

## India Ratings Places Aurobindo Pharma on RWP

17

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By [Karthikeyan Thangarajan](#)

India Ratings and Research (Ind-Ra) has placed Aurobindo Pharma Ltd's (APL) Long-Term Issuer Rating of 'IND AA+' on Rating Watch Positive (RWP). The Outlook was Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based working capital limits	-	-	-	INR50,000	IND AA+/RWP/IND A1+/RWP	Placed on RWP
Non-fund-based working capital limits	-	-	-	INR14,940	IND A1+/RWP	Placed on RWP

### KEY RATING DRIVERS

**Large Debt-Funded Acquisition:** The RWP follows APL's 6 September 2018 announcement that it has entered into a definitive agreement to acquire Sandoz Inc., USA's dermatology and oral solids businesses. As part of this transaction, APL proposes to acquire commercial operations and Sandoz's three manufacturing facilities in the US. The company will pay an upfront purchase price of USD900 million in cash towards this transaction, which is likely to be funded with debt during CY19. APL expects to complete the transaction during 2019, subject to the receipt of approvals from regulatory authorities.

**Net Leverage to Increase; EBITDA Accretive:** With the proposed transaction, APL's net debt is likely to more than double in FY20 (1QFY19: INR39.1 billion; FY18: INR35.1 billion). While this could increase its FFO net adjusted leverage to over 1.25x (FY18: 1.2x; FY17: 1.1x), Ind-Ra derives comfort from the EBITDA accretive nature of the transaction. According to the management, the portfolio to be acquired is likely to have margins similar to APL's consolidated EBITDA margins of around 20%. Hence, Ind-Ra expects the leverage to gradually moderate from FY21.

**US Franchise to Benefit:** The transaction would substantially strengthen APL's largest business segment in the near-term. In FY18, APL derived about 45% of its top line and a majority of its EBITDA from the US generic drug market. Along with the scale of operations, the company's market position is also likely to improve. The management expects APL to emerge as the second-largest generic drug maker in the US by the number of prescriptions with this transaction. Dermatology is a focus area for APL and the company has recently commenced filing abbreviated new drug applications in this therapeutic segment. The transaction is likely to enhance the company's offerings in this segment.

**Business Profile Strengthening:** Given the early stages of the transaction, its potential impact on various aspects of APL's business risk profile is uncertain. Ind-Ra will review any improvement in APL's business risk profile in terms of product/ manufacturing footprint diversification, product pipeline deepening, proportion of revenue from differentiated generics and potential for synergy benefits while resolving the RWP. Ind-Ra attaches higher importance to APL's business risk profile strengthening as the agency believes a stronger profile will render the deleveraging trajectory more resilient.

### RATING SENSITIVITIES

Ind-Ra will evaluate the impact of the proposed acquisition on the business and credit profile of APL and resolve the RWP within the next six months as the execution of the transaction progresses. RWP indicates that rating may be upgraded or affirmed.

### COMPANY PROFILE

APL, headquartered in Hyderabad, is a vertically-integrated pharmaceutical formulations manufacturer. It has 15 formulation manufacturing facilities (three in the US, one in Brazil and one in Portugal) and 11 active pharmaceutical ingredients manufacturing facilities. The facilities have regulatory approvals from major international agencies.

### FINANCIAL SUMMARY

Particulars	FY18	FY17
Net sales (INR billion)	165.0	150.9
Operating EBITDA (INR billion)	37.7	34.3
Operating EBITDA margins (%)	22.9	22.8
Operating EBITDA/finance cost (x)	48.5	51.5
Net adjusted debt/operating EBITDA (x)	0.9	0.8

## RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	8 May 2018	12 May 2017	4 October 2016
Issuer rating	Long-term	-	IND AA+/RWP	IND AA+/Positive	IND AA+/Positive	IND AA+/Stable
Fund-based working capital limits	Long-term/Short-term	INR50,000	IND AA+/RWP/IND A1+/RWP	IND AA+/Positive/IND A1+	IND AA+/Positive/IND A1+	IND AA+/Stable/IND A1+
Non-fund-based working capital limits	Short-term	INR14,940	IND A1+/RWP	IND A1+	IND A1+	IND A1+

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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## Applicable Criteria

[Corporate Rating Methodology](#)

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