

Summary:

To building, a leading global generic pharma company and become one of the top 10 by 2020.

AUROBINDO PHARMA LIMITED**Recommendation: Buy**

CMP: Rs.777/- TARGET: Rs. 906/-

SENSEX: 38363 NIFTY: 11532

KEY STOCK STATISTICS:

Market Capitalization (crs): 42338/-

Book Value: Rs. 221.43/-

Face Value: Rs. 1/-

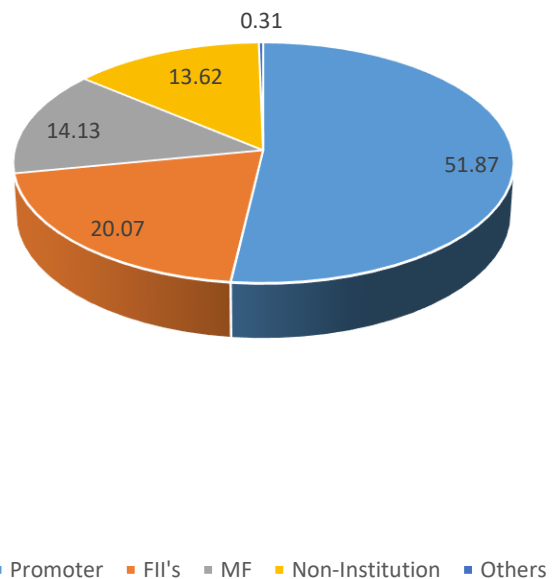
52 week High/Low: 830/527

P/E Ratio: 18.03

Industry P/E:28.87

Company Background:

- ✓ Founded in 1986 by Mr. P.V.Ramprasad Reddy, Mr. k. Nityaananda Reddy and a small group of highly committed professionals, Aurobindo Pharma was born of a vision.
- ✓ The company commenced operations in 1988-89 with a single unit manufacturing Semi-Synthetic Penicillin (SSP) at Pondicherry.
- ✓ Aurobindo Pharma became a public company in 1992 and listed its shares on the Indian Stock exchanges in 1995.
- ✓ In addition to being the market leader in Semi-Synthetic Penicillin's, Aurobindo Pharma has a presence in key therapeutic segments such as neurosciences (CNS), cardiovascular (CVS), anti-retroviral, anti-diabetics, gastroenterology and Anti-biotics.
- ✓ Aurobindo Pharma has evolved into a knowledge driven company manufacturing active pharmaceutical ingredients and formulation products.
- ✓ One of the largest R & D facilities in India, Aurobindo Pharma has 5 research centres spread over 16,000 square feet.
- ✓ Aurobindo Pharma features among the top 2 Pharmaceutical companies in India in terms of consolidated revenues.

SHAREHOLDING PATTERN

Source: Company, KFO Research

RETURNS (%):

	3 MONTHS	6 MONTHS	12 MONTHS
SENSEX	-2.50	4.55	6.67
Aurobindo	-18.69	-11.53	5.55

Source: Company, KFO Research

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GLOBAL PHARMACEUTICAL INDUSTRY

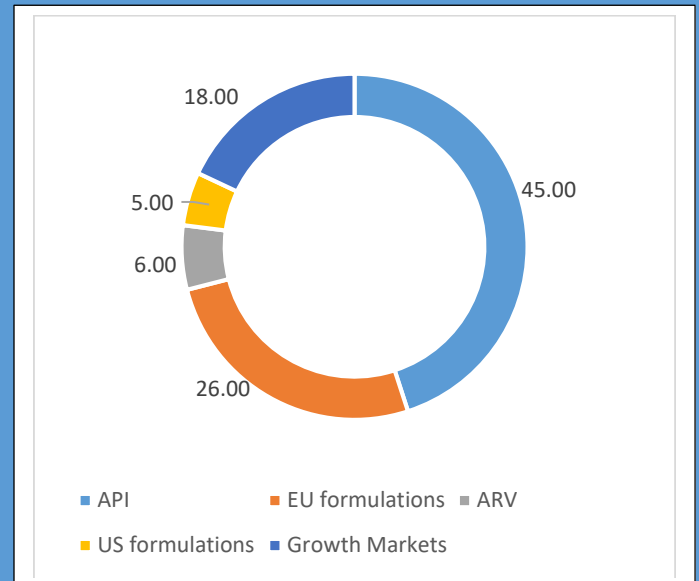
- ✓ Global healthcare spending is estimated to increase at an annual rate of 4.1% during 2017-2021, up from just 1.3% during 2012-2016.
- ✓ Factors such as ageing and increasing population in key economies, developing markets expansion, advanced medical treatment needs and rising labor costs will contribute to an increase in the spending.
- ✓ Combined healthcare spending in the world's major regions is expected to reach \$8.7 trillion by 2020, up from \$ 7 trillion in 2015.
- ✓ Future drivers of global pharm growth are Gene therapies, digital health and Specialty medicines.

Source: IQVIA Institute, KFO Research

INDIAN PHARMACEUTICAL INDUSTRY:

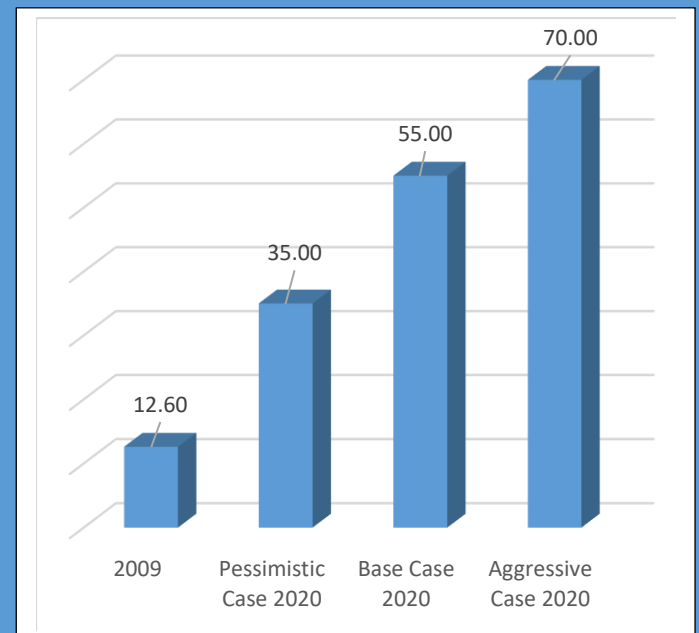
- ✓ India has among the lowest spends on healthcare, at about 4.5% of the GDP against global average of 9%. This gap has prompted the government of India to actively focus on policies that provide impetus to the healthcare sector.
- ✓ The Government has taken a hallmark step of launching a National Health Protection Scheme (NHPS) to cover over 100 million poor and vulnerable families. The scheme provides an annual coverage of 5 lakh per family for secondary and tertiary care hospitalization.
- ✓ India is the largest maker of generic medicines, with an Indian Pharma industry contributing to 20% of the global generic exports. By 2020, the Indian industry revenue is expected to touch \$55 billion.
- ✓ New drugs being brought under Drug Price Control Orders (DPCO) a price cap on stents, implants and procedures and an increasing number of licenses being withdrawn by the regulators are among the challenges faced by the industry.

SEGMENT WISE REVENUE



Source: Company, KFO Research

PROJECTED SIZE OF INDIAN PHARMA MARKET 2020



Source: Company, KFO Research

KEY STRENGTHS

1. Scale, Diversity and Leadership:
 - Among the top 3 companies in over 60% of commercial portfolio in the US market in terms of prescription as per IQVIA QTR Mar 2018.
 - A strong foothold in the US and EU
 - Extensive product portfolio and pipeline
 - Experienced the forward looking leadership team
 - Wide pool of committed talent
 - A large US portfolio comprising 478 Abbreviated New Drug Applications (ANDAs) filed, of which 327 received final approval, 34 received tentative approvals including 11 ANDAs approved under PEPFAR and 117 as under review.
 - Large manufacturing facilities inspected and approved by the USFDA, European Medicines Agency (EMA) and other regulators.

RISK & CONCERNS:

- ✓ The pharmaceutical industry is highly competitive, with challenges from both Indian manufacturers who have similar production facilities as well as those of abroad. Human resources with similar skills, talents and experiences in the industry are mobile between competing companies.
- ✓ Price pressure are expected to remain in the market.
- ✓ Inability to maintain current product margins.
- ✓ Business and market risk are always there.

VALUATIONS:

- ✓ On the basis of Discount Cash Flow Valuation Method, we are recommending 'Buy' for the stock. Since the stock offers good opportunity, we initiate a '**BUY**' signal on the stock with 12-month price target of **Rs 906/-** share an upside of 30% from current levels.

MARKET DRIVERS

- ✓ **FORMULATIONS BUSINESS :**
- ✓ Aurobindo manufactures generic formulations that are sold across the US, Europe markets and Growth Markets. The company also sells Antiretroviral Medicines (ARV) in various Growth Markets by participating in global tenders floated by various international bodies.
- ✓ Primarily focused on developing oral and injectable generic formulations, Aurobindo is building capabilities for next level complex R &D products. Nearly 90% of the company's revenue is driven by its international operations.

API BUSINESS:

- ✓ The API segment remains as an important strategic unit for the company, enabling vertical integration in supplying formulations to regulated markets.

NEW INITIATIVES:

- ✓ Aurobindo is investing heavily in R&D efforts towards creating high-value complex products and drug delivery systems.
- ✓ The company has made steady progress across its new initiatives such as oncology, hormones, penems, vaccines, biosimilars respiratory and dermatology.
- ✓ The company will continue to maintain its focus on further streamlining its operations and provide affordable life-saving drugs to the world.

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