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Aurobindo Pharma: Robust outlook on good US prospects

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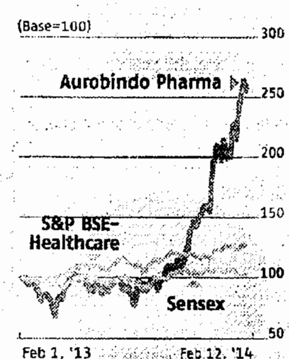
Limited competition and niche product launches in the US market helped Aurobindo Pharma beat expectations to record a 36 per cent year-on-year growth in revenues for the December quarter. While revenues came in at ₹2,140 crore, profit both at the operating and net levels grew faster by 148 per cent and 354 per cent to ₹644 crore and ₹417 crore, respectively.

The surge in profitability (Ebitda margins up 1,357 basis points year-on-year to 30.1 per cent) came on the back of sales under exclusivity for anti-depression drug Cymbalta and higher US sales among others. In addition to a one-time gain on account of Cymbalta, sales in the US which grew 84 per cent to ₹931 crore was higher on account of new launches as well as market share gain in the injectibles business.

While the company plans to maintain its sales volumes for Cymbalta which has a market size of $5 billion, growth in the US is also likely to come from Aurolife which is into controlled substances segment and auromedics, which markets injectables products in that market.

Ashish Rathi and Krishnanath Munde of Emkay Global Financial Services expect Aurobindo's core US business to grow at an annual rate of 20 per cent in FY14-16 driven by niche product launches and injectable business. They also expect improvement in the core business margin. The consolidation of the European business and its turnaround, according to the them will be the key deciding factor for the stock going ahead. While net debt of ₹3,394 crore at the end of December 2013 will continue to be a concern, analysts at Sharekhan say that healthy cash-flows (over ₹1,100 crore) generated during nine months of FY14 is comforting and will help to significantly reduce the short-term debts. This also helps to mitigate the strain due to the acquisition of the businesses of Actavis in seven European countries. At the current price of ₹501, the stock is trading at 11 times its FY15 earnings per share estimate of ₹45.

ON A STRONG WICKET



Data compiled by BS Research Bureau

Strong US pipeline, European integration key

The company has 308 abbreviated new drug approval (ANDA) filings which includes 18 injectable and seven control substances. These products have a better margin profile than other generic drugs.

Given the boost to revenues from the launch of new drugs and better margins the Street will keep an eye out on new launches, with the company expecting about six approvals for its products from the US regulatory agency over the next six months.

The markets will also look at development in the European operations where recently the company acquired Actavis' commercial infrastructure in key European markets for 30 million euros. The European business coupled with rest of the world markets grew 27 per cent year-on-year in the quarter to about ₹284 crore. Sharekhan analysts believe the acquisition will put a short-term pressure on the margin as the business is currently incurring a loss at the operating level and the company is bound by the agreement to take supplies from Actavis for certain products.

Company