

Aurobindo Pharma

Reco: Buy

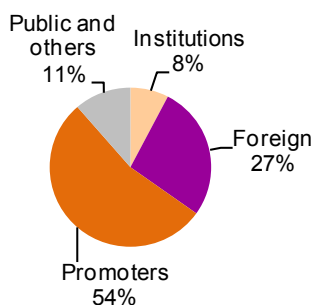
Stock Update

US drug pricing probe a near term overhang; Long-term outlook intact; PT revised to Rs825
CMP: Rs691

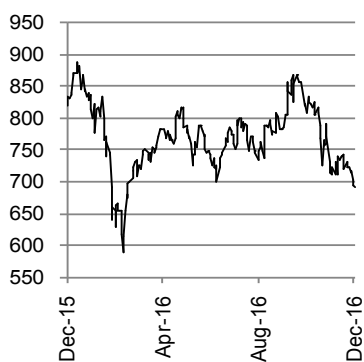
Company details

Price target:	Rs825
Market cap:	Rs40,423 cr
52-week high/low:	Rs895/582
NSE volume: (No of shares)	19.7 lakh
BSE code:	524804
NSE code:	AUROPHARMA
Sharekhan code:	AUROPHARMA
Free float: (No of shares)	27.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-11.1	-6.1	-15.3
Relative to Sensex	-6.0	-4.9	-6.1	-20.4

Key points

- The event:** Twenty US states have filed a lawsuit against six generic pharma companies in relation to alleged fixing of drug prices. Aurobindo Pharma is one of the six generic pharma companies mentioned in the lawsuit (Heritage Pharma, Citron, Mayne, Mylan and Teva are the other five companies). The lawsuit is related to antibiotic Doxycycline Hyclate and Glyburide (an old drug used to treat diabetes). The litigation comes after months of increasing scrutiny by the US authorities of the alleged fixing of generic drugs. At present, the drug pricing probes in the US are ongoing at both, the state and the federal level.
- The impact:** Pharma stocks have corrected sharply of late (~5-10%) in the past week, as the US agencies have expanded the scope of their probe into the alleged fixing of drug prices. It is difficult to ascertain a definite timeline and the outcome of the US litigations, as these cases usually take at least two years just for investigation. The news could weigh heavily on the Aurobindo Pharma stock sentimentally, depending on the future news flow. The management has clarified that the drug being probed (Glyburide) contributed ~Rs7-8 crore to the company's sales in FY2016. The company's operations will not be impacted due to the latest regulatory development in the US.
- Outlook:** With Aurobindo Pharma guiding for major injectable launches (6-7 drugs), we expect major growth to occur in H2FY2017, especially driven by the launch of Meropenem and Vancomycin in the injectable category and gNexium in the oral segment. The management expects EBITDA margin to be above 24% in FY2017 on the back of a better revenue mix. Net debt decreased by \$50 million to \$484 million in Q2FY2017. With increased approval of key drugs, the earnings visibility for FY2017 and FY2018 is pretty strong.
- Valuation - Maintain Buy with revised price target of Rs825:** The stock currently trades at 11.5x its FY2018E earnings. We expect the upcoming launches and approvals of key products, coupled with higher contribution from injectables in FY2017-18 to improve valuation going ahead. However, the US drug pricing probe and the US president-elect Donald Trump's policy changes will remain an overhang in the near term. Therefore, we have revised downward the earnings multiple to 14x from 16x earlier. The price target has been revised to Rs825. We maintain our 'Buy' rating on the stock as the long-term outlook remains strong.

Valuation

Particulars	FY15	FY16	FY17E	FY18E
Net sales	12,121	13,896.1	16,477.8	19,707.6
Adj. PAT	1,635	2,048	2,630	3,455
OPM (%)	21.2	23.1	24.5	26.2
Shares in issue (cr)	58.5	58.5	58.5	58.5
EPS (Rs)	28.0	35.0	44.9	59.0
% YoY change	18.9	25.2	28.4	31.4
P/E (x)	24.7	19.7	15.4	11.7
EV/EBIDTA (x)	17.1	13.6	10.3	7.4
Book value (Rs/share)	88.1	120.6	164.3	222.1
P/BV (x)	7.8	5.7	4.2	3.1
Mcap/sales (x)	3.4	3.0	2.5	2.1
RoCE (%)	27.4	27.9	29.4	33.1
RoNW (%)	36.7	33.5	31.6	30.6



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