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Investors' delight: Aurobindo Pharma Ltd. – "BUY"

Sep. 12, 2019

Aurobindo Pharma Ltd. price chart



Source: Moneycontrol website

Aurobindo Pharma

CMP: Rs. 630, Target Price: Rs. 800, Upside: 27%, FV: Re. 1, EPS (FY19): Rs. 40.4, P/E: 15x, Market Cap: Rs. 36,621 crores, ROE: 18%

The Company is the second largest generic company in the US in terms of prescriptions dispensed and ranks among the top 10 generic companies in eight out of top the 11 countries it operates in Europe. We like this Company as it is vertically integrated Company – around 70% of API requirement is manufactured in-house which is a competitive advantage as against the peers, ~ 150 ANDAs were filed over the last 3 years, focus on complying with global quality and EHS standards, dedicated commercial and BD teams focused on developing new partnerships.

The company owns 28 manufacturing facilities, including eight key formulations facilities in India and abroad. As one of India's largest vertically integrated pharmaceutical companies, the Company's strength lies in developing quality Active Pharmaceutical Ingredients (APIs) and Finished Dosage Forms (FDFs). These products are manufactured across our facilities, which have been inspected by various regulatory authorities such as the USFDA, UK MHRA, Japan PMDA, WHO, Health Canada, MCC South Africa, and ANVISA Brazil. The Company has established its foothold in key therapeutic segments such as Central Nervous System (CNS), Cardiovascular System (CVS), Antiretrovirals, Diabetics, Anti-Allergies, Gastroenterology and Antibiotics, and are expanding into Speciality Generics.

The company as on 30th June 2019 has filed 551 ANDAs on a cumulative basis. Out of which 386 have final approval and 26 having tentative approvals including nine ANDAs which are tentatively approved under PEPFAR program and the balance 139 ANDAs are under review.



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For the full year in FY19, the US business contributed to 46% of its revenue and registered a strong 21% growth during the year to Rs. 90,307 million as all its key business segments, including orals, injectables, over the counter (OTC) drugs and dietary supplements performed well. It was a busy FY19 for the US team as it launched 50 new products, including 12 injectables in the market. Also, in 2018-19 it received approvals for 48 ANDAs and filed for a total of 63 ANDAs with the USFDA. The company has filed 12 ANDAs with the USFDA including three injectables in Q1FY20. It has launched (including Eugia) 15 products including four injectables during the quarter. The management has guided for ~40 launches for 9MFY20.

The Company's overall Q1FY20 performance was also good on the back of new products, improved product mix and good profitability. Revenue increased by 28% on yoy basis to Rs. 5,445 crores led by growth across the markets. The EBITDA before FOREX and other income stood at Rs. 1,146 crores, an increase of 47% over corresponding previous period. EBITDA margin was at 21.1% for the quarter under review. Net profit increased by 40% to Rs.636 crores.

In Q1FY20, the company commissioned Eugia's manufacturing facility which manufactures oral and injectable products in oncology and hormonal segments. R&D expenditure stood at Rs. 243 crores during the quarter which is 4.5% of the revenue. Net organic CAPEX for the quarter is around US\$47 million. The Company also launched five oncology & hormonal products in the US. As per the management, the price erosion in the US base business is less than 5%.

The Company is growing inorganically and through M&As it is adding more specialized products, new technologies and scale in its core markets.

In September 2018, the Company entered into a definitive agreement with Sandoz Inc., USA to acquire its dermatology and oral solids businesses. On completion of this acquisition, it will become the second largest generic player in the dermatology segment in US and further strengthen its oral solids product basket.

The Company also completed the acquisition of seven branded oncology injectable products from Spectrum Pharmaceuticals Inc. to gain access to the branded oncology market with a range of products that is well recognised by the oncology community. The acquired portfolio is expected to generate over \$0.9 billion in sales for the first 12 months after completion of the transaction for Aurobindo, before any potential FTC-led divestments. The acquisition also adds 3 manufacturing facilities in the US. Acquired portfolio consists of authorized generics and in-licensed products opening up future opportunities for Aurobindo Pharma.

Europe Formulations revenue registered a growth of 16 percent on yoy basis to Rs. 1,392 crores in Q1FY20. In euro terms, the revenue increased by 18% on yoy basis. Growth markets' revenue witnessed a growth of 22% on yoy basis to Rs.313 crores. On a constant currency basis, growth markets reported a growth of 18% on yoy basis. ARV Formulations revenue increased to Rs.319 crores compared to Rs.156 crores in the corresponding previous period

The Company's balance sheet has become leaner and strong after it reduced debt component. The net debt has decreased by \$131 million on qoq basis to US\$593 million at the end of June 2019 Vs US\$724 million at the end of March 2019. The majority of the company's debt is denominated in foreign currency. The cash and bank balance is at US\$259 million. The average finance cost is at 2.9% mainly due to availing multiple currency loans.

We recommend a BUY at with a target price of Rs. 800 (15x at estimated FY20 EPS of Rs. 53) implying upside of 27% for investors with a horizon of 9-12 months.



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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN: L74140MH1986PLC041941

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Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062