

Aurobindo Pharma

BSE SENSEX
37,389

S&P CNX
11,050

CMP: INR772 TP: INR1030(+33%)
BUY

AUROBINDO
Stock Info

	ARBP IN
Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	452.3 / 5.9
52-Week Range (INR)	968 / 281
1, 6, 12 Rel. Per (%)	-8/100/31
12M Avg Val (INR M)	3341
Free float (%)	48.0

Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	231.0	255.3	275.1
EBITDA	48.6	56.7	61.9
Adj. PAT	28.8	34.7	37.9
EBIT Margin (%)	16.9	18.1	18.4
Cons. Adj. EPS (INR)	49.2	59.3	64.7
EPS Gr. (%)	13.9	20.6	9.1
BV/Sh. (INR)	286.9	343.2	404.4

Ratios

Net D:E	0.2	0.0	0.0
RoE (%)	18.8	18.8	17.3
RoCE (%)	14.1	14.7	14.1
Payout (%)	5.2	4.3	5.4

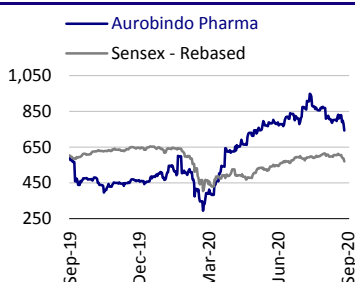
Valuations

P/E (x)	15.7	13.0	11.9
EV/EBITDA (x)	9.8	8.1	7.5
Div. Yield (%)	0.3	0.3	0.5
FCF Yield (%)	6.5	3.2	1.9
EV/Sales (x)	2.1	1.8	1.7

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	52.0	52.0	51.9
DII	12.6	12.6	13.3
FII	22.6	22.3	22.0
Others	12.8	13.2	12.9

FII Includes depository receipts

Stock Performance (1-year)

Development of complex pipeline on track
Steady US base business; EU outlook gradually improving

- The Aurobindo Pharma (ARBP) stock has corrected ~20% over the past two months. This, we believe, provides a good entry opportunity in the stock.
- Multiple factors strengthen our positive stance on the stock, such as: (a) the gradual improvement in outlook for the Injectable business, (b) ongoing efforts to build a complex product pipeline, (c) significantly reduced financial leverage, (d) completion of remediation measures at sites under regulatory issues, and (e) comfortable valuation (at 11.9x FY22E EPS of INR65 compared to 5-year average of 16x).
- We expect ARBP to deliver 15% earnings CAGR over FY20-22E, led by new launches/increased market share in its key markets of the US/EU and lower financial leverage. We value ARBP at 16x 12M forward earnings to arrive at a target price of INR1,030. Re-iterate Buy.

Differentiated complex/specialty products – Future growth opportunities

ARBP's future pipeline comprises differentiated and margin-accretive products in Oncology, Depot Injections, Inhalers, Biosimilars, Vaccines, Topicals, and Patches. While it has already filed for one Metered Dose Inhaler (MDI) and one nasal spray, it is expected to file its first Transdermal with the USFDA in FY21. Overall it has 6MDIs, 2 Dry Powder Inhalers (DPIs), 14 Biosimilars, 26 Topicals, 8 Transdermals, 3 Depot Injections and 2 Vaccines under development.

Minimal price erosion in US base biz; ANDA pipeline robust

ARBP has robust base business in the US market with diversified dosage mix (Oral Solids/Injectable/Dietary Supplements/OTCs). It has the largest pipeline of 166 ANDAs awaiting approval (including 50 Injectable ANDAs). The company has guided for 50 launches (6 launched in 1QFY21) in FY21, providing healthy visibility of growth in the US market. We expect ARBP to deliver 10% sales CAGR in the US over FY20-22E.

EU – Near-term impact on growth due to COVID-19

While there has been COVID-led slowdown in the EU business, ARBP remains on track to expand its product offerings, adding newer markets and increasing its penetration in existing markets. We expect ARBP to deliver 6% sales CAGR in the EU business over FY20-22E.

Regulatory inspection update

ARBP has completed the corrective and preventive action (CAPA) at Units 1, 9, and 11/Aurolife and is awaiting feedback from the USFDA on desktop reviews. ARBP should complete the CAPA at Unit 7 soon.

Sharp reduction in financial leverage

ARBP has drastically reduced its net debt to USD191m at end-1QFY21 from USD724m at end-FY19. It has guided to be debt free by FY22E. This provides comfort on the financial leverage front.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view:

We expect ARBP to deliver 15% earnings CAGR over FY20-22E, led by new launches /increased market share in key markets of the US/EU and lower financial leverage. We value ARBP at 16x 12M forward earnings to arrive at a target price of INR1,030. We remain positive on ARBP's (a) capability to build a niche portfolio in the Injectables/Biosimilars/Inhaler space, (b) established presence across the manufacturing value chain in the US market, and (c) improving trajectory of profitability in the EU market. Maintain **Buy**.

Exhibit 1: Valuation Matrix

Company	Reco	CMP (INR)	EPS (INR)			EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			ROE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Alembic Pharma	Neutral	955	45.9	51.7	53.1	47.7	12.8	2.7	20.8	18.5	18.0	15.8	13.6	12.7	30.1	27.8	23.8
Alkem Lab	Buy	2,800	95.4	131.5	146.1	49.5	37.8	11.1	29.3	21.3	19.2	22.8	15.7	13.9	19.7	23.2	21.6
Ajanta Pharma	Buy	1,551	51.1	64.0	71.7	15.1	25.2	12.0	30.3	24.2	21.6	19.3	15.6	14.2	18.7	20.0	19.3
Aurobindo Pharma	Buy	772	49.2	59.3	64.7	13.9	20.6	9.1	15.7	13.0	11.9	9.4	7.7	7.1	18.8	18.8	17.3
Biocon	Neutral	428	6.2	8.6	12.0	-0.4	39.2	39.6	69.3	49.8	35.7	30.6	22.4	17.6	12.1	14.6	18.1
Cadila Health.	Buy	386	14.7	19.0	21.4	-20.0	29.4	12.5	26.2	20.3	18.0	15.7	12.6	11.1	11.3	16.9	16.2
Cipla	Neutral	770	19.6	28.6	32.6	4.8	45.7	13.9	39.3	26.9	23.6	18.8	13.6	12.1	9.9	12.8	12.9
Divi's Lab.	Buy	3,061	48.9	69.7	86.3	-2.3	42.4	23.8	62.6	43.9	35.5	43.0	29.3	23.9	18.2	22.2	22.4
Dr Reddy's Labs	Neutral	5,114	121.3	165.0	178.2	15.4	35.9	8.0	42.1	31.0	28.7	23.1	16.6	14.8	13.6	16.3	15.3
Glenmark Pharma.	Neutral	483	24.6	31.0	33.6	-5.1	26.0	8.4	19.6	15.6	14.4	10.9	8.4	7.8	11.9	13.5	13.0
Glaxo	Neutral	1,544	28.2	26.9	33.9	14.6	-4.5	26.0	54.8	57.4	45.5	38.2	39.0	34.2	26.2	23.8	27.3
Granules India	Buy	376	13.0	19.5	22.5	41.3	50.0	14.9	28.8	19.2	16.7	16.0	10.6	9.1	19.7	24.5	23.4
Ipca Labs.	Buy	2,069	51.4	89.0	88.7	41.6	73.2	-0.3	40.3	23.3	23.3	27.0	16.3	15.9	19.2	27.3	22.1
Jubilant Life	Buy	719	59.8	48.7	64.8	5.0	-18.6	33.1	12.0	14.8	11.1	7.2	7.7	6.1	17.9	12.8	15.0
Laurus Labs	Buy	1,327	37.8	65.4	70.9	20.6	73.2	8.5	35.1	20.3	18.7	26.1	12.7	11.1	19.3	32.4	27.0
Lupin	Buy	998	19.8	26.6	39.4	47.7	34.4	48.2	50.4	37.5	25.3	18.9	16.9	13.0	6.8	9.3	12.7
Strides Pharma	Buy	660	15.2	34.2	45.0	72.1	124.9	31.8	43.5	19.3	14.7	12.2	9.3	7.8	5.2	11.5	13.7
Sun Pharma.	Buy	489	16.4	19.0	23.3	8.7	15.7	23.0	29.8	25.8	21.0	17.4	16.1	13.4	9.1	10.1	11.8
Torrent Pharma.	Neutral	2,719	55.9	73.8	95.6	30.8	32.0	29.6	48.7	36.9	28.5	22.4	18.5	15.8	21.5	23.3	25.2

Source: MOFSL, Company

Complex generics: The next phase of growth

- Development of complex generics portfolio and specialty products on in full swing.
- Complex and specialty products span different dosage forms like Inhalers, Nasal Sprays, Depot Injections, Transdermal patches and Topicals. Biosimilars and Vaccines round up the complex/specialty portfolio under development.

Differentiated complex and specialty products – Future growth opportunity

ARBP's future pipeline comprises differentiated and margin-accretive products in Oncology, Depot Injections, Inhalers, Biosimilars, Vaccines, Topicals, and Patches.

Exhibit 2: ARBP's large Complex generics/Specialty portfolio to provide next leg of growth

Biosimilars	Inhalers	Nasal Sprays	Depot Injections	Transdermal patches	Vaccines
14 in total, 5 in first phase	8 products	6 products	3 products	8 Products	2 Products
Targeting portfolio of 14 products in Onco, Auto immune, Respiratory and Ophthalmology therapies.	Working on 6 MDI and 2 DPI inhalers.	Developing a basket of 6 nasal sprays, of which, 2 have already been filed.	Filing for first product expected in 3QFY22 and approval to take 1 year post filing.	Developing 8 products with combined innovator market share of USD3b.	Phase III trials for Pneumococcal vaccine to begin in FY21 and is expected to be filed next year.
5 products in first wave to be launched over next 2-3 years.	Filed 1 MDI already and expects to file another before end-FY21.	1 nasal spray product already filed.	Intends to launch at least 1 product per year post that.	Expected to file first ANDA in FY21.	Also working on a Vesicular Stomatitis Virus (VSV) based COVID vaccine.
1 product expected to be filed in FY21 and another in 1QFY22 for Europe. Phase III clinical trials to begin on another global product in FY22.		Remaining products to be filed over next 3 years.		Target to make exhibit batches for 5 products in FY21. Products to be manufactured at the US plant.	
In total, 2 products to be filed in the US and Europe next year. Post that, at least 2 products are expected to be filed each year.					

Source: MOFSL, Company

ARBP is currently working on 6 Metered-Dose Inhalers (**MDIs**) and 2 Dry Powder Inhalers (**DPIs**). It has recently filed 1 MDI inhaler generic and is expected to file another by end-FY21. ARBP is developing 6 **nasal sprays**, of which 1 is already filed. ARBP intends to file the remaining products over the next three years.

ARBP intends to build a basket of 14 **Biosimilar** products catering to Oncology, Auto Immune, Respiratory, and Ophthalmology. Around 5 products would be launched in the first phase over the next 2-3 years. It is looking to launch the first wave of Biosimilar products in Europe first before entering the US market later. ARBP has one of the highest-yield Biologics facilities, which should lower its cost and give it an edge over others as it tries to enter the crowded Biosimilars market. Its high yield would also enable it to be competitive at lower prices.

ARBP has identified 37 products in the **Topicals** segment, of which, 26 are under development. ARBP has filed 3 ANDAs and received tentative approval for 1 ANDA.

For its **Transdermal Patches** portfolio, ARBP is developing a basket of 8 products with a total market size (innovator) of USD3b. Its 1 ANDA approval in this category is expected in FY21.

ARBP acquired Profectus Biosciences, a clinical stage viral vaccine development company. It is currently working on a Pneumococcal vaccine, which should enter phase-3 trials in the current year and is expected to be filed next year. In addition, ARBP is also working on Vesicular Stomatitis Virus (VSV) based COVID vaccine candidate.

The clinical trials for the first Depot Injections would begin in 3QFY21 and their filing is expected in 3QFY22. Overall, ARBP is working on 3 Depot Injections with an addressable market size of USD3.3b.

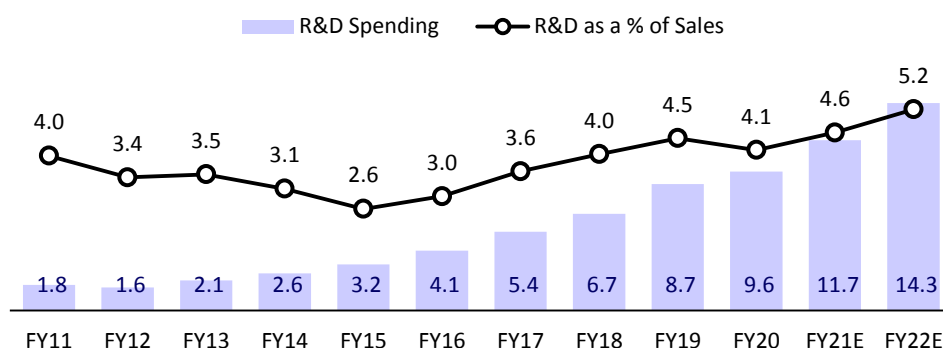
In addition to the aforementioned assets under development, ARBP has a portfolio of 7 Onco Injectables in its specialty business that it acquired from Spectrum Pharmaceuticals in FY19, which helped it to enter the branded Onco space in the US.

R&D product pipeline to drive R&D expense ratio higher

As ARBP moves into the next leg of growth in its specialty business, its R&D spending is expected to increase as new products enter clinical trials. We expect R&D expense ratio to cross the 5% mark in FY22.

ARBP filed 55 ANDAs in FY20 (v/s 63 in FY19). The decline in ANDAs filed also explains a slight dip in its R&D spending rate, particularly for FY20. Currently, 35% of ARBP's R&D spends is toward specialty; the remaining is on generics. We expect spending toward specialty to go as high as 65% of total R&D spending in the coming days.

Exhibit 3: R&D spending to go up with investments in specialty product development



Source: MOFSL, Company

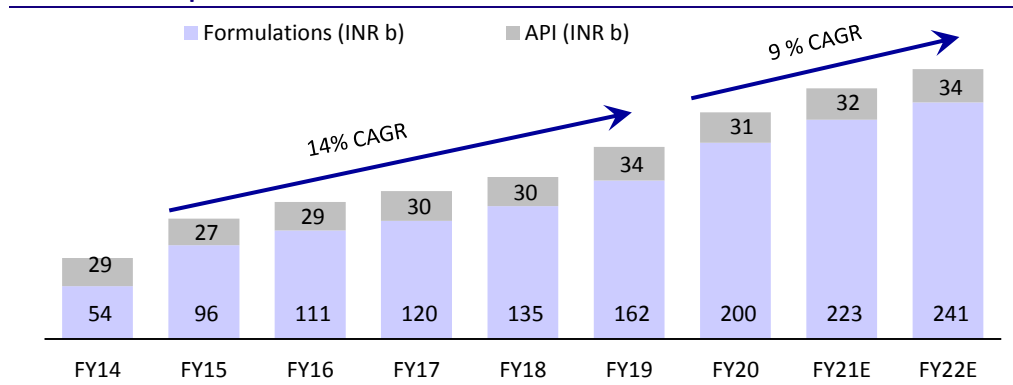
Robust base business in focus markets

- Despite buyer's consolidation and regulatory headwinds at industry level, ARBP has outperformed peers with 19% sales CAGR in the US market.
- It is well on track in the EU market with addition of products, entering newer geographies and shifting manufacturing to its India plants.
- On the back of robust pipeline in the US/EU geographies and diversified portfolios along with backward integration, we expect 9% overall revenue CAGR over FY20-22E after factoring in the impact of COVID-19 on the business.

The US/EU remain key growth drivers

ARBP delivered strong revenue CAGR of 14% over FY15-20. Formulations segment displayed 16% revenue CAGR (86% of sales). This was backed by diversified portfolio in the US, market expansion in the EU and new launches in growth markets. Particularly, ARBP achieved revenue CAGR of (a) 19% in the US (50 % of sales), (b) 13% in the EU (26 % of sales), and (c) 19% in growth markets (6% of sales). However, the API (13 % of sales) segment delivered a mere 3% CAGR over the same period due to higher captive consumption. The company's backward integration is robust with ~70% of its API requirement manufactured in-house.

Exhibit 4: We expect revenue CAGR at 9% over FY20-22E



Source: MOFSL, Company

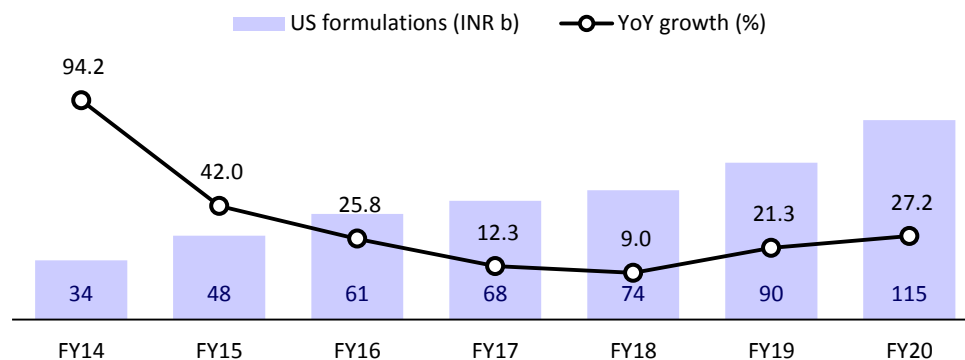
Despite the pandemic headwinds, ARBP's revenue growth in FY20 was 18% YoY at INR231b, which was supported by 24% YoY growth in the formulations segment. This was offset to a certain extent by 9% YoY decline in the API segment. Over the recent past, ARBP has seen some impact of the pandemic on its overall performance. Growth in the US (+16% YoY) and ARV business (+34% YoY) for 1QFY21 were off-set by the lockdown impact in the EU and growth markets. Sales in the EU/growth markets declined 5%/8% YoY during 1QFY21.

US – Minimal price erosion despite large base

US formulations (50% of total sales) witnessed 19% CAGR over FY15-20. ARBP's growth was supported by its (a) foray into new segments like Injectables, Dietary Supplements, OTC, (b) inorganic growth through acquisitions like Spectrum Pharma in FY19, and (c) new launches in Injectables, Ophthalmic, Specialty Products, Controlled Substances. Nonetheless, regulatory constraints proved to be a headwind for this segment to some extent.

ARBP grew at a robust rate of 27% YoY to INR114b in FY20. The COVID-19 pandemic impacted the injectables business due to decline in patient footfall in hospitals. However, other business segments had better volumes, which offset the decline in injectables.

Exhibit 5: US sales in decline mode due to the pandemic impact and regulatory headwinds



Source: MOFSL, Company

US portfolio quite diversified in terms of dosage mix

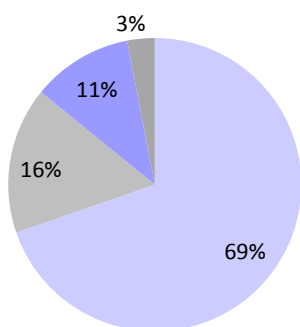
US sales dependency on Oral Solids has reduced further – its share of oral solids at declined from 69.2% in FY19 to 64.1% in FY20. This segment recorded growth of 18% YoY in FY20, which was largely led by improved volumes in existing products. ARBP has 190 active products in the US market and is awaiting final approval of 120 products in the Oral Solids segment.

The share of Injectables (both branded and generic) has grown to 23.3% of US sales in FY20 (v/s 17.2% in FY19). With acquisition Spectrum Pharmaceuticals (branded Injectables), ARBP has further gained presence in the Injectables segment. At end-FY20, ARBP had 47 Injectable products in the US market and 59 ANDAs awaiting final approval.

Natrol - Dietary supplements (10% of sales) grew 22% YoY in FY20. Growth was backed by new product launches and expansion in different geographies. The OTC segment (3% of US sales) grew 15% YoY in FY20. ARBP’s plan to switch over from Rx to OTC is expected to strengthen its portfolio, which would lead to better traction in sales.

Exhibit 6: Share of injectables increased from 16% in FY19...

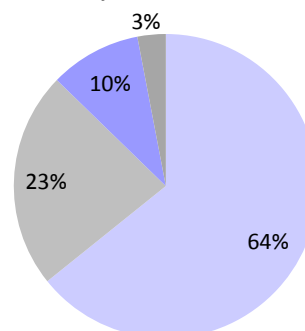
■ Oral Solids ■ Injectables ■ Natrol ■ OTC sales



Source: MOFSL, Company

Exhibit 7: ...to 23% in FY20

■ Oral Solids ■ Injectables ■ Natrol ■ OTC sales



Source: MOFSL, Company

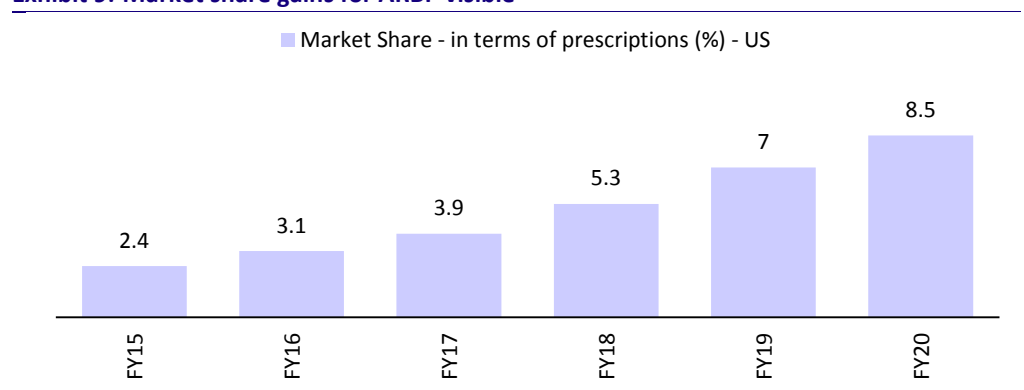
In total, ARBP has filed 604 ANDAs and received 438 final approvals. These include 28 tentative approvals, of which 9 ANDAs are tentatively approved under the US President's Emergency Plan for AIDS Relief (PEPFAR). A total of 166 ANDAs are currently under review. The company launched 34 products (incl. 7 injectables) during the year.

Exhibit 8: Filings and approval pace

Site	API/Formulation	FA	TA	UR	Total
Unit III	Oral Formulations	115	9	4	128
Unit I	API				
Unit IX	API				
Unit XI	Intermediate facility				
Unit IV	Injectables & Ophthalmics	68		50	118
APL Healthcare	Oral Formulations	6		10	16
Unit V	API				
Aurolife & Aurolife - I	Oral Formulations	23	1	9	33
Eugia	Oral & Injectable Formulations	10	3	22	35
Unit VIII	API				
Unit XII	Penicillin Oral & Injectables	20			20
Silicon	API				
AuroNext	Penem Injectables	2			2
Unit VIB	Cephalosporins Oral	11		1	12
Unit VII (SEZ)	Oral Formulations	136	13	20	169
Unit X	Oral Formulations	15	2	48	65
Auropeptide	API				
Total		410	28	166	604

Source: MOFSL, Company

Exhibit 9: Market share gains for ARBP visible



Source: MOFSL, Company

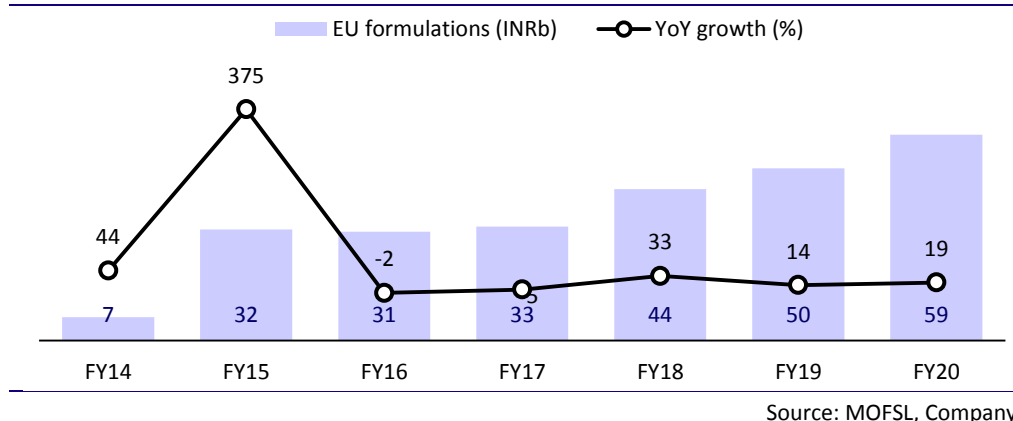
ARBP's prescription share (Rx) has reached 8.5% of market share level in the US with growth of 21% YoY due to synergies from the Spectrum Pharma acquisition and further market share gains in existing products and launch of new products. Overall, we expect 10% CAGR in US sales over FY20-22E.

EU: Expanding footprint

Sales in the EU came in at 13% CAGR over FY15-20. This growth was driven through organic as well as inorganic expansion. Over the years, ARBP completed acquisition of (a) Generis Farmaceutica in FY18, (b) Apotex in FY19 to increase its footprint in

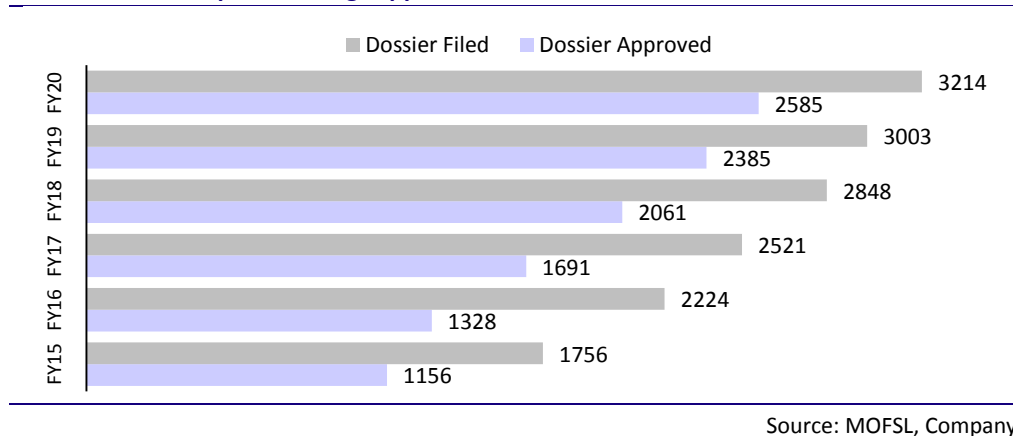
the eastern European regions of Poland, the Czech Republic and strengthen its presence in Belgium, the Netherlands and Spain, and R&D assets from Advent Pharma, which would help with new products for these markets.

Exhibit 10: Growth supported through organic and inorganic ways



In FY20, the EU segment grew 19% YoY to INR59b. By end-FY20, ARBP operated in 11 countries across pharmacy (Rx), hospitals (Hx) and tender (Tx) channels. Growth in the EU was mainly supported by better traction in countries such as France, the UK, Spain, Portugal and Italy. Also, with integration of the acquired Apotex businesses in five European countries, ARBP has started leveraging synergies. ARBP has also started launching its own products in new markets like Poland and Czech Republic.

Exhibit 11: Robust pace of filing/ approval in EU market

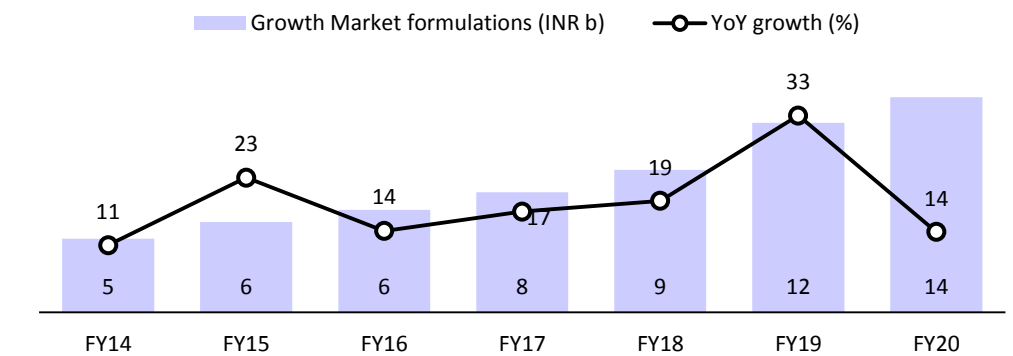


As of FY20, ARBP has commercialized 450+ INNS and has a product pipeline of 250 under development. It will continue to expand its portfolio through launches of targeted Day-1 products in Oncology, Hormones, Injectables and Oral segments. Going forward, ARBP will also start supplying Eugia Pharma’s products in Europe. However, the COVID impact hit EU sales in 1QFY21. It declined 5% YoY to INR13.2b. Sales decline was due to the stocking-up of medicines in 4QFY20 for lockdown reasons. With further enhancement in the product portfolio, better traction in recently added markets and synergies in the acquired business, we expect 6% CAGR in the Europe business over FY20-22E.

Growth markets: New launches and diversified portfolio drives growth

ARBP delivered CAGR of 19% over FY15-20 in the key markets of Brazil, Canada, Columbia and South Africa. It also plans to foray into China and has already started filing for it from India.

Exhibit 12: New introduction, newer geographies expanded growth market business



Source: MOFSL, Company

In FY20, the company had strong 14% YoY growth in its growth markets to INR14b. This was due to the robust growth in Canada. As per IQVIA, ARBP is the eighth largest generic player in Canada in value terms.

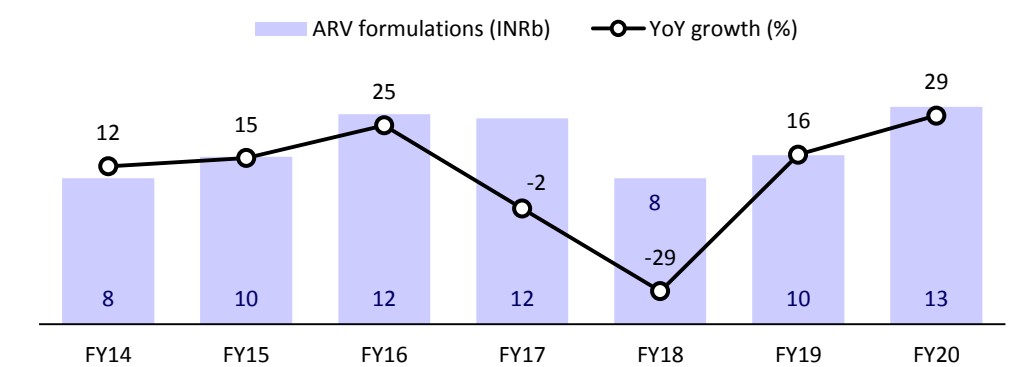
During the fiscal, ARBP launched 13 products and submitted dossier filings for 13 products. The company intends to launch Oncology and Injectables in these key markets going forward. Accordingly, we expect 15% sales CAGR over FY20-22 in this segment.

ARV: Early mover advantage in TLD

The ARV business delivered revenue CAGR of 5% over FY15-20. The subdued performance in this segment during FY17-18 was mainly due to pricing pressure in one of its product in particular and delay in some country specific tenders. During FY18, the company received the USFDA's tentative approval for Tenofovir + Lamivudine + Dolutegravir tablet (TLD), thereafter which the growth cycle saw a major turnaround.

In FY20, this segment grew 29% YoY to INR13b. This is largely due to introduction of TLD single pill regimen and better traction in existing products.

Exhibit 13: New launches led growth over FY18-20



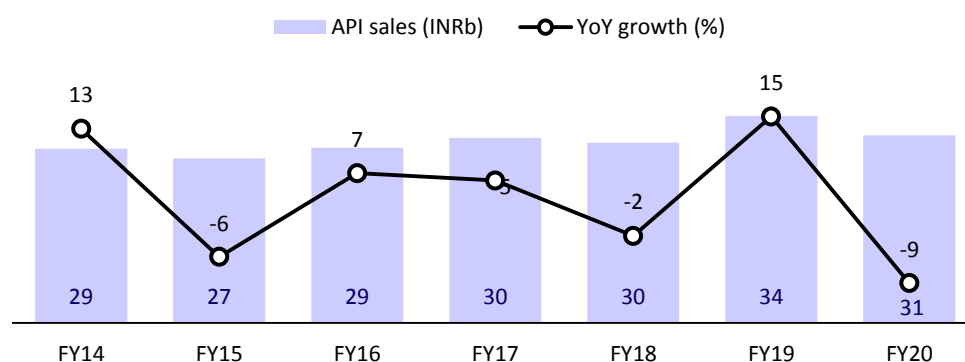
Source: MOFSL, Company

South Africa is the largest 'People living with HIV' (PLHIV) market. It has adopted the new TLD combination in its national guidelines for this year. ARBP has gained market share in national ARV tender for both TLD as well as for Dolutegravir single dose. It is expected to generate more sales in the coming two years. The number of patients on TLD is expected to move above 4m, since the time national procurement for the Dolutegravir regimen began in 4QFY20.

API: Well-placed to benefit from API industry's favorable prospects

ARBP's API segment delivered 3% of CAGR over FY15-20. This in general is a lumpy business segment. In FY20, the API segment declined 9% YoY to INR31b.

Exhibit 14: API segment declined in FY20 after good growth in FY19, indicating lumpy nature



Source: MOFSL, Company

Considering inclination toward Indian companies and ARBP having capability as well as capacity, we expect ARBP to garner 5% sales CAGR in this segment.

Manufacturing sites and regulatory update

ARBP has 29 manufacturing and packaging sites. Of the 29 sites, 22 are in India, 4 are in the US, 1 in Portugal, 1 in the Netherlands and 1 in Brazil.

The USFDA had recently cleared the OAI status of its unit IV injectables site, while Unit I, VII, IX, XI continue to be under OAI status. Unit IX has been further escalated and has been issued a Warning Letter.

ARBP has already completed remedial measures with 90% CAPAs for unit VII already completed. The company awaits re-inspection from the USFDA for the above sites once the pandemic situation is under control. Meanwhile, it continues to approach the USFDA and have requested for a desktop audit as well.

During the year, ARBP added capacity at Unit VII and Unit X and has expanded its API capacity in Unit XI and Unit XIV.

Exhibit 15: Manufacturing sites and their recent status

Site	API/Formulation	Remarks
Unit III	Oral Formulations	The company has received a 'Form 483' with 10 observations in Jun-19
Unit I	API	Inspected in Feb-19. Inspection classified as OAI
Unit IX	API	Inspected in Feb-19. Issued warning letter
Unit XI	Intermediate facility	Inspected in Feb-19. Inspection classified as OAI
Unit IV	Injectables & Ophthalmics	Inspected in Nov-19, EIR in place
APL Healthcare	Oral Formulations	Inspected in Dec-18. EIR in place
Unit V	API	The company has received a 'Form 483' with 4 observations in Oct-19
Aurolife & Aurolife - I	Oral Formulations	Inspection closed with VAI classification in Jun-18
Eugia	Oral & Injectable Formulations	Inspected in Jun-18. EIR in place
Unit VIII	API	Inspected in Oct-19, EIR in place.
Unit XII	Penicillin Oral & Injectables	Inspected in Mar-18. EIR in place
Silicon	API	Inspected in Mar-18. EIR in place
AuroNext	Penem Injectables	Inspected in Feb-18. EIR in place
Unit VIB	Cephalosporins Oral	Inspected in Sep-17. EIR in place
Unit VII (SEZ)	Oral Formulations	Received a 'Form 483' with 7 observations in Sep-19, classified as OAI in Jan-20
Unit X	Oral Formulations	Inspected in Apr-17. Zero 483.
Auropeptide	API	Inspected in Aug-16. EIR in place

Source: MOFSL, Company

Balance sheet position improving consistently

- ARBP has reduced its net debt over the past 5 quarters, which stood at USD191m at end-1QFY21.
- Consistent delivery on profitability and cash flow generation led to ARBP turning net-debt free by end-FY22.
- Strong balance sheet position puts ARBP in a good position to further explore inorganic opportunities, particularly after the Sandoz deal fell through.

Steady FCF generation

ARBP has generated steady FCF over the last eight years. The trend in FCF has followed healthy operational cash flow, driven by higher profitability. Capex, which increased significantly in FY17, has moderated over the last 4 years. ARBP invested ~INR14b in capex in FY20.

Exhibit 16: ARBP has generated positive FCF consistently over past 8 years

INRb	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	8.0	1.1	3.7	15.3	19.4	21.4	30.6	32.4	30.9	37.4
Interest/Dividends Recd. (INRb)	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	(0.2)	(0.1)	(0.1)	(0.2)
Direct Taxes Paid (INRb)	(1.9)	(0.4)	(1.2)	(3.4)	(4.3)	(4.8)	(7.7)	(7.5)	(7.7)	(7.3)
(Inc)/Dec in core WC (INRb)	(3.9)	(1.8)	(4.5)	(11.6)	(12.0)	(0.1)	13.2	(10.8)	(14)	(9.2)
(Inc)/Dec in other WC (INRb)	(0.9)	0.6	0.3	1.0	(1.0)	(1.5)	(7.9)	0.4	(0.8)	12.0
Other adjustments (INRb)	2.1	3.8	4.5	5.2	3.9	4.3	4.7	5.1	8.3	11.1
Net Cash flow from Operations (INRb)	3.4	3.3	2.7	6.5	5.9	19.2	32.8	19.5	16.5	43.8
Net Capex (INRb)	7.2	5.7	2.7	3.7	5.4	11.7	16.8	12.4	14.1	13.6
Acquisitions of Business/Subsidiaries (INRb)	-	-	-	-	-	-	-	(6.7)	(12.1)	0.1
Change in Net debt (INRb)	(4.4)	2.5	7.2	3.7	4.0	2.5	(13.9)	6.6	15.0	(22.9)
FCFE (INRb)	(8.2)	0.1	7.2	6.5	4.5	10.0	2.1	7.0	5.3	7.4

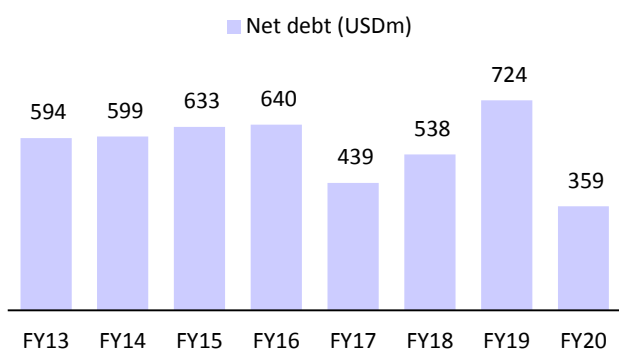
Source: MOFSL, Company

Gradual reduction in Net debt driven by strong cash generation

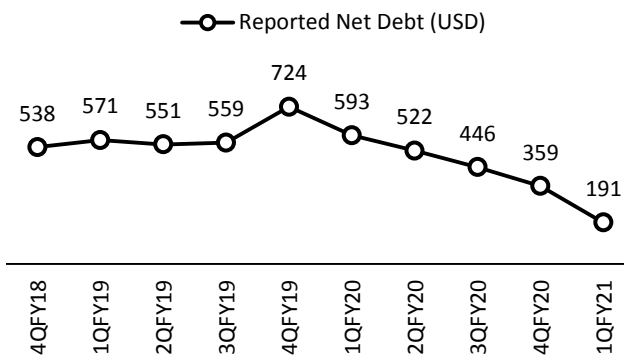
ARBP acquired Apotex's European business in 5 countries for EUR74m in FY19. ARBP also acquired Spectrum's 7 branded Oncology products for USD160m (USD160m upfront +USD140m milestone-based payments). Both these deals were funded through internal accruals and debt. As a result, ARBP's net debt increased in 4QFY19.

Since then, continued cash generation from its ongoing business has enabled ARBP to reduce debt consistently on a QoQ basis in FY19. ARBP repaid USD365m of debt in FY20, bringing down its net debt to USD359m. It has repaid USD168m of debt in 1QFY21. Net debt now stands at USD191m.

ARBP has guided to be net debt-free by FY22E, which provides further comfort from a financial leverage perspective.

Exhibit 17: Net debt declined significantly in FY20

Source: MOFSL, Company

Exhibit 18: Net debt at end-1QFY21 stood at USD191m

Source: MOFSL, Company

Valuation and view

US generics business poised for healthy growth, despite high base

The US business has shown continued strong performance, despite COVID related disruptions. Even with a high base of USD1.6b annual US sales, we believe ARBP is well placed to deliver healthy growth in the US on the back of strong product pipeline with 166 ANDAs pending approval. In addition, elective surgeries have shown some recovery, driving gradual pickup in the Injectables business.

ARBP has completed CAPAs at Units 1, 9, and 11 and awaits desktop inspections from the USFDA. Considering a 3-5% price erosion in the base business and healthy product pipeline, we expect the company to deliver 7% sales CAGR (constant-currency terms) over FY20-22E.

Europe business on gradual recovery path

The 17% CAGR over FY16-20 in the EU business was supported by increased product offerings, higher penetration, and acquisitions. European sales, however, were impacted in 1QFY21 due to the stocking up seen in 4QFY20.

Business in Europe should start normalizing gradually. This is expected to be further complimented with enhancement in ARBP's product portfolio as well as better traction in recently added markets. We expect 6% CAGR in the Europe business over FY20-22E. Margins in the Apotex business have been improving consistently QoQ. We expect margin improvement in the Apotex business to drive higher profitability in Europe as well as for the company.

Complex generics portfolio shaping up nicely

ARBP has several products under development to be launched in various geographies. It is working on 14 Biosimilar products, of which, 5 will be launched in the first phase. It is developing 6 MDIs, of which, 1 has already been filed and the other are 2 DPI inhalers. Its product portfolio also includes 6 Nasal Sprays, of which 1 has been filed. Work on 3 Depot Injections and 8 Transdermal products are also progressing well. With more number of these products receiving approval FY22E onwards, complex generics and specialty portfolio should provide further upside to ARBP's revenue.

Financial leverage declines further

From Net debt of USD724m at end-FY19, ARBP has drastically reduced its net debt to USD191m at end-1QFY21. It has guided to be net-debt free by FY22E. This provides comfort from a financial leverage perspective.

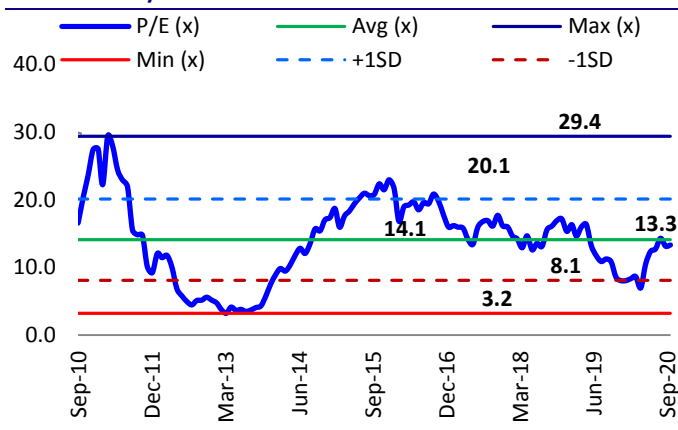
Valuation and view

We expect 15% earnings CAGR over FY20-22E, led by new launches, increased market share in key markets (the US/EU) and lower financial leverage.

We value ARBP at 16x 12M forward earnings to arrive at a target price of INR1,030.

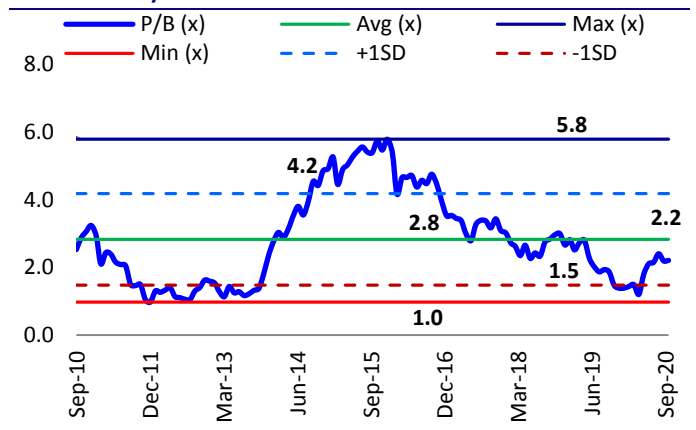
We remain positive on ARBP’s (a) capability to build a niche portfolio in the Injectables/Biosimilars/Inhaler space, (b) established presence across the manufacturing value chain in the US market, and (c) improving trajectory of profitability in the EU market. Maintain **Buy**.

Exhibit 19: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 20: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and Valuations

Consolidated - Income Statement								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	1,21,205	1,39,553	1,50,897	1,64,998	1,95,636	2,30,985	2,55,339	2,75,088
Change (%)	49.6	15.1	8.1	9.3	18.6	18.1	10.5	7.7
Total Expenditure	95,569	1,07,671	1,16,556	1,27,113	1,55,416	1,82,342	1,98,654	2,13,193
EBITDA	25,636	31,882	34,341	37,885	40,219	48,643	56,685	61,895
Margin (%)	21.2	22.8	22.8	23.0	20.6	21.1	22.2	22.5
Depreciation	3,326	3,924	4,276	5,580	6,680	9,667	10,362	11,198
EBIT	22,310	27,958	30,065	32,305	33,540	38,976	46,323	50,697
Int. and Finance Charges	843	927	667	777	1,627	1,598	1,056	1,028
Other Income	808	701	538	1,020	1,157	862	1,400	790
PBT bef. EO Exp.	22,275	27,733	29,936	32,548	33,070	38,240	46,667	50,459
EO Items	-596	-304	621	-168	-2,183	-658	-378	0
PBT after EO Exp.	21,679	27,429	30,557	32,380	30,887	37,582	46,289	50,459
Current Tax	5,966	7,207	7,596	8,183	7,269	9,135	12,035	12,615
Deferred Tax	0	0	0	0	0	0	0	1
Tax Rate (%)	27.5	26.3	24.9	25.3	23.5	24.3	26.0	25.0
Less: Mionrity Interest	-45	-30	-55	-34	-29	143	-200	-55
Reported PAT	15,758	20,252	23,015	24,231	23,647	28,304	34,454	37,899
Adjusted PAT	15,758	20,251	23,015	25,021	25,288	28,798	34,733	37,899
Change (%)	19.1	28.5	13.6	8.7	1.1	13.9	20.6	9.1
Margin (%)	13.0	14.5	15.3	15.2	12.9	12.5	13.6	13.8

Consolidated - Balance Sheet								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	584	585	586	586	586	586	586	586
Total Reserves	50,975	72,288	93,133	1,16,218	1,38,322	1,67,518	2,00,507	2,36,355
Net Worth	51,559	72,873	93,719	1,16,804	1,38,908	1,68,104	2,01,093	2,36,941
Minority Interest	258	26	21	18	16	1	1	1
Deferred Liabilities	2,058	-1,823	-1,185	765	980	1,393	1,421	1,449
Total Loans	38,636	44,155	30,841	44,825	67,532	54,223	56,934	51,241
Capital Employed	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,23,721	2,59,449	2,89,632
Gross Block	53,821	41,312	53,650	70,719	97,987	1,16,412	1,27,412	1,42,412
Less: Accum. Deprn.	17,405	3,455	7,168	11,843	18,298	27,965	38,328	49,525
Net Fixed Assets	36,416	37,856	46,482	58,876	79,689	88,447	89,084	92,886
Goodwill on Consolidation	640	4,063	4,063	8,165	8,325	9,159	9,159	9,159
Capital WIP	4,196	8,359	12,374	13,995	13,419	16,218	16,218	16,218
Total Investments	198	1,230	2,459	3,115	3,602	5,547	5,547	5,547
Curr. Assets, Loans&Adv.	87,647	1,05,631	95,439	1,25,312	1,57,675	1,68,260	2,04,130	2,26,654
Inventory	36,113	40,561	43,305	58,584	72,456	76,999	83,178	1,01,474
Account Receivables	35,392	46,067	35,042	38,721	34,150	43,152	55,965	66,323
Cash and Bank Balance	4,691	8,003	5,135	12,616	19,572	28,422	47,787	41,658
Loans and Advances	11,451	11,001	11,957	15,390	31,498	19,689	17,200	17,200
Curr. Liability & Prov.	36,587	41,909	37,420	47,051	55,275	63,911	64,689	60,833
Account Payables	20,511	24,570	24,883	26,274	25,522	25,450	34,064	30,207
Other Current Liabilities	13,650	15,776	11,415	18,209	26,104	33,547	30,000	30,000
Provisions	2,426	1,563	1,123	2,568	3,649	4,914	625	626
Net Current Assets	51,060	63,722	58,019	78,260	1,02,400	1,04,350	1,39,440	1,65,821
Appl. of Funds	92,511	1,15,230	1,23,397	1,62,413	2,07,436	2,23,721	2,59,449	2,89,632

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	27.0	34.6	39.3	42.7	43.2	49.2	59.3	64.7
Cash EPS	32.7	41.3	46.6	52.2	54.6	65.7	77.0	83.8
BV/Share	88.3	124.5	160.0	199.4	237.1	286.9	343.2	404.4
DPS	2.2	2.3	1.9	3.7	2.5	2.5	2.5	3.5
Payout (%)	9.9	8.0	6.0	10.9	6.8	5.2	4.3	5.4
Valuation (x)								
P/E	28.6	22.3	19.7	18.1	17.9	15.7	13.0	11.9
Cash P/E	23.6	18.7	16.6	14.8	14.1	11.8	10.0	9.2
P/BV	8.7	6.2	4.8	3.9	3.3	2.7	2.2	1.9
EV/Sales	4.0	3.5	3.2	2.9	2.6	2.1	1.8	1.7
EV/EBITDA	19.0	15.3	13.9	12.8	12.4	9.8	8.1	7.5
Dividend Yield (%)	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.5
FCF per share	5.1	-0.5	27.0	7.3	1.6	50.4	24.9	14.8
Return Ratios (%)								
RoE	35.4	32.5	27.6	23.8	19.8	18.8	18.8	17.3
RoCE	20.4	20.4	19.0	17.4	14.4	14.1	14.7	14.1
RoIC	20.9	22.8	22.5	20.4	16.9	17.1	18.9	18.3
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	3.4	2.8	2.3	2.0	2.0	2.0	1.9
Inventory (Days)	198	227	238	275	277	280	279	300
Debtor (Days)	91	107	98	82	68	61	71	81
Creditor (Days)	113	134	140	138	109	96	104	105
Working Cap. (Days)	177	200	196	219	235	246	246	277
Leverage Ratio (x)								
Current Ratio	2.4	2.5	2.6	2.7	2.9	2.6	3.2	3.7
Interest Cover Ratio	26	30	45	42	21	24	44	49
Net Debt/Equity	0.7	0.5	0.3	0.3	0.3	0.2	0.0	0.0

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	22,310	27,443	30,608	32,412	30,914	37,430	46,323	50,697
Depreciation	3,326	3,924	4,276	5,580	6,680	9,667	10,362	11,198
Interest / Dividend received	808	689	384	509	1,370	1,207	1,400	790
Direct Taxes Paid	-5,966	-7,326	-7,737	-6,986	-7,698	-7,298	-12,035	-12,615
(Inc)/Dec in WC	-2,515	-10,794	5,341	-10,358	-14,845	2,769	-20,091	-26,381
CF from Operations	17,963	13,936	32,872	21,157	16,420	43,775	25,960	23,689
Others	-596	262	-86	-1,609	90	38	-378	0
CF from Operating incl EO	17,367	14,198	32,786	19,548	16,510	43,813	25,582	23,689
(inc)/dec in FA	-14,389	-14,475	-16,942	-15,299	-15,591	-14,311	-11,000	-15,000
Free Cash Flow	2,978	-277	15,844	4,249	919	29,502	14,582	8,689
(Pur)/Sale of Investments	0	23	-929	-3,967	-13,435	-1,366	0	0
CF from Investments	-14,388	-14,452	-17,870	-19,266	-29,026	-15,677	-11,000	-15,000
Change in networkth								
Inc/(Dec) in Debt	2,298	6,033	-17,279	2,858	26,242	-13,130	2,711	-5,693
Interest Paid	-843	-835	-568	-742	-1,515	-1,266	-1,056	-1,028
Dividend Paid	-1,563	-1,616	-1,372	-2,641	-1,599	-1,884	-1,465	-2,051
CF from Fin. Activity	-322	3,566	-17,784	7,200	19,472	-19,287	5,083	-14,818
Inc/Dec of Cash	2,656	3,312	-2,868	7,482	6,955	8,850	19,665	-6,129
Opening Balance	1,786	4,691	8,003	5,135	12,616	19,572	28,422	47,787
Closing Balance	4,442	8,003	5,134	12,617	19,572	28,422	47,787	41,658

(INR M)

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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