

AUROBINDO PHARMA

BSE Code	: 524804
Time Duration	: 18 months
CMP	: ₹743.35 (as on 24 September 2020)
Target Price	: ₹940



Large Rhino
 Swiftest Performers
 Among Heavy Weights

Large Rhino pick for the month of September 2020 is Aurobindo Pharma. It is a pharmaceutical company engaged in producing oral and injectable generic formulations (87 per cent of revenue) and active pharmaceutical ingredients (APIs) (13 per cent of revenue). Its product portfolio is spread over seven therapeutic/product areas, including antibiotics, antiretroviral, cardiovascular, central nervous system, gastroenterological, anti-allergies, and anti-diabetics. It is the tenth-largest global generic company in terms of revenue and the second-largest company by prescriptions dispensed in the US. Further, it ranks second-largest listed Indian company by revenue.

Formulation business

United States : US revenue in Q1FY21 witnessed a growth of 15.6 per cent YoY to Rs 3,107.1 crore, accounting to 52.4 per cent of the consolidated revenue. On a constant currency basis, revenue grew by 6.5 per cent YoY to US\$ 412 million. It acquired R&D assets of the US clinical-stage viral vaccine development firm-Profectus BioSciences Inc. Its contribution of injectables (both branded & generic) in the US revenue in FY20 increased significantly, primarily driven by strong growth in the generic injectable sales and consolidation of an acquired portfolio of branded injectables from Spectrum Pharmaceuticals. The United States continues to remain the largest growth driver. Large-scale integrated manufacturing and diversified product basket have supported the company's growth trajectory.

Europe : Europe revenue in Q1FY21 declined by 5.0 per cent YoY to Rs 1,322.2 crore, accounting to 22.3 per cent of the consolidated revenue. During the first half of the current calendar year (CY20), Europe posted revenue growth of 10.0 per cent over the last year's corresponding period. In FY20, growth was driven by Spain, UK, Italy, and the Netherlands, which started launching its own products in countries such as Poland and the Czech Republic, where the company did not have a presence earlier. It completed the integration of acquired Apotex businesses in five countries and started leveraging synergies.

Going forward, the company is focussing on filing more products, including its differentiated pipeline, diversifying existing product portfolio, reaching out to critical masses, streamlining sales, marketing, and channels of operation.

Growth markets

Revenue from growth markets formulations in Q1FY21 declined by 7.6 per cent YoY to Rs 289.6 crore and accounted for 4.9 per cent of revenue. Growth markets had witnessed stocking up at the beginning of the pandemic in Q4FY20. During the first half of the current calendar year (CY20), growth market revenue posted a growth of 10.8 per cent over the last year's corresponding period. It strengthened its presence in Brazil, Canada, Columbia, and South Africa with robust operations and portfolio and launched 13 products as well as submitted dossier filings for 13 products in Canada. Going forward, the company intends to launch oncology and injectables in select markets.

Antiretroviral drugs (ARVs)

ARV business revenue for Q1FY21 was at Rs 425.5 crore as compared to Rs 318.5 crore in Q1FY20, an increase of 33.6 per cent YoY, which accounted for 7.2 per cent of the revenue. It started supplying Dolutegravir single dose and TLD to South Africa. It leveraged early mover advantage in Tenofovir+Lamivudine+Dolutegravir (TLD) tablets in the institution segment. Going forward, the company will cater to more patients, building on its strong presence in the global HIV segment.

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APIs

In Q1FY21, the API business posted revenue of Rs 780.2 crore, an increase of 6.5 per cent YoY, and contributed to 13.2 per cent to the consolidated revenue. Around 70 per cent of its API requirement is manufactured in-house, a key differentiator in the fiercely competitive global generic markets.

Improving capacity optimisation

Aurobindo Pharma has seen an improvement in the API formulation ratio from 43:57 in FY13 to 14:83 in FY20. Aurobindo has a vertically integrated model with a capacity that is unmatched by most of its peers. The company owns 28 manufacturing facilities, including eight key formulations facilities in India and abroad. These facilities are optimised by the continuous US filings and launches, incremental launches & filings in the RoW markets and site transfers as well as supplies for products covered under the Actavis deal.

Three sites will be critical for driving the growth of Aurobindo Pharma (ARBP) in the coming years, i.e. units 4, 10, and the Eugia manufacturing facility. Collectively, it accounts for around 78 per cent of the company's pending ANDAs. Meanwhile, all of these units have cleared USFDA inspection recently.

Opportunities arising due to shortage in US markets & supply chain disruptions

Aurobindo is an export-oriented pharma company with a large drug portfolio, adequate manufacturing capacity, and strong compliance track record before United States Food & Drug Administration (USFDA) in the US market, where it has a sizeable chunk of the total revenue coming in at 52.4 per cent in Q1FY21. Aurobindo is already the second-largest company by prescriptions dispensed in the US and the disruption in pharma manufacturing supply chains and the increased demand for drugs in this market is building up to be an attractive opportunity for the company, which is likely to benefit the company in the quarters ahead.

Expanding capacity and robust pipeline for new products in the oral solids & injectable space

US formulation continues to remain strong as the company intends to launch 50-60 products in FY21 after already having launched six new products in Q1FY21. The launch of these new products is expected to drive the oral-solids business in the US market in the current financial year. Injectable business is expected to deliver growth from FY22, led by the company's pipeline of 80-90 products and expanded injectable capacity in the US, which will become operational next year. This proposed facility is expected to have five to six lines. Other than this, the company is also setting up a dedicated injectable facility for Europe & other markets, and that facility is coming up near Visakhapatnam.

The momentum of growth in API & ARV businesses

Aurobindo's API and antiretroviral drugs (ARV) business are likely to maintain a growth momentum since the manufacturers in India witnessed a strong demand as global and domestic clients have started to diversify the source of API from China to India in order to de-risk their source of raw material. In India, the API industry size is Rs 79,800 crore (9.0 per cent CAGR over FY20-FY24) that comprises the Chinese import of Rs 18,900 crore (70 per cent of the total import) and export of Rs 25,000 crore. The company has also leveraged its early mover advantage in TLD tablets in the ARV segment.

Aims to be debt-free by FY22E

The company has significantly improved its debt position utilising additional cash freed up from the foregoing Sandoz deal. This also bodes well as the company plans to venture into complex areas like biosimilars, vaccines, and complex injectables, where capital requirements are higher and precise. The company reduced its net debt by USD 168 million QoQ to USD 191 million during the quarter and is on track with regards to debt reduction guidance. The company had indicated that it's aiming to reduce debt by USD 200-250 million in FY21 and to be debt-free by FY22. The company is on track with its debt reduction plan, which will help to improve profitability with lower finance costs going ahead and also pursue inorganic opportunities for growth.

Financial performance

In the recently concluded quarter (Q1FY21), the consolidated net sales were at Rs 5,835.23 crore up by 8.93 per cent YoY. EBITDA for the quarter increased by 9.68 per cent to Rs 1,257.35 crore with an EBITDA margin expansion of 16 basis points. PAT for the quarter came in at Rs 792.68 crore, up by 25.63 per cent YoY.

Looking at the annual trends, the net sales saw a growth of 18.06 per cent to Rs 23,098.51 crore in FY20 from Rs 19,563.55 crore in FY19. EBITDA for the quarter came in at Rs 5,056.18, increasing by 23.10 per cent YoY. The company reported a net profit of Rs 2,844.68 crore, up by 20.45 per cent from Rs 2,361.80 crore in the previous fiscal year. As of FY20, the company holds strong cash and a bank balance of Rs 2,842.15 crore.

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Valuation & outlook

The company has been witnessing robust traction in the US business, which would aid revenue growth in the coming years. Further, a vertically integrated model along with lower product concentration makes the company, survive and thrive in the competitive market. Notably, the company has been making its balance light by reducing debt and aims to be debt-free by FY22E, which bodes well for the company. It has a healthy ROCE and ROE of 16.1 per cent and 15.4 per cent, respectively. The company is available at an attractive valuation of 14.70x P/E as against its 5-year median PE of 17.90x. Considering all these we expect stock to touch a mark of Rs 940, which represent a potential upside of nearly 26 per cent.

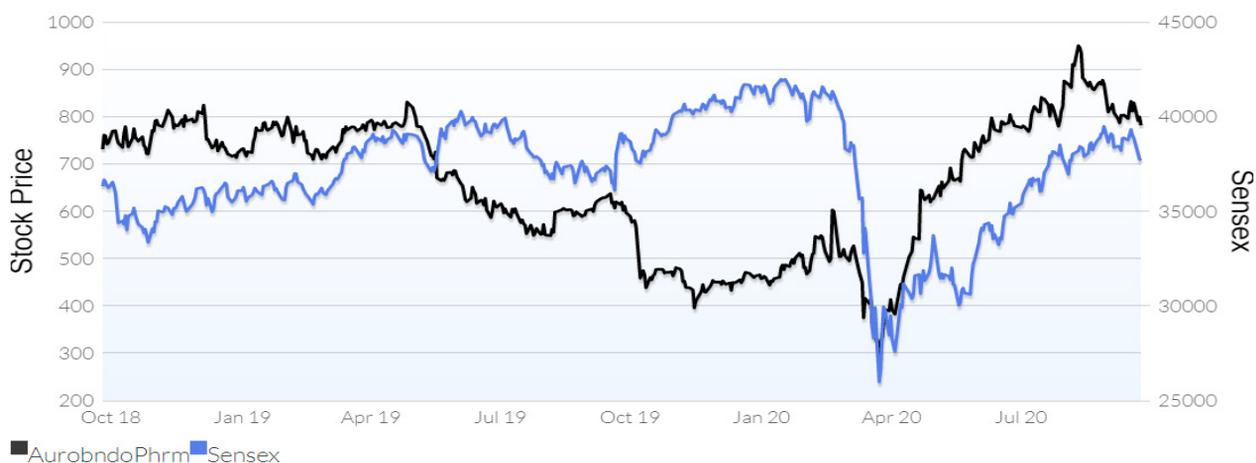
Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	23098.51	19563.55	16463.03	14909.54	13794.65
Total Income	23290.38	19718.87	16565.01	15025.43	13998.45
Total Expenditure	18234.2	15611.61	12691.28	11475.26	10606.53
PBIDT	5056.18	4107.26	3873.73	3550.17	3391.92
PAT	2844.69	2361.8	2419.77	2296.17	2022.14
Dividend %	300	250	250	250	250
Adj. EPS(Rs)	48.32	40.36	41.36	39.28	34.61

Quarter On Quarter (Consolidated)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	5835.23	6063.4	-3.76	5356.84	8.93
Total Expenditure	4667.43	4842.21	-3.61	4298.2	8.59
PBIDT (Excl OI)	1257.35	1316.22	-4.47	1146.4	9.68
PAT	792.68	868.3	-8.71	630.97	25.63
PBIDTM% (Excl OI)	21.22	21.37	-0.7	21.06	0.76
PBIDTM%	23.17	21.9	5.8	21.35	8.52
PATM%	13.38	14.1	-5.11	11.59	15.44
Adj. EPS(Rs)	13.32	14.5	-8.14	10.85	22.76

Stock vs. Index



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