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In the second part of our special series on market movers, we take a look at the prospects of a key pharmaceutical player

# Aurobindo: Long-term benefits outweigh near-term challenges

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led largely by strong business growth in International markets, the share price of Hyderabad-based Aurobindo Pharma has zoomed from ₹180 levels in September last year to its all-time high of ₹908 last week.

After getting a US Food and Drug Administration (FDA) approval and resolution of the issues associated with its manufacturing facilities in Unit 6, Aurobindo was able to scale up its product launches and monetise its filings in the US.

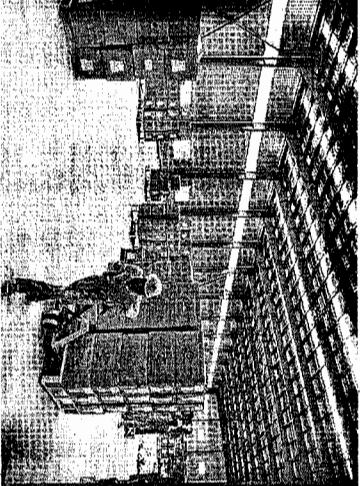
Not only did it benefit from the sales growth but from the niche filings in the pipeline. The US sales that contribute to half of its revenues have shot up almost 80 per cent from ₹625 crore in the June 2013 quarter to ₹1,116 crore in the June 2014 quarter. While Aurobindo clocked \$26 million sales, AuroMedics, the company marketing injectibles, saw sales at \$15 million, growing a phenomenal 123 per cent over the June 2013 quarter. The company expects additional orders for an enhanced portfolio of controlled substances. Besides,

post acquisition of Actavis, the company started integrating the western European business during the June 14 quarter, which aided the European formulation business to grow by 389 per cent year-on-year. As a result, overall revenues have risen every quarter since June 2013 quarter (₹1,716 crore) to ₹2,911 crore in the June quarter.

Also, Aurobindo's profitability has improved, except for the dip in margin in the recently concluded quarter, which was due to consolidation of low-margin Actavis business acquired in Europe. Nevertheless, earnings before interest, tax, depreciation and amortisation (EBITDA) margins have improved 470 basis points to 22.6 per cent over the last five quarters. The stock's rating has been responsive for the excellent performance on the boures.



**MARKET MOVER**  
 According to Aurobindo, the key contributors to the growth in revenues and profits included resolution of the FDA impasse on Unit 6 and successful reintroduction of cephalosporin oral products in the US market during FY13-14. The company managers told *Business Standard* there had



File photo of the warehouse of an Aurobindo Pharma production facility in Jandcherla, Telangana

## ON A GOOD WICKET

IN ₹ cr	FY14	FY15E	FY16E
Net sales	8,083	11,868	13,527
Ebitda	2,132	2,374	2,768
Net profit*	1,169	1,460	1,735
EPS (₹)	40.3	50.0	59.7
Estimate			
	*Adjusted for one-off		
	Source: Company, Bloomberg		

been growth traction in the US as a result of a steady flow of product approvals, which have been commercialised into the market and included some limited competition and early-to-market products. Besides, there has been traction in the injectable business and operationalisation of Unit 4 and general injectable facility. The turnaround of the manufacturing facility in Auroville on account of some notable award by the US government and the launch of controlled substance

portfolio, launch of shared exclusive generics (Cymbalta) towards the end of FY14 and improvement in market reach of established basket of products, had contributed to the company's growth.

The company officials also stated that focus markets in Europe — the UK, Netherlands, Germany, Spain and Portugal — delivering better operational performance in FY14 translated into profits for Europe as a cluster.

Growth in active pharmaceutical ingredients, coming from better value non-beta lactam product profile from advanced market customers in Europe and Japan also contributed to revenues and profit.

Favourable rupee-dollar scenario had marginal impact on top-line and profitability, even though the non-cash losses on account of restatement of foreign exchange dominated debt were comparatively high in FY14, despite reduction in borrowings by about \$70 million. Total foreign exchange borrowings are currently \$538 million.

The company officials said aggressive capital expenditure plans were in place to increase "organic growth". They were also expecting the Actavis acquisition to help the company emerge as the top 10 generic players in the European market.

Even in the Q1 of FY 2014-15, the company had increased its formulations sales by 107 per cent to ₹2,275 crore compared to ₹1,100 crore in the same quarter last year. Formulations sales accounted for 77.2 per cent of Aurobindo's gross sales.

Analysts at Binkley Global had said, "We believe the pipeline in US launches remains strong (especially injectable space) and EU turnaround possibilities give the company an excellent platform to achieve strong top line and bottom line performance." Even though the June quarter was the best one to see high contribution from Cymbalta generics, they believe long-term scale benefits outweigh near term consolidation challenges, and have built in 22 per cent compound annual growth rate in revenue during FY14-16. Though earnings growth might be in a single digit in FY15, these are estimated to grow between 18 and 20 per cent in FY16. A correction could provide a good entry point into the stock, say analysts.

*Company*