



Aurobindo Pharma Buys Generis to Boost Margins in Europe



Aurobindo Pharma wanted an acquisition that could lift the profitability of its European operations; its Ebitda margin was in the mid-single digits, as compared to the company's overall 24.6 per cent (Q2). Its acquisition of Portugal's Generis Farmaceutica SA is a step forward in that direction, with the target company's estimated margin at 19.6 per cent in 2016, pegged to increase to 21.9 per cent in 2017.

Aurobindo is paying 135 million Euros, or Rs 970 cr, to acquire Generis, a generic drug company, valuing it at two times revenue and 10.6 times Ebitda. Aurobindo's debt is likely to rise because of this acquisition. While its margins are good, Generis's sales growth has been slow, growing by 3.3 per cent in 2016 (estimated) and 6.1 per cent in 2015.

Aurobindo expects this to accelerate in 2017 on the back of new product launches and the resolution of supply chain bottlenecks that held back growth last year. This is also expected to witness profitability improve.

Aurobindo will use Generis's Portugal facility to make some of its products for the European market. Utilisation is expected to improve to 80 per cent by the year 2020. This acquisition alone isn't enough to boost Aurobindo's European margins as its European revenues were Rs 813 cr in Q2 alone where Generis's estimated annual 2016 revenue was Rs 465 cr. If Aurobindo's plans to extract synergies works, that shall boost scale and profitability. It has been transferring



products from Europe to India to lower manufacturing costs. The management wants to transfer a total of 114 products, which contribute to 40 per cent of sales, to India. A dedicated facility for Europe shall start in January.

These developments should give shareholders something to look forward to. [Aurobindo Pharma share price](#) has been under some pressure in the last few months. One concern is regulatory as the firm is being probed for alleged price-fixing by the US department of justice. Aurobindo had stated that the product which attracted this investigation had revenues of only 1.1 million dollars.

Still, where US regulators are involved, investors are right to display concern. In the second quarter (Q2), its results had seen the effect of pricing pressure in the US market and how it crimped growth in sales. The US market is twice the size of its European business and its profitability, too, shall be higher. What happens in the US market, in terms of pricing pressure and developments on the regulatory front, is what the shareholders will be watching for in the near to medium-term. That will influence how shares of the company perform, rather than this acquisition.

For more details on the stock, visit [Aurobindo Pharma share price history](#).



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