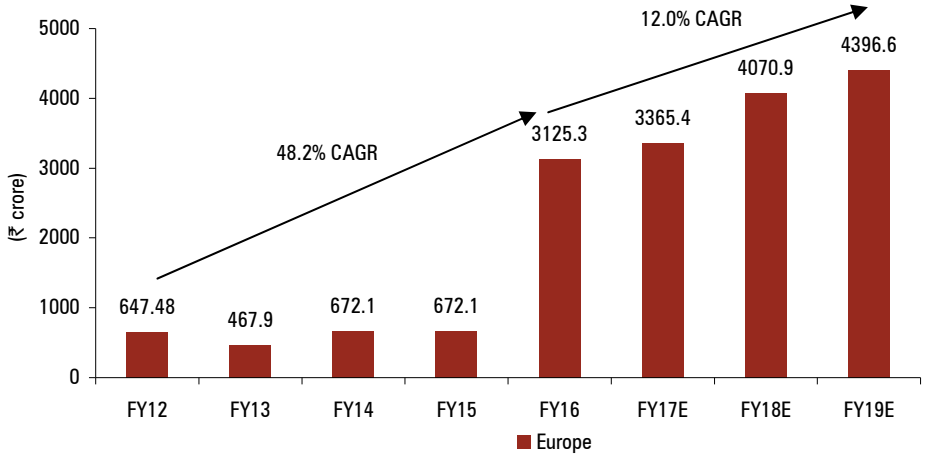
Exhibit 2: US growth on the back of robust pipeline and Natrol acquisition



Source: Company, ICICIdirect.com Research

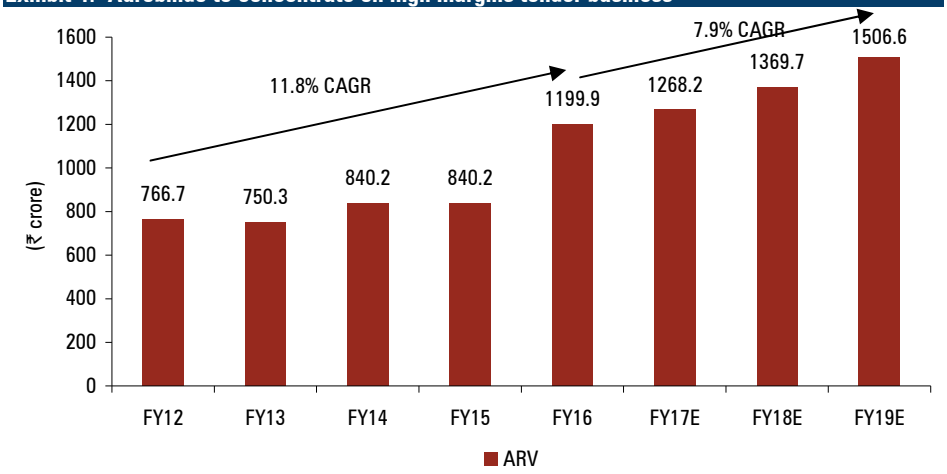
From a prominent API supplier and participant in the global ARV tenders to a leading formulations vendor the company has virtually changed its identity. The API: formulations ratio has improved from 43:57 in FY12 to 22:78 in FY16. Another USP of the company is its vertically integrated model with huge capacity, unmatched by most peers. The company owns 22 manufacturing facilities, including eight key formulations facilities in India and abroad. These can be optimised by 1) continuous US filings and launches 2) incremental launches and filings in the RoW markets and 3) site transfers and supplies for products covered under the Actavis deal. Higher capacity utilisation is likely to have a positive impact on margins, which are likely to be under some pressure after the Actavis deal.

Exhibit 3: Acquisition of Actavis Europe business boosts sales in Europe



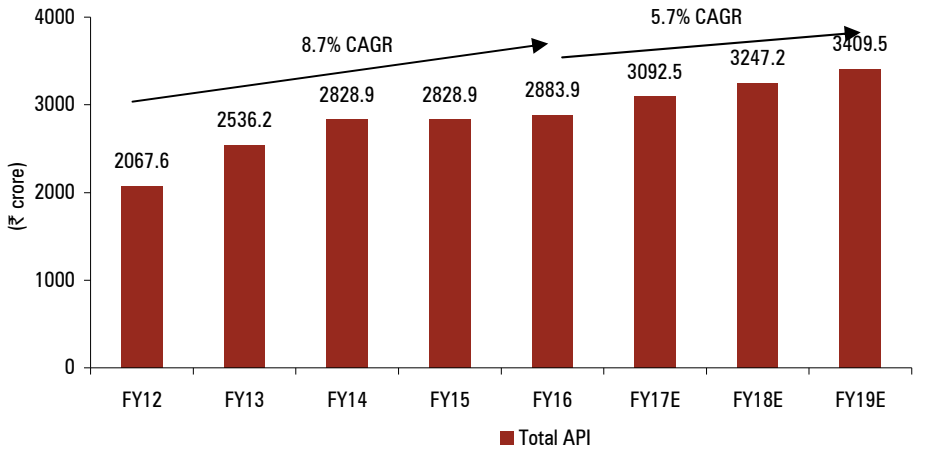
Source: Company, ICICIdirect.com Research

Exhibit 4: Aurobindo to concentrate on high margins tender business



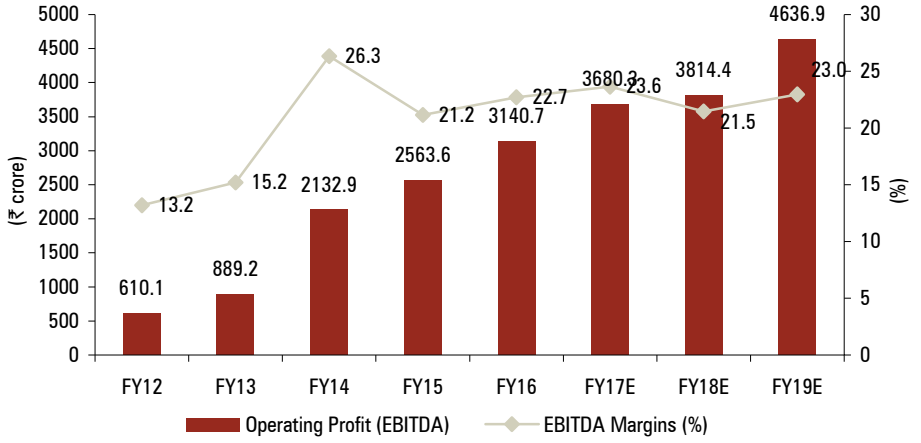
Source: Company, ICICIdirect.com Research

Exhibit 5: API business to see muted growth due to higher captive consumption



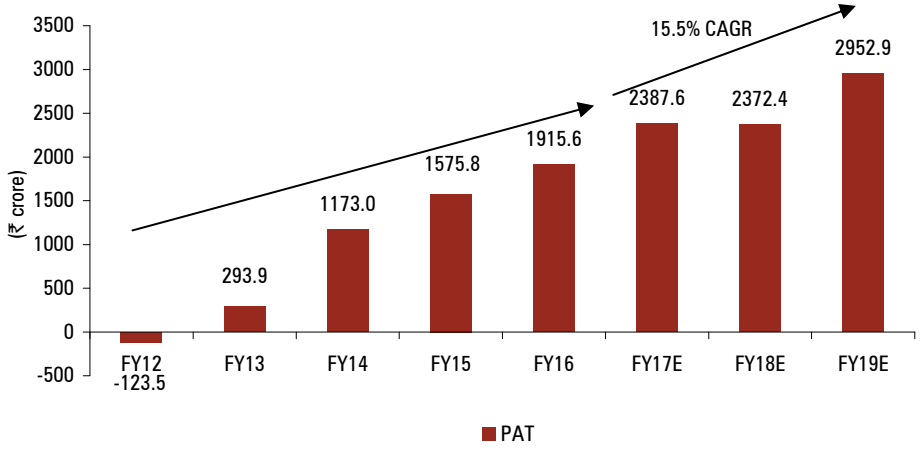
Source: Company, ICICIdirect.com Research

Exhibit 6: Impact on margins due to acquisitions to be neutralised by US growth



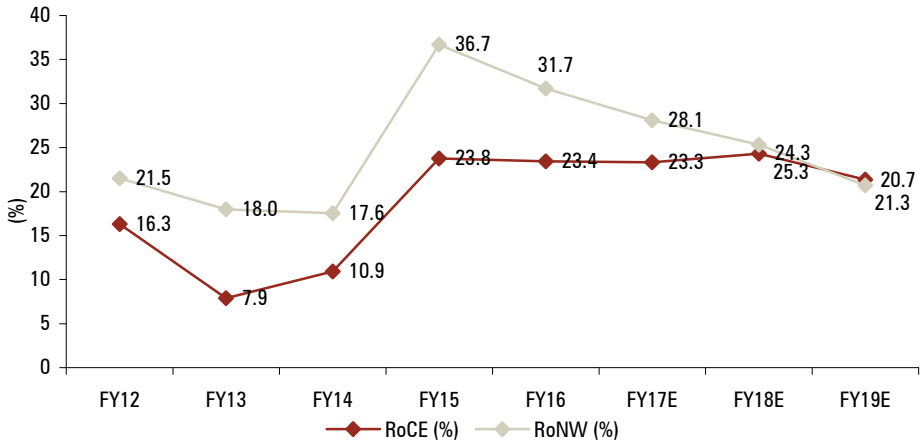
Source: Company, ICICIdirect.com Research

Exhibit 7: Net profit to grow at CAGR of 15.5% in FY16-19E



Source: Company, ICICIdirect.com Research

Exhibit 8: Trends in return ratios



Source: Company, ICICIdirect.com Research

Exhibit 9: Trends in quarterly financials

(₹ Crore)	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	YoY (%)	QoQ(%)
Total Operating Income	2140.6	2329.8	2911.1	2881.2	3166.2	3162.1	3298.9	3365.1	3505.6	3746.8	3725.9	3775.5	3906.2	11.4	3.5
Raw Material Expenses	897.7	897.8	1380.6	1264.7	1538.5	1373.6	1512.4	1512.1	1550.8	1627.1	1637.0	1629.9	1709.7	10.2	4.9
% of revenue	41.9	38.5	47.4	43.9	48.6	43.4	45.8	44.9	44.2	43.4	43.9	43.2	43.8	-47 bps	60 bps
Gross Profit	1242.8	1432.0	1530.4	1616.5	1627.6	1788.5	1786.6	1853.0	1954.8	2119.6	2088.9	2145.6	2196.5	12.4	2.4
GPM (%)	58.1	61.5	52.6	56.1	51.4	56.6	54.2	55.1	55.8	56.6	56.1	56.8	56.2	47 bps	-60 bps
Employee Expenses	213.4	233.6	308.4	337.0	368.0	373.3	361.2	373.0	401.6	408.8	432.1	426.6	445.6	11.0	4.5
% of revenue	10.0	10.0	10.6	11.7	11.6	11.8	10.9	11.1	11.5	10.9	11.6	11.3	11.4	-5 bps	11 bps
Other Manufacturing Exp	385.6	455.4	563.9	642.4	647.4	759.1	700.3	700.9	735.5	828.5	767.9	789.8	856.0	16.4	8.4
% revenues	18.0	19.5	19.4	22.3	20.4	24.0	21.2	20.8	21.0	22.1	20.6	20.9	21.9	93 bps	99 bps
Total Expenditure	1496.8	1586.9	2252.9	2244.0	2554.0	2506.0	2573.9	2586.1	2687.9	2864.4	2836.9	2846.2	3011.3	12.0	5.8
% of revenue	69.9	68.1	77.4	77.9	80.7	79.3	78.0	76.9	76.7	76.5	76.1	75.4	77.1	42 bps	170 bps
EBITDA	643.8	743.0	658.2	637.2	612.2	656.1	725.1	779.0	817.7	882.3	889.0	929.2	894.8	9.4	-3.7
EBITDA Margins (%)	30.1	31.9	22.6	22.1	19.3	20.7	22.0	23.1	23.3	23.5	23.9	24.6	22.9	-42 bps	-170 bps
Depreciation	76.0	88.0	90.8	89.9	67.3	84.7	89.0	92.6	99.4	111.3	106.2	110.2	111.1	11.9	0.9
Interest	23.7	34.2	18.9	21.0	21.9	22.6	20.8	24.1	22.7	25.1	20.6	17.5	14.3	-37.2	-18.7
Other Income	3.6	10.7	10.8	27.3	35.9	6.7	29.4	12.2	7.5	20.6	15.9	8.3	7.9	5.0	-4.3
Less: Forex & Exception	-2.1	-35.6	-1.4	42.0	20.2	-1.2	10.6	43.9	-14.0	-4.6	-7.0	-20.2	-15.8		
PBT	549.7	666.9	560.7	511.7	538.7	556.8	634.0	630.6	717.2	771.1	785.0	829.9	793.2	10.6	-4.4
Total Tax	133.6	165.3	146.4	140.4	156.3	153.4	163.4	176.7	174.2	209.7	200.8	224.0	217.7	24.9	-2.8
Tax rate (%)	24.3	24.8	26.1	27.4	29.0	27.6	25.8	28.0	24.3	27.2	25.6	27.0	27.4	315 bps	45 bps
PAT	416.1	501.6	414.3	371.2	382.4	403.4	470.6	453.9	543.0	561.4	584.2	606.0	575.5	6.0	-5.0
Minority Interest	-1.4	-0.2	-1.2	-1.0	-2.0	-0.5	-1.9	-1.1	0.4	-1.4	-0.8	-0.1	-0.1	-125.0	0.0
Net Profit	417.5	501.8	415.4	372.2	384.4	403.8	472.5	455.0	542.6	562.9	585.0	606.0	575.6	6.1	-5.0
EPS (₹)	7.1	8.6	7.1	6.4	6.6	6.9	8.1	7.8	9.3	9.6	10.0	10.4	9.9		

Source: Company, ICICIdirect.com Research

SWOT Analysis

Strengths - US product pipeline, huge capacities, vertically integrated business model

Weakness - No presence in Indian domestic formulations, substantial debt

Opportunities - US generics space, foray into oncology

Threats Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation in the US, pricing probe by the Department of Justice (DoJ) in the US, proposed tightening by the new regime by adapting to the bidding process and imposition of border adjustment tax on imported drugs in the US.

Conference call highlights

- Aurobindo's cumulative filings were at 431 ANDAs including 262 final approvals, 41 tentative approvals and 118 pending approvals. The company's US base business grew sequentially in Q3
- In Q3FY17, the company filed nine ANDA including five in the oral category and four in the injectable category. It has received 19 ANDA approvals from USFDA including 17 in the oral category and two in the injectable category
- It has launched 11 products including three injectable in Q3FY17. The company expects to launch 40-45 products in FY18
- R&D was ₹ 130.2 crore (3.3% of sales) in Q3FY17. In the medium term, the company expects R&D spending to be 5-6% of sales
- Effective tax rate was ~27%. Capex spent was US$55 million in Q3FY17
- Total gross debt was at US$539 million while net debt was at US$410 million as of Q3FY17 with cash of US$129 million. Guided for less than US$600 million of gross debt for FY17
- As per the management, the price erosion in the US business during the quarter was at 7% in Q3FY17

- Filing for Metformin is stated for Q2FY18 and is expected launch is in CY19, while Metoprolol ER launch is expected in CY18
- The company has acquired four biosimilars from TL Biopharma and intends to begin clinical trial for one of the biosimilars, Bevacizumab, this year. The company is likely to spend $80-90 million for the clinical trial over two years. The branded market size for these four products was ~$20 billion in 2016
- The injectable business continued its growth momentum and grew 91% YoY to $42.5 million in Q3FY17. The company has maintained guidance of 50% YoY growth in the injectable business, going forward
- EU business EBITDA margins were 6-8%
- The company expects to launch gEpzicom (anti-retroviral) in Q1FY18, Tenofovir (anti-retroviral) in Q4FY18 and injectables Lansoprazole (GI) and Vancomycin (anti-infective) are expected to be launched in Q2FY18
- Dolutegravir (HIV) traction on sales would be visible from Q3FY18 onwards
- Cumulatively, till date the company has transferred 63 products from Europe to India. In 9MFY17 It has transferred 42 products

FY16 Annual Report Highlights

- Aurobindo has been ranked as seventh prescription supplier in the US as per IMS total prescriptions dispensed. The company is among the top 15 generics companies by sales in Europe. The company exports to over 150 countries across the globe with more than 87% of its revenues derived out of international operations. Total ~75% of the company's formulation products are vertically integrated
- Revenues increased by 14.6% YoY in FY16 to ₹ 13896 crore while the EBITDA margin widened to 23.1% as compared to 21.2% in FY15. The Net profit grew 25.6% to ₹ 1916 crore
- US business (55% of total formulation sales) grew 27.2% YoY to ₹ 6183.8 crore. The company cumulative filings was at 398 ANDAs, out of which 251 ANDA approvals (215 final approvals including 10 for Aurolife Pharma LLC, and 36 tentative approvals; Tentative approvals include 21 ANDAs approved under PEPFAR) have been received. The balance 147 ANDAs were under review for approval. In FY16, it has filed 22 ANDAs, while 49 final approvals were received
- The oncology and hormone manufacturing facility has been completed and commissioned in FY16. The injectable areas of the oncology facility are expected to be commissioned in the later part of 2016. It has selected over 50 oncology products and it plans to initiate the exhibit batches for more than 15 products in FY17, and the dossier filing in regulated markets are expected to

Exhibit 10: US pipeline

Units	Therapies	Filings	Final Approvals	Pending	Tentative Approvals
Unit III	Oral Formulations	125	99	10	16
Unit IV	Injectables & Ophthalmics	75	38	35	2
Unit VIB	Cephalosphorins Oral	11	11		
Unit VII (SEZ)	Oral Formulations	158	79	56	23
Unit X	Oral Formulations	2		2	
Unit XII	Penicillin Oral & Injectables	20	19	1	
Aurolife USA	Oral Formulations	26	16	10	
AuroNext	Penem Injectables	4		4	
Total		**421**	**262**	**159**	**41**

Source: Company, ICICIdirect.com Research

be initiated in end of FY17. A new block to manufacture oncology API is expected to be operational in FY18

- The company is foraying into inhalation and dermatology segments. Initially, development work has commenced for two inhalation products, with another four in the pipeline, and 18 dermatology products have been selected for development
- Aurobindo is planning to file first Microsphere technology based specialty injection product in FY18. It plans to launch four identified products, which together account for a market size of around US$3 billion
- The company has completed Validation batches for four peptides and sample shipments have commenced to customers for their development work. DMF are prepared and three filings have been done in FY16. Also, it is attempting to take up two drug-device combination products in sterile segment, with exhibit batches planned in FY17. Product filing for these high value products would be in FY18.
- By end of Q1FY17, the company has filed four Penem injectable products in regulated markets. These four Penems had annual sales of ~US$500 million (as per IMS) in the US. Penem products have already been launched in Brazil, Columbia, Mexico, Ukraine, Philippines and in few African countries. Some of these products are being launched in a few European countries in FY17
- R&D spending in FY16 was ₹ 469.9 crore (3.38% of net revenue) against ₹ 346.6 crore
- In FY16, the company allotted 291,982,275 equity shares of ₹ 1 each to shareholders of the company as bonus shares in the ratio of 1:1
- Acquired Actavis portfolio turned profitable in FY16 on the back of increased focus, product pruning and cost efficiencies
- Remuneration of key managerial personnel in FY16, K Nithyananda Reddy, Vice Chairman & Whole-time Director-- ₹ 1.4, Dr M Sivakumaran, Whole-time Director -- ₹ 1.4 crore, M Madan Mohan Reddy, Whole-time Director -- ₹ 1.5 crore and N Govindarajan, Managing Director -- ₹ 9.1 crore
- Recommended dividend (including dividend distribution tax) was of ₹ 3.0 per share in FY16 with dividend payout ratio of 9.2% (vs. 9.9% in FY15)

Exhibit 11: Major facilities

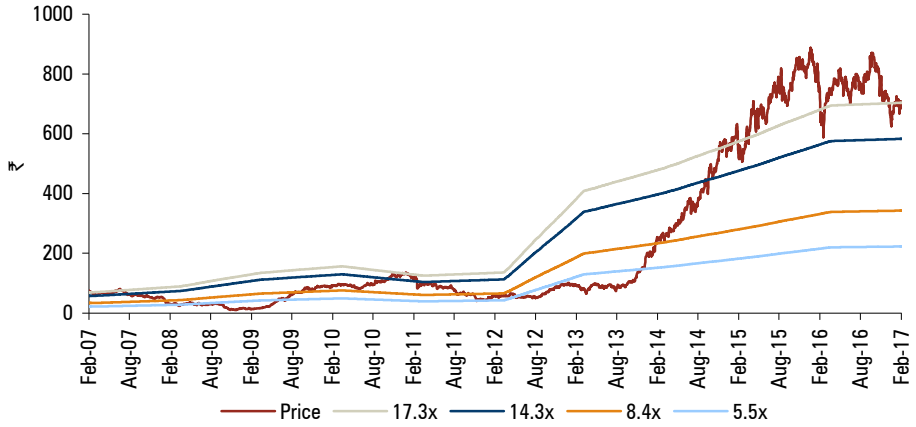
Unit No.	Segment	Approvals	Type	Location
Aurolife	Formulations	USFDA	Non antibiotic & Controlled substances	USA
Unit-I	API		CVS, CNS, Anti-Allergics, Non-Sterile	India
Unit-II	API		Intermediates for non antibiotics, Penems	India
Unit-III	Formulations	USFDA	Non antibiotics, ARVs / Orals	India
Unit-IV	Formulations	USFDA	Injectables (Non-antibiotics) & Ophthalmics	India
Unit-V	API		Antibiotics (Sterile & Non-sterile)	India
Unit-VI	Formulations	USFDA	Cephalosporins Orals	India
Unit-VII (SEZ)	Formulations	USFDA	Oral dosage	India
Unit-VIII	API		ARV, CVS, CNS (Non-sterile)	India
Unit-IX	API		Intermediates	India
Unit-X *	Formulations		Facilities under construction/development	India
Unit-XI	API			India
Unit-XII	Formulations	USFDA	Antibiotics, injectables, Orals	India
Unit-XIV *			Facilities under construction/development	India
Unit-XV				India
Unit-XVI *			Facilities under construction/development	India
Unit-XVII *			Facilities under construction/development	India
APLRC-I @	R&D Center		Research and Development Centers	India
APLRC-II @	R&D Center		Research and Development Centers	India
Bhiwadi Unit	Formulations	USFDA	Penem Injecables	India

Source: Company, ICICIdirect.com Research

Valuation

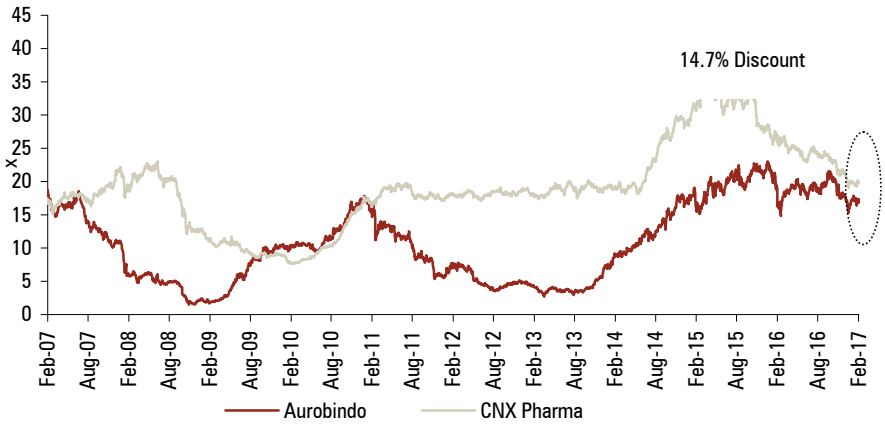
The Q3 numbers once again highlighted eminent pricing pressure in the US oral solid business. The scenario is unlikely to change in the near future. However, the company continues to thrive in the US, backed by a robust product pipeline and niche launches. Moreover, we expect the percentage of injectables, which are relatively insulated from pricing pressure in the US portfolio, to grow from 10% in FY16 to 20-25% by FY19. We believe launches continuum, especially in the injectable space, can effectively neutralised channel consolidation and pricing pressure headwinds. Other important segment i.e. Europe is likely to fetch better margins on the back of product transfers to India and focussed approach. We have ascribed a target price of ₹ 965, based on 19x (earlier 20x) FY19E EPS of ₹ 50.7.

Exhibit 12: One year forward PE



Source: Company, ICICIdirect.com Research

Exhibit 13: One year forward PE of company vs. CNX Pharma



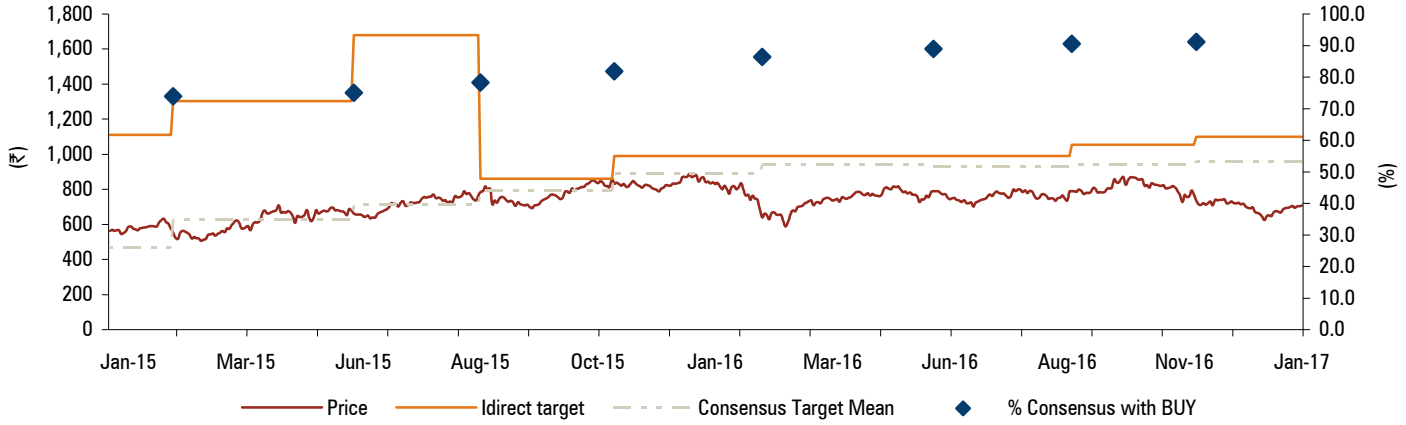
Source: Company, ICICIdirect.com Research

Exhibit 14: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY16	13831	14.1	32.8	21.2	20.7	13.8	28.1	23.3
FY17E	15563	12.5	40.9	18.3	16.6	11.5	25.3	24.3
FY18E	17775	14.2	40.7	1.2	16.7	11.0	20.7	21.3
FY19E	20186	13.6	50.7	24.5	13.4	8.8	20.8	23.0

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICIdirect.com Research

Key events

Date	Event
May-08	Gets approval to launch nine products in South Africa
Mar-09	Signs an agreement with Pfizer to supply more than 100 generic products
Mar-10	Starts contract manufacturing business Aurolife
Sep-10	Signs an agreement with AstraZeneca to supply generic drugs for emerging markets
Jan-11	Sells stake in API unit of China for US$23 million
Feb-11	USFDA issues import alert for Unit VI
May-11	Redeems FCCB bonds
May-11	Receives warning letter for Unit VI & concerns on packing division of Unit III
Apr-12	CBI raids company premises
May-12	Ramprasad Reddy & Nithyananda Reddy step down from CEO and MD posts. Govindarajan appointed Managing Director
Mar-13	USFDA withdraws import alert for Unit VI
Jan-14	Acquires Actavis's Western European operations in 7 countries for ~EUR 30 million
Nov-14	Highest bidder for US nutritional supplement market Natrol with a bid of US$ 132.5 million
Dec-14	Acquires manufacturing assets, personnel, commercial infrastructure including the well established nutraceuticals brands in USA of Natrol along with an agreement to take on certain liabilities, with a bid of $ 132.5 million
Feb-15	Gets approval for setting up JV with Tergene Biotech Pvt Ltd for development of Pneumococcal Conjugate Vaccine with a global market of more than US$5 billion. The company holds majority stake in the JV
Feb-16	The USFDA inspects Unit III and Unit VII facilities of the company. Unit III was cleared without observations while unit VII received four 483 observations.

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (%)	Position Char
1	Rani (Suneela P)	7-Oct-16	33.6	196.38m	(8.66)m
2	Reddy (Nityananda K)	7-Oct-16	4.3	25.36m	(2.17)m
3	HDFC Asset Management Co., Ltd.	30-Sep-16	3.6	21.18m	(1.45)m
4	Kambam (Kirthi Reddy)	30-Sep-16	3.5	20.70m	0.00m
5	Reddy (Ramaprasad P V)	30-Sep-16	3.1	18.00m	0.00m
6	Sivakumaran (M)	30-Sep-16	2.5	14.69m	0.00m
7	Trident Chemphar, Ltd.	30-Sep-16	2.1	12.15m	0.00m
8	Invest AD	30-Sep-16	1.4	8.14m	(0.19)m
9	The Vanguard Group, Inc.	31-Dec-16	1.4	8.08m	0.00m
10	SBI Funds Management Pvt. Ltd.	30-Sep-16	1.4	8.03m	1.29m

Shareholding Pattern

(in %)	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Promoter	53.9	53.8	53.8	53.8	53.8
Others	46.1	46.2	46.2	46.2	46.2

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value ($)	Shares	Investor name	Value ($)	Shares
FIL Investment Management (Singapore) Ltd.	24.1m	2.0m	Rani (Suneela P)	-106.1m	-8.7m
SBI Funds Management Pvt. Ltd.	16.6m	1.3m	Reddy (Nityananda K)	-26.5m	-2.2m
HSBC Global Asset Management (Hong Kong) Limited	11.5m	0.9m	HDFC Asset Management Co., Ltd.	-18.6m	-1.4m
UTI Asset Management Co. Ltd.	6.8m	0.6m	Birla Sun Life Asset Management Company Ltd.	-10.6m	-1.1m
Artisan Partners Limited Partnership	3.4m	0.3m	BNP Paribas Investment Partners Netherlands N.V.	-5.0m	-0.5m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Revenues	13,831.2	15,562.9	17,774.6	20,185.7
Growth (%)	14.1	12.5	14.2	13.6
Raw Material Expenses	6,157.5	6,839.1	7,806.2	8,764.2
Employee Expenses	1,550.8	1,782.2	2,039.7	2,314.0
Other Manufacturing Expenses	2,982.1	3,261.4	4,114.3	4,470.6
Total Operating Expenditure	10,690.5	11,882.6	13,960.2	15,548.8
EBITDA	3,140.7	3,680.3	3,814.4	4,636.9
Growth (%)	22.5	17.2	3.6	21.6
Interest	92.7	72.1	75.8	66.8
Depreciation	392.6	437.8	527.7	569.6
Other Income	68.2	40.6	36.6	41.5
PBT before Exceptional Items	2,723.6	3,211.0	3,247.4	4,042.1
Less: Forex & Exceptional Items	66.0	-43.0	0.0	0.0
PBT	2,657.6	3,254.1	3,247.4	4,042.1
Total Tax	744.4	870.9	876.8	1,091.4
PAT before MI	1,913.2	2,383.1	2,370.6	2,950.7
Minority Interest	-2.4	-1.8	-1.8	-2.2
PAT	1,915.6	2,387.6	2,372.4	2,952.9
Adjusted PAT	1,981.6	2,344.5	2,372.4	2,952.9
Growth (%)	21.2	18.3	1.2	24.5
EPS (Diluted)	32.8	40.9	40.7	50.7

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit/(Loss) after taxation	1,986.7	2,387.6	2,372.4	2,952.9
Add: Depreciation & Amortization	392.6	437.8	527.7	569.6
Net Increase in Current Assets	-1,365.6	-410.7	-1,271.9	-1,381.2
Net Increase in Current Liabilities	627.2	127.3	393.6	426.3
CF from operating activities	1,759.6	2,542.0	2,021.8	2,567.7
(Purchase)/Sale of Fixed Assets	-1,411.3	-1,200.0	-1,701.5	-900.0
(Inc)/dec in Investments	20.0	-500.0	-500.0	0.0
Others	37.0	1.8	1.8	2.2
CF from investing activities	-1,354.3	-1,698.2	-2,199.7	-897.8
Issue of Equity Shares	7.2	0.0	0.0	0.0
Inc / (Dec) in Debt	216.9	-768.9	-141.2	-453.1
Dividend & Dividend Tax	-161.6	-190.7	-172.9	-215.2
others	-82.3	0.0	0.0	0.0
CF from financing activities	-19.8	-959.6	-314.1	-668.3
Net Cash flow	385.5	-115.8	-492.0	1,001.7
Opening Cash	448.9	834.4	718.6	226.6
Closing Cash	834.4	718.6	226.6	1,228.2
Free Cash Flow	348.3	1,342.0	320.3	1,667.7

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Equity Capital	58.5	58.5	58.5	58.5
Reserve and Surplus	6,998.2	9,195.1	11,394.7	14,132.4
Total Shareholders funds	7,056.7	9,253.6	11,453.2	14,191.0
Total Debt	4,702.0	3,933.0	3,791.8	3,338.7
Deferred Tax Liability	236.5	236.5	236.5	236.5
Minority Interest	59.6	61.4	63.2	65.4
Long term Provisions	23.5	23.5	23.5	23.5
Source of Funds	12,078.2	13,508.0	15,568.1	17,855.0
Gross Block - Fixed Assets	5,268.0	6,318.0	7,186.6	7,836.6
Accumulated Depreciation	1,870.7	2,249.0	2,679.3	3,148.6
Net Block	3,397.3	4,069.0	4,507.2	4,688.0
Capital WIP	995.3	1,095.3	1,295.3	1,495.3
Net Fixed Assets	4,392.6	5,164.2	5,802.5	6,183.2
Total Intangible Assets	871.0	861.5	1,397.1	1,346.7
Investments	0.2	500.1	1,000.1	1,000.1
Inventory	4,088.1	4,263.8	4,869.7	5,530.3
Cash	834.4	718.6	226.6	1,228.2
Debtors	4,171.9	4,263.8	4,869.7	5,530.3
Loans & Advances & Other CA	907.0	1,050.1	1,110.1	1,170.1
Total Current Assets	10,001.5	10,296.4	11,076.2	13,459.0
Creditors	2,526.8	2,558.3	2,921.8	3,318.2
Provisions & Other CL	1,094.3	1,190.2	1,220.2	1,250.2
Total Current Liabilities	3,621.1	3,748.4	4,142.0	4,568.4
Net Current Assets	6,380.3	6,547.9	6,934.2	8,890.7
LT L& A, Other Assets	434.1	434.1	434.1	434.1
Deferred Tax Assets	0.1	0.1	0.1	0.1
Application of Funds	12,078.2	13,508.0	15,568.1	17,855.0

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
Adjusted EPS (Diluted)	33.9	40.1	40.7	50.7
BV per share	120.8	158.5	196.7	243.7
Dividend per share	3.0	3.3	3.0	3.7
Cash Per Share	14.3	12.3	3.9	21.1
Operating Ratios (%)				
Gross Profit Margins	55.5	56.1	56.1	56.6
EBITDA margins	22.7	23.6	21.5	23.0
Net Profit margins	14.3	15.1	13.3	14.6
Inventory days	107.9	100.0	100.0	100.0
Debtor days	110.1	100.0	100.0	100.0
Creditor days	66.7	60.0	60.0	60.0
Asset Turnover	1.1	1.2	1.1	1.1
EBITDA Conversion Rate	56.0	69.1	53.0	55.4
Return Ratios (%)				
RoE	28.1	25.3	20.7	20.8
RoCE	23.3	24.3	21.3	23.0
RoIC	26.9	29.0	25.2	28.8
Valuation Ratios (x)				
P/E	20.7	16.6	16.7	13.4
EV / EBITDA	13.8	11.5	11.0	8.8
EV / Net Sales	3.1	2.7	2.4	2.0
Market Cap / Sales	2.9	2.5	2.2	2.0
Price to Book Value	5.6	4.3	3.5	2.8
Solvency Ratios				
Debt / Equity	0.7	0.4	0.3	0.2
Debt / EBITDA	1.5	1.1	1.0	0.7
Current Ratio	2.5	2.6	2.6	2.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Ajanta Pharma	AJAPHA	1795	1,960	Buy	15794.7	45.4	59.7	66.3	75.3	39.5	30.1	27.1	23.8	42.9	39.2	34.9	31.7	34.2	33.1	28.4	25.6
Alembic Pharma	ALEMPHA	558	615	Hold	10510.7	38.2	22.0	24.5	30.6	14.6	25.4	22.8	18.2	51.5	26.0	23.1	24.8	44.9	21.9	20.8	21.9
Apollo Hospitals	APOHOS	1226	1,440	Buy	17056.7	22.2	21.8	31.4	45.3	55.2	56.2	39.0	27.1	8.2	8.1	10.3	13.3	8.9	8.2	10.7	13.6
Aurobindo Pharma	AURPHA	679	965	Buy	39750.6	33.9	40.1	40.7	50.7	20.0	16.9	16.7	13.4	23.3	24.3	21.3	23.0	28.1	25.3	20.7	20.8
Biocon	BIOCON	1089	1,120	Buy	21782.0	23.1	32.6	34.4	44.2	47.1	33.4	31.6	24.6	9.1	13.0	13.7	16.5	11.4	14.4	13.7	15.4
Cadila Healthcare	CADHEA	364	380	Hold	37274.5	15.0	11.2	15.1	18.9	24.3	32.4	24.1	19.3	26.7	14.4	18.3	20.9	28.6	18.5	21.1	22.0
Cipla	CIPLA	580	575	Hold	46651.9	18.5	17.8	24.7	31.9	31.4	32.5	23.4	18.2	12.0	10.9	14.0	16.6	12.5	10.9	13.4	15.0
Divi's Lab	DIVLAB	750	925	Buy	19912.8	41.8	44.6	51.8	57.9	17.9	16.8	14.5	13.0	30.7	28.5	28.0	26.5	25.9	23.0	22.2	20.7
Dr Reddy's Labs	DRREDD	2976	2,930	Hold	49301.0	141.4	74.5	114.5	154.3	21.0	39.9	26.0	19.3	17.3	7.0	11.5	15.1	20.6	10.0	13.6	15.8
Glenmark Pharma	GLEPHA	953	1,155	Buy	26894.9	32.2	63.0	54.4	60.8	29.6	15.1	17.5	15.7	16.2	26.8	20.8	21.9	21.2	29.7	20.6	18.8
Indoco Remedies	INDREM	274.5	315	Buy	2529.5	9.4	8.9	14.2	18.5	29.2	30.9	19.3	14.8	12.9	9.7	14.9	18.1	14.8	12.6	17.4	19.2
Ipca Laboratories	IPCLAB	519	605	Buy	6552.1	10.0	15.1	25.4	33.3	51.8	34.4	20.4	15.6	5.7	9.9	12.6	14.8	5.5	7.8	11.9	13.8
Jubilant Life	JUBLIF	710	810	Buy	11309.0	26.0	37.4	53.9	67.5	27.3	19.0	13.2	10.5	12.0	14.2	16.2	18.3	14.2	17.3	20.2	20.4
Lupin	LUPIN	1466	1,890	Buy	66178.8	50.4	62.2	67.5	83.8	29.1	23.6	21.7	17.5	18.6	20.3	20.8	23.9	20.7	21.1	19.2	19.9
Natco Pharma	NATPHA	767.8	750	Buy	13383.4	8.5	12.8	13.1	15.0	90.4	59.9	58.7	51.1	16.0	19.9	17.5	17.8	11.9	15.6	14.0	14.1
Sun Pharma	SUNPHA	655	850	Buy	157160.3	23.4	30.4	32.3	39.1	27.9	21.6	20.3	16.7	18.6	19.8	18.4	19.0	18.0	19.5	17.7	18.2
Syngene Int.	SYNINT	509	570	Hold	10180.0	11.1	15.5	16.9	20.5	51.3	36.7	33.7	27.7	13.2	17.8	18.1	20.7	21.0	23.2	20.6	20.4
Torrent Pharma	TORPHA	1252	1,475	Buy	21185.1	107.8	55.7	62.2	77.6	11.6	22.5	20.1	16.1	46.7	21.0	23.8	26.5	53.8	23.0	21.5	22.3
Unichem Lab	UNILAB	270.1	285	Hold	2454.5	12.3	13.2	17.5	23.7	21.9	20.5	15.4	11.4	13.8	14.5	16.2	18.9	11.7	11.3	13.3	15.6

Source: Company, ICICIdirect.com Research

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