

## USFDA slaps warning letter on Unit XI...

Aurobindo Pharma has received a warning letter from the USFDA for Unit XI, API manufacturing facility in Srikakulam district, Andhra Pradesh. This action follows the earlier inspection of the site by the USFDA and issuance of Form 483 with three observations in February 2019. Post inspection, USFDA had classified this plant as Official Action Indicated (OAI). Apart from Unit XI, the company has OAI status on Unit I (API facility) and Unit IX (Intermediate facility). Unit XI is the largest API plant of the company followed by Unit I. According to the management, there are just ~15 dependent pending ANDAs from these sites for the next two years. As per management, ongoing Sartan impurity issues triggered the inspection.

### Exhibit 1: Exhibit 1: Plants with current adverse status from USFDA

Unit	Use	Therapy	USFDA Status
Unit I	API	CVS, CNS, Anti-Allergics, Non-Sterile	OAI
Unit IX	Intermediate	Intermediate	OAI
Unit XI	API	Non-Antibiotics	Warning Letter
Unit III	Formulations	Non Antibiotics, ARVs/Orals	10 Observations

Source: ICICI Direct Research, Bloomberg

## Valuation & Outlook

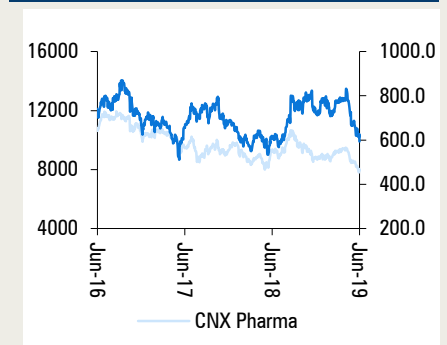
As per the management, the issues are more or less similar for all three plants (Unit I, Unit IX, Unit XI). Hence, we cannot rule out the possibility of warning letters for the remaining plants. The issued warning letter is unlikely to impact the existing business. Looking at the observations, we do not expect an import alert for any of these three plants. However, future ANDAs that are dependent on these plants are likely to get delayed. Also, the regulatory and site transfer related costs are likely to put pressure on the company's near term margins. The company is looking for site transfer as a precautionary measure. Despite this setback, we believe the company has one of the best resilient models among peers with a strong pipeline and low product concentration (top 25 products account for just 40% of US sales). Progress on the injectable launches front is also likely to remain intact, going ahead. We reduce FY20 EPS by 2% and FY21 EPS by 4% on the back of higher regulatory and other related costs and possible delay in some product launches. More than earnings, the impact will be higher on the sentiments. Accordingly, we reduce earnings multiple to 13x (from 15x) mainly due to regulatory overhang. We arrive at our new target price of ₹ 705 based on 13x of FY21 EPS of 54.3.



### Particulars

Particular	Amount
Market Capitalisation	₹ 36731 crore
Debt (FY19)	₹ 6967 crore
Cash (FY19)	₹ 1957 crore
EV	₹ 41741 crore
52 week H/L (₹)	838/565
Equity capital	₹ 58.6 crore
Face value	₹ 1

### Price Chart



### Research Analyst

Siddhant Khandekar  
siddhant.khandekar@icicisecurities.com

Mitesh Shah  
mitesh.shah@icicisecurities.com

### Key Financial Summary

(Year End March)	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E) %
Revenues (₹ crore)	16499.8	19563.5	28020.3	30326.7	24.5
EBITDA (₹ crore)	3771.8	3843.2	5158.7	5632.9	21.1
EBITDA margins (%)	22.9	19.6	18.4	18.6	
Net Profit (₹ crore)	2423.2	2452.8	2832.1	3158.7	13.5
EPS (₹)	41.6	42.1	48.6	54.3	
PE (x)	14.6	14.8	12.4	11.1	
EV/EBITDA (%)	10.2	10.4	8.9	7.8	
ROE (%)	20.7	17.7	17.1	16.2	
ROCE (%)	20.0	15.9	14.7	15.1	

Source: ICICI Direct Research; Company

## Financials

**Exhibit 2: Profit & Loss (₹ crore)**

(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>16,499.8</b>	<b>19,563.5</b>	<b>28,020.3</b>	<b>30,326.7</b>
Growth (%)	9.3	18.6	43.2	8.2
Raw Material Expenses	6,752.7	8,712.7	12,580.1	13,374.5
Employee Expenses	2,130.8	2,584.9	3,642.6	4,018.3
Other Manufacturing Expenses	3,844.5	4,422.8	6,638.9	7,301.0
Total Operating Expenditure	12,728.1	15,720.3	22,861.6	24,693.8
<b>EBITDA</b>	<b>3,771.8</b>	<b>3,843.2</b>	<b>5,158.7</b>	<b>5,632.9</b>
Growth (%)	9.8	1.9	34.2	9.2
Interest	77.7	162.7	409.2	374.2
Depreciation	558.0	668.0	1,029.0	1,137.0
Other Income	102.0	166.1	55.0	89.4
PBT before Exceptional Items	3,238.0	3,178.7	3,775.6	4,211.0
Less: Forex & Exceptional Items	11.6	88.1	0.0	0.0
PBT	3,226.5	3,090.6	3,775.6	4,211.0
Total Tax	818.3	726.9	943.9	1,052.8
PAT before MI	2,408.2	2,363.8	2,831.7	3,158.3
Minority Interest	-0.3	-0.3	-0.4	-0.4
<b>PAT</b>	<b>2,411.6</b>	<b>2,364.7</b>	<b>2,832.1</b>	<b>3,158.7</b>
Adjusted PAT	2,423.2	2,452.8	2,832.1	3,158.7
Growth (%)	7.0	1.2	15.5	11.5
<b>EPS (Diluted)</b>	<b>41.4</b>	<b>40.6</b>	<b>48.6</b>	<b>54.3</b>

Source: ICICI Direct Research

**Exhibit 3: Cash Flow Statement (₹ crore)**

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit/(Loss) after taxation	2,488.8	2,364.7	2,832.1	3,158.7
Add: Depreciation & Amortization	558.0	668.0	1,029.0	1,137.0
Net Increase in Current Assets	-1,847.6	-2,481.1	-4,826.8	-1,493.2
Net Increase in Current Liabilities	778.6	893.9	1,363.5	538.4
<b>CF from operating activities</b>	<b>1,954.8</b>	<b>1,608.1</b>	<b>807.0</b>	<b>3,715.2</b>
(Purchase)/Sale of Fixed Assets	-1,906.5	-2,669.2	-6,175.0	-1,000.0
(Inc)/dec in Investments	-67.8	-48.7	0.0	0.0
Others	97.3	-56.9	-24.3	-13.2
<b>CF from investing activities</b>	<b>-1,877.0</b>	<b>-2,774.7</b>	<b>-6,199.3</b>	<b>-1,013.2</b>
Issue of Equity Shares	0.2	0.0	0.0	0.0
Inc / (Dec) in Debt	1,202.2	2,197.2	4,725.0	-1,000.0
Dividend & Dividend Tax	-264.1	-172.3	-206.4	-230.2
others	-74.2	-162.7	-409.2	-374.2
<b>CF from financing activities</b>	<b>864.2</b>	<b>1,862.2</b>	<b>4,109.4</b>	<b>-1,604.4</b>
Net Cash flow	942.0	695.6	-1,282.9	1,097.5
Opening Cash	319.6	1,261.6	1,957.2	674.3
<b>Closing Cash</b>	<b>1,261.6</b>	<b>1,957.2</b>	<b>674.3</b>	<b>1,771.8</b>
<b>Free Cash Flow</b>	<b>48.3</b>	<b>-1,061.1</b>	<b>-5,368.0</b>	<b>2,715.2</b>

Source: ICICI Direct Research

**Exhibit 4: Balance Sheet (₹ crore)**

(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	58.6	58.6	58.6	58.6
Reserve and Surplus	11,621.8	13,832.2	16,457.9	19,386.4
Total Shareholders funds	11,680.4	13,890.8	16,516.5	19,445.0
Total Debt	4,769.9	6,967.1	11,692.1	10,692.1
Deferred Tax Liability	235.3	281.3	309.4	340.4
Minority Interest	1.8	2.0	2.3	2.6
Long term Provisions	55.9	46.5	52.1	58.4
Other Non Current Liabilities	0	11.3	0	0
<b>Source of Funds</b>	<b>16,743.3</b>	<b>21,199.1</b>	<b>28,572.4</b>	<b>30,538.4</b>
Gross Block - Fixed Assets	7,078.2	9,662.0	15,237.0	16,837.0
Accumulated Depreciation	1,374.1	2,019.7	3,048.6	4,185.6
Net Block	5,704.1	7,642.3	12,188.4	12,651.4
Capital WIP	1,583.0	1,668.5	2,268.5	1,668.5
Net Fixed Assets	7,287.2	9,310.8	14,456.8	14,319.8
Goodwill on Consolidation	816.6	832.5	832.5	832.5
Investments	311.5	360.2	360.2	360.2
Inventory	5,858.4	7,245.6	10,377.7	11,231.9
Cash	1,261.6	1,957.2	674.3	1,771.8
Debtors	3,084.4	3,413.8	4,889.5	5,291.9
Loans & Advances & Other CA	1,983.4	2,747.9	2,966.9	3,203.5
Total Current Assets	12,187.8	15,364.5	18,908.4	21,499.1
Creditors	2,627.4	2,677.1	3,834.4	4,150.0
Provisions & Other CL	1,734.4	2,578.6	2,784.9	3,007.7
Total Current Liabilities	4,361.9	5,255.8	6,619.3	7,157.7
Net Current Assets	7,825.9	10,108.7	12,289.1	14,341.4
LT L& A, Other Assets	343.3	403.6	435.8	470.7
Deferred Tax Assets	158.8	183.3	198.0	213.8
<b>Application of Funds</b>	<b>16,743.3</b>	<b>21,199.1</b>	<b>28,572.5</b>	<b>30,538.5</b>

Source: ICICI Direct Research

**Exhibit 5: Key Ratios (₹ crore)**

(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	41.6	42.1	48.6	54.3
BV per share	200.6	238.6	283.7	334.0
Dividend per share	3.0	3.0	3.5	4.0
Cash Per Share	21.7	33.6	11.6	30.4
<b>Operating Ratios (%)</b>				
Gross Profit Margins	59.1	55.5	55.1	55.9
EBITDA margins	22.9	19.6	18.4	18.6
Net Profit margins	14.7	12.5	10.1	10.4
Inventory days	129.6	135.2	135.2	135.2
Debtor days	68.2	63.7	63.7	63.7
Creditor days	58.1	49.9	49.9	49.9
Asset Turnover	2.6	2.2	2.0	1.9
EBITDA Conversion Rate	51.8	41.8	15.6	66.0
<b>Return Ratios (%)</b>				
RoE	20.7	17.7	17.1	16.2
RoCE	20.0	15.9	14.7	15.1
RoIC	23.8	18.5	16.4	16.9
<b>Valuation Ratios (x)</b>				
P/E	14.6	14.8	12.4	11.1
EV / EBITDA	10.2	10.4	8.9	7.8
EV / Net Sales	2.3	2.0	1.6	1.4
Market Cap / Sales	2.1	1.8	1.3	1.2
Price to Book Value	3.0	2.5	2.1	1.8
<b>Solvency Ratios</b>				
Debt / Equity	0.4	0.5	0.7	0.5
Debt / EBITDA	1.3	1.8	2.3	1.9
<b>Current Ratio</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>

Source: ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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