



Aurobindo Pharma Limited

A potent dose

Pharmaceuticals

Sharekhan code: AUROPHARMA

Stock Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View

Change

Reco: Buy	↔
CMP: Rs. 870	
Price Target: Rs. 1,100	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

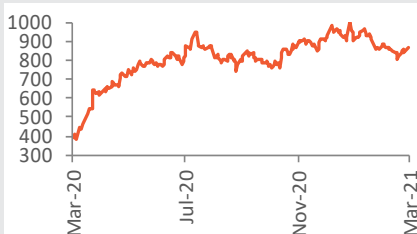
Company details

Market cap:	Rs. 50,981 cr
52-week high/low:	Rs. 1,023 / 333
NSE volume: (No of shares)	31.9 lakh
BSE code:	524804
NSE code:	AUROPHARMA
Free float: (No of shares)	28.2 cr

Shareholding (%)

Promoters	51.9
FII	25.4
DII	12.6
Others	10.08

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	-4.0	9.2	123.5
Relative to Sensex	-0.3	-9.1	-22.5	47.2

Sharekhan Research, Bloomberg

Summary

- We retain Buy recommendation on the stock of Aurobindo Pharma Limited (Aurobindo) with an unchanged PT of Rs 1100.
- Expected sturdy growth in the injectables, new facility coming on stream in the US, strong new product pipeline and gradual pick up in complex generics are the key growth drivers for the US business.
- In order to cater to the surging demand from the Europe and emerging markets, the company is setting up a greenfield plant at Vizag, which is likely to be ready by the next 15 months.
- The expected commissioning of a 450mn dose vaccine capacity by end of June 2021 provides a new growth avenue for Aurobindo

Aurobindo Pharma Limited's (Aurobindo) US business is expected to stage a marked improvement. A mix of factors, which includes a sturdy pipeline of new products, expected traction in the lucrative injectables space driven by strong new product pipeline and commissioning of a new facility coupled with growth in the recently launched products would boost US business' sales. Aurobindo plans to launch around 50 products in the US in FY2021 and expects to sustain the launch momentum in to FY2022E as well. The new launches would include the injectables as well, which are a key growth driver. In the injectables space the company has 70 assets under development, 50 assets under review and ~80 approved products, thus pointing towards a sturdy product pipeline which would unfold going ahead. With the demand from the Europe and emerging markets also picking up, the company is setting up a green field plant at Vizag to capitalize on this opportunity and be able to cater to the incremental demand. The said plant is expected to be ready within the next 15 months. Also, recent reports suggest a pick up in the complex generic space with the overall industry size likely to increase to around \$20bn over the next 3 years from around \$15-\$16 bn now. Aurobindo currently has a small presence in the complex generics space, but is looking to enhance its presence gradually in the segment by focusing on areas of biosimilars, inhalers, transdermal patches and Injectables, which bodes well from a growth perspective. The expected commissioning of a 450mn dose vaccine capacity by end of June 2021 provides a new growth avenue for the company. Successful clearance from USFDA for its plants is awaited as the company has submitted its responses. Over the long term, a focus on building and developing a strong portfolio of specialty products (biosimilars, oncology, inhalers, transdermal patches, etc) would be key growth drivers.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 1,100: Aurobindo expects strong growth momentum across the US and Europe business to sustain going ahead driven by a sturdy growth in the Injectables, new facilities coming on stream, strong new product pipeline and a gradual pick up in complex generics space. Overall the company expects to incur a capex of \$200 mn to \$220 mn each for FY2021 and FY2022E which provides visibility on growth ahead. Also it has reduced its debt levels significantly as of December 2020 to become a net cash company as against Rs 2,718 cr of net debt as of March 2020. At CMP, the stock is trading at a 13.4x/11.2x its FY22E and FY23E EPS respectively. The expected commissioning of the vaccine manufacturing facility by end of June 2021 is likely to open a new growth avenue and would add to the topline. Considering a span of 3 months, the stock has underperformed the BSE Sensex and Healthcare index by 9% and 2% respectively, while the stock price has corrected by ~11% over the past two months, which provides a good entry point to investors. We retain Buy recommendation on the stock with an unchanged PT of Rs 1100.

Key Risks

Delay in resolution of USFDA issues and product approvals; change in regulatory landscape; and negative outcome of key facility inspection by USFDA can affect earnings prospects.

Valuation (Consolidated)

Rs cr

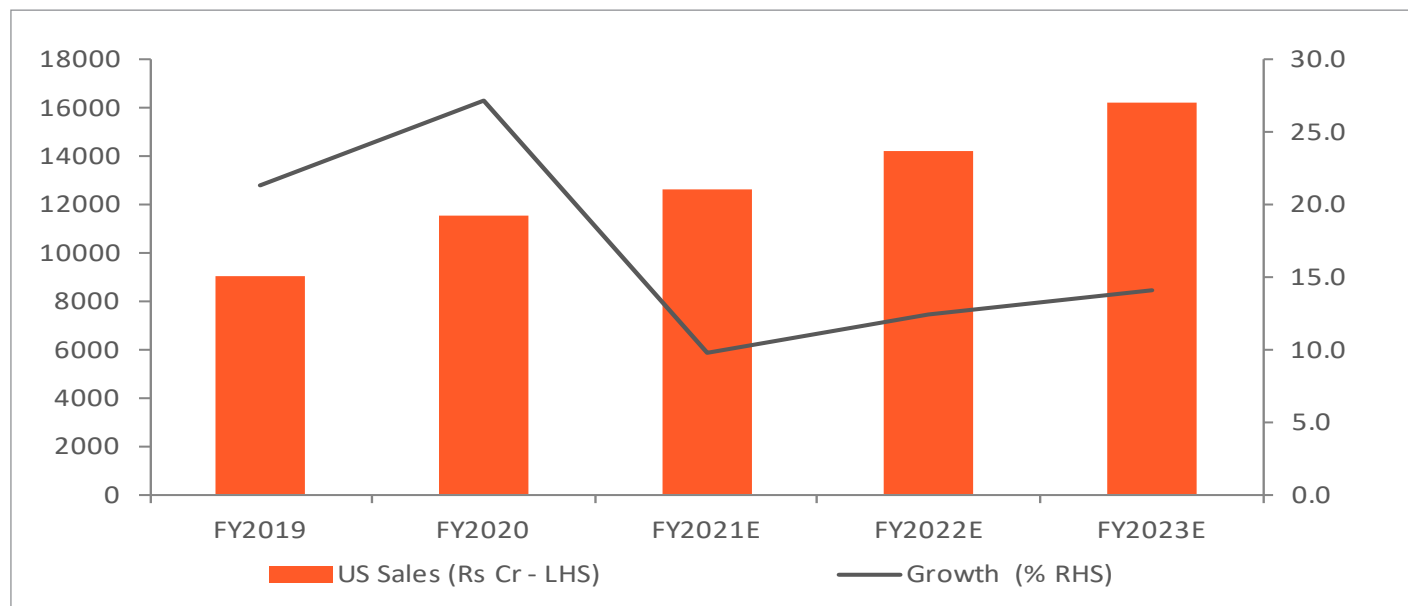
Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Total Income	19563.6	23098.0	25032.9	28490.7	32354.5
Operating profits	3952.0	4863.8	5457.2	6324.9	7409.2
OPM (%)	20.2	21.1	21.8	22.2	22.9
Adj. PAT	2513	2913	3269	3796	4550
EPS (Rs)	42.9	49.7	55.8	64.8	77.7
PER (x)	20.3	17.5	15.6	13.4	11.2
EV/Ebitda (x)	14.5	11.0	8.8	7.1	5.5
P/BV (x)	3.7	3.0	2.2	1.9	1.6
ROCE (%)	16.8	17.7	18.1	18.5	20.4
RONW (%)	19.7	19.0	16.3	15.1	15.6

Source: Company; Sharekhan estimates

Focus on Injectables, setting up a new facility, sturdy new product pipeline to drive US sales:

Aurobindo has a sizeable presence in the US pharma markets. US constitutes around half of the overall revenue. Despite a slightly muted performance for the quarter ending December 2020, the outlook for Aurobindo's US business is robust. Aurobindo is well-placed to harness the opportunities. In the US it has strong overall product pipeline which would unfold going ahead and provide the impetus for growth. Aurobindo is on track to achieve its guidance of launching 50 new products in the US in FY2021 and sees the new launch momentum to continue in FY2022E. Its focus on injectable business to drive growth ahead augurs well. It has a strong product portfolio in the Injectables space which comprises almost 70 assets under development, 50 filed and under review and 80 approved products, thus pointing towards a sturdy product pipeline. In addition to this, Aurobindo is also setting up a new facility aimed at the US markets, with a focus on high value and low volumes products. The new facility would also enable the company to diversify its risk related to unit 4, as it's the only plant catering to the US markets as of now. The new facility would also enable the company to benefit from local tenders, if any. Collectively, Aurobindo is targeting revenues of around \$650 to \$700 mn over the next three years from the injectables from around \$380 mn as of now. Apart from the Injectables, the complex generics space is fact gaining traction and industry reports suggests that the overall market for complex generics is slated to be around \$20 bn over the next 3 years from ~\$15-\$16 bn currently. Aurobindo currently has a small presence in the complex generics space, but is looking to enhance its presence gradually in the segment by focusing on areas of biosimilars, inhalers, transdermal patches and Injectables. Collectively, a strong overall new product pipeline, focus on injectables business and a gradual improvement in the complex generics would be the key growth drivers for the US business over the next 3-4 years. Overall, the US sales are expected to clock a double digit ~13% CAGR over FY21-FY23E.

US Business – Sales & Sales Growth Trends

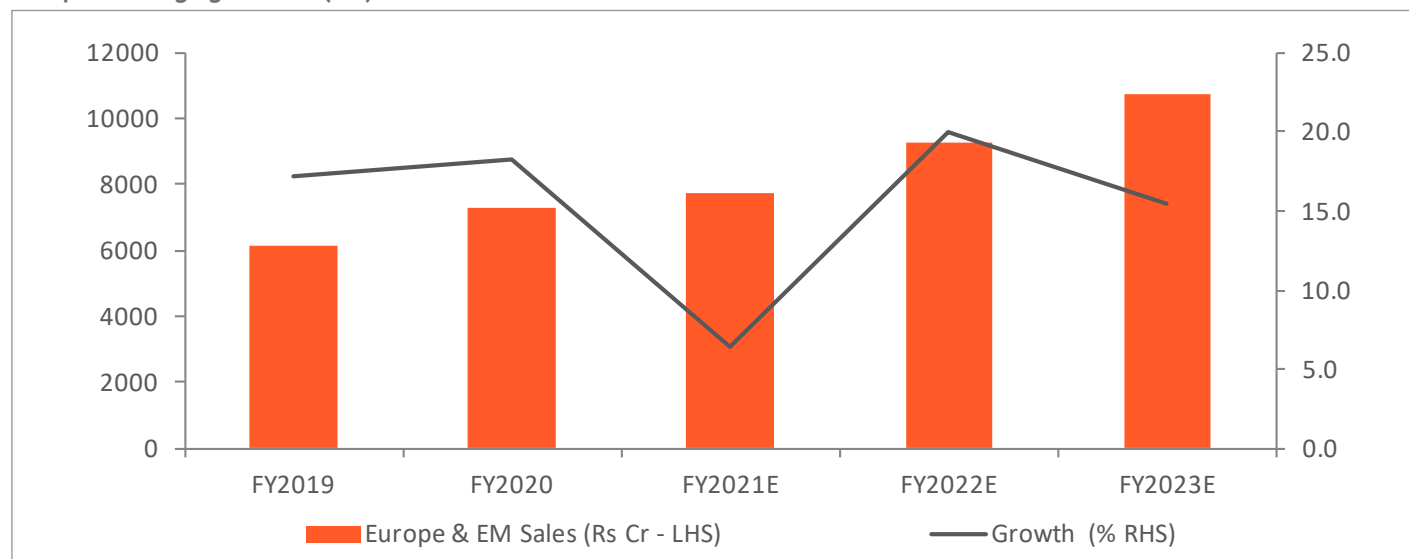


Source: Company; Sharekhan Research

Europe, Emerging markets to stage healthy growth:

Aurobindo derives ~30% of its revenues from the European regions and RoW countries. EU formulations business revenues grew strongly by 13.2% y-o-y to Rs. 1671 crore for the quarter ending December 2020. Basis the commentary on Q3FY2021 concall, Aurobindo sees Europe being impacted by a second wave of the COVID-19 Pandemic, but expects the situation to improve on the back of vaccination drive which has commenced across major markets of the globe. Further, given the improved growth prospects from the Europe and emerging markets, the company is anticipating a strong demand growth and has announced a greenfield plant setup at Vizag, which would be focused on these markets. The announcements comes on the backdrop of a strong demand traction in the US which is catered to from unit 4, thus leaving a small portion to meet the demand in the EU and other markets. The new plant is expected to be ready in the next 15 months. Thus we expect the European business to clock a 14% CAGR over FY20-FY23.

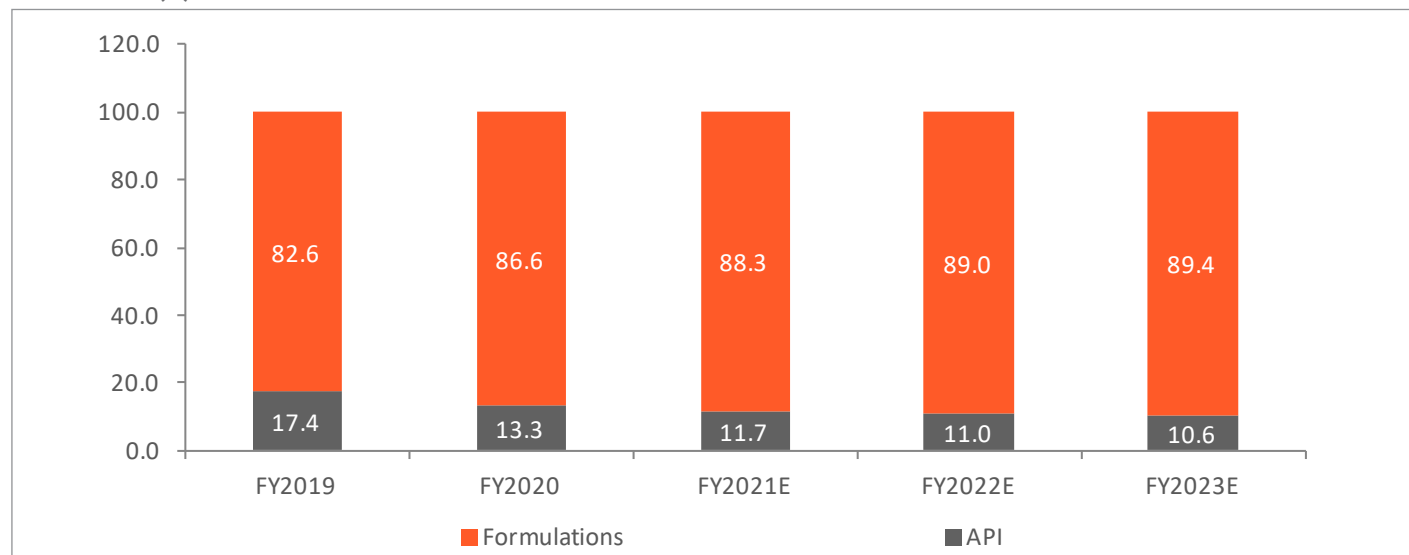
Europe & Emerging Markets (EM) Sales trends



Source: Company; Sharekhan Research

Capex plans provides ample visibility on growth ahead: Aurobindo has lined up a healthy capex plan of investing \$200-220 million each for FY2021 and FY2022 towards expanding the injectables as well as oral solids' capacity. Aurobindo is setting up a new injectables plant in the US while it is also setting up a new greenfield facility at Vizag aimed to cater to the demand from the EU and emerging markets. In addition to this, it is also in the process to set up a new plant for trans dermals and inhalers in the US, though a large part of the inhalers would continue to be supplied from India. Also the company is doubling its capacity at unit 15 and Unit 10, both of which manufacture oral solids. The capex would be funded by internal accruals, thus unlikely to exert any pressure on the financials. Collectively, sturdy capacity expansion plans spread across the injectables as well as the oral solids bodes well and provides ample visibility on growth prospects.

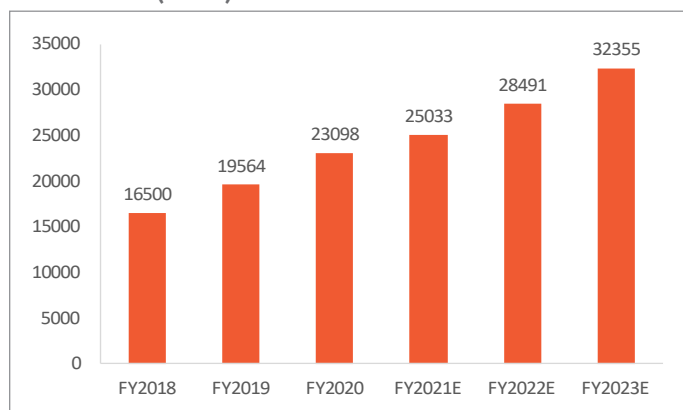
Revenue Mix (%)



Source: Company; Sharekhan Research

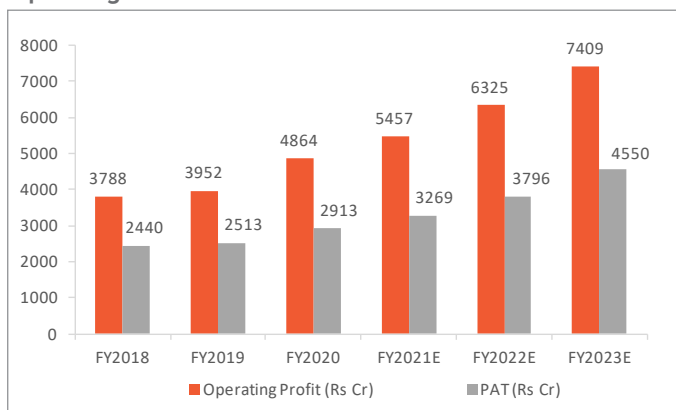
Financials in charts

Sales Trends (RS Cr)



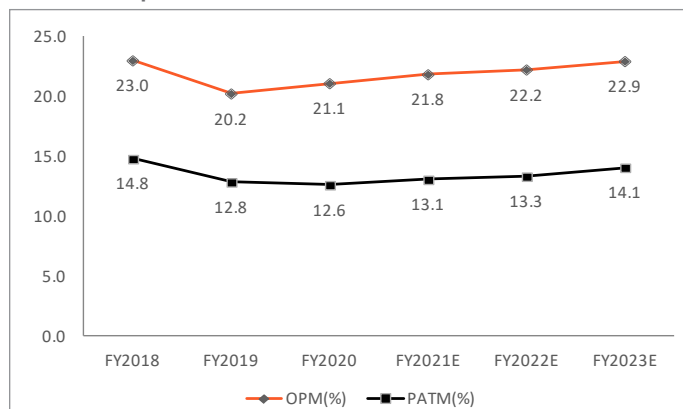
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



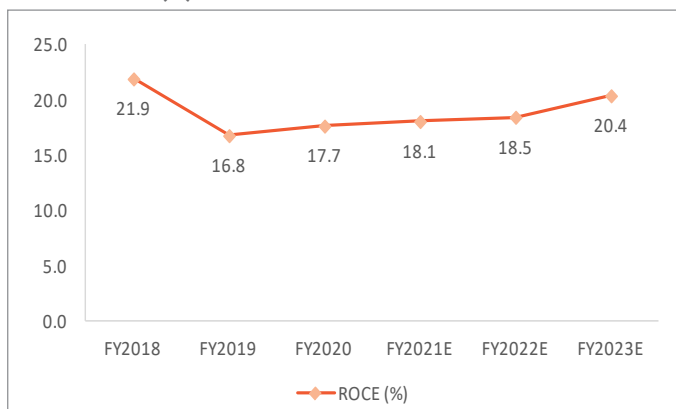
Source: Company, Sharekhan Research

OPM's to improve



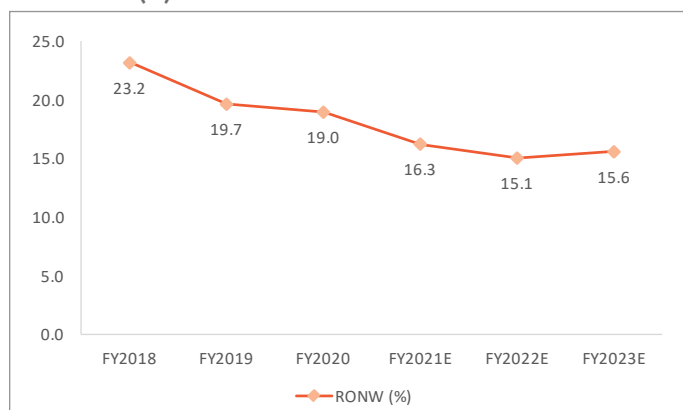
Source: Company, Sharekhan Research

ROCE Trends (%)



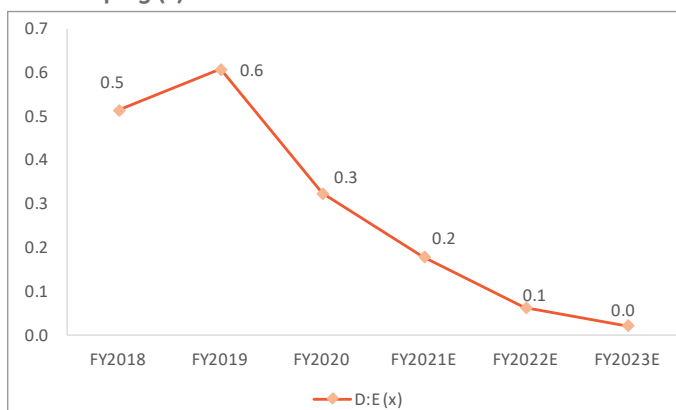
Source: Company, Sharekhan Research

RoE Trends (%)



Source: Company, Sharekhan Research

Debt : Equity (x)



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Improved growth prospects:

Indian pharmaceutical companies are better-placed to harness opportunities and clock healthy growth going ahead. Indian companies are among the most competitive globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by the strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

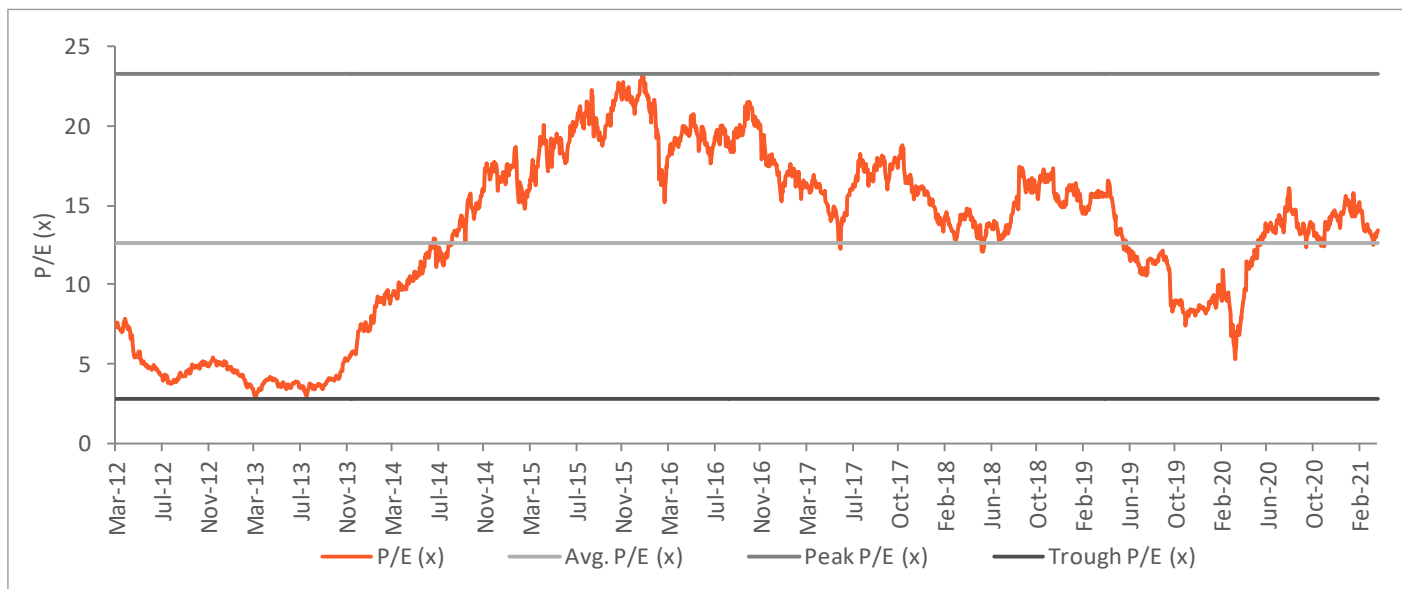
Outlook - Overall business outlook improving:

Strong growth outlook exists for the US business driven by an improving traction from the generic Injectables space (with comparatively low competition), a sturdy product pipeline and expected traction the recently launched products. The European business too is on the path to recover with demand normalizing and showing signs of improvement. However, Aurobindo is awaiting USFDA clearance for five of its plants. For 4 of 5 plants under USFDA's scanner, the company has completed the remediation and has submitted its responses. A successful resolution of USFDA observations would be a key monitorable and a trigger for earnings upgrade. Further, the company is expanding its capacities by setting a green field facility at Vizag aimed at Europe and emerging markets and is also setting up a facility in the US aimed at US markets. The expanded capacities are expected to be ready over the next 15 months and provide ample visibility on the growth ahead. Over the long term, Aurobindo is looking to build a presence in the specialty segment which includes areas of biosimilars, oncology inhalers, transdermal patches amongst others which is likely to support growth. Further Aurobindo's vaccine manufacturing plant with a capacity of 450 mn doses would be ready by April 2021 and is likely to be operational by end of June 2021. The company expects a tie up for the vaccine capacity to be in place by then and would provide a new growth avenue.

Our call - Valuation - Maintain Buy with an unchanged PT of Rs. 1,100:

Aurobindo expects strong growth momentum across the US and Europe business to sustain going ahead driven by a sturdy growth in the Injectables, new facilities coming on stream, strong new product pipeline and a gradual pick up in complex generics space. Overall the company expects to incur a capex of \$200 mn to \$220 mn each for FY2021 and FY2022E which provides visibility on growth ahead. Also it has reduced its debt levels significantly as of December 2020 to become a net cash company as against Rs 2,718 cr of net debt as of March 2020. At CMP, the stock is trading at a 13.4x/11.2x its FY22E and FY23E EPS respectively. The expected commissioning of the vaccine manufacturing facility by end of June 2021 is likely to open a new growth avenue and would add to the topline. Considering a span of 3 months, the stock has underperformed the BSE Sensex and Healthcare index by 9% and 2% respectively, while the stock price has corrected by ~11% over the past two months, which provides a good entry point to investors. We retain Buy recommendation on the stock with an unchanged PT of Rs 1100.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV / EBITDA			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
AurobindoPharma	870.0	58.6	50,985.0	17.5	15.6	13.4	11.0	8.8	7.1	19.0	16.3	15.1
Lupin	1,007.0	45.2	45,669.0	129.4	42.1	24.8	21.7	16.4	11.3	2.8	8.0	11.9
Cadila	434.0	102.4	44,445.0	29.4	21.5	19.9	18.9	14.5	12.7	14.6	17.3	16.4

Source: Company, Sharekhan Research

About company

Hyderabad-based Aurobindo was incorporated in 1986 and manufactures generic formulations and active pharmaceutical ingredients (APIs). Aurobindo generates 90% of its sales from international markets. The company currently holds a strong position in the US, where it is the fifth largest generic pharmaceutical company as per the IMS National Prescription Audit, measured by total prescriptions dispensed for the 12 months ending June 2018. The company also holds a strong position in many European countries, including France and Italy, where it ranks among the largest generic companies. Aurobindo is a vertically integrated company, meeting around 70% of its API requirements in-house. Aurobindo has 26 manufacturing facilities for its API and formulations businesses, which have requisite approvals from various regulatory authorities, including the USFDA, U.K. MHRA, Japan PMDA, WHO, Health Canada, MCC South Africa and ANVISA Brazil. Recently, Aurobindo entered Poland and the Czech Republic with the acquisition of Apotex's commercial operations. The company also strengthened its US presence with the acquisition of dermatology and oral solid businesses from Sandoz.

Investment theme

Aurobindo has one of the best product approval rates and launch pipelines in the US. Despite pricing pressures, the company is one of the few companies able to mitigate this risk due to continuous product launches and approvals. Strong growth outlook exists for the US business driven by an improving traction from the generic Injectables space (with comparatively low competition), a sturdy product pipeline and expected traction the recently launched products. The European business too is on the path to recover with demand normalizing and showing signs of improvement. However, Aurobindo is awaiting USFDA clearance for five of its plants. Further, the company is expanding its capacities by setting a green field facility at Vizag aimed at Europe and emerging markets and is also setting up a facility in the US aimed at US markets. The expanded capacities are expected to be ready over the next 15 months and provide ample visibility on the growth ahead. Over the long term, Aurobindo is looking to build a presence in the specialty segment which includes areas of biosimilars, oncology inhalers, transdermal patches amongst others which is likely to support growth. Further Aurobindo's vaccine manufacturing plant with a capacity of 450 mn doses would be ready by April 2021 and is likely to be operational by end of June 2021.

Key Risks

Delay in product approvals; change in regulatory landscape; and negative outcome of key facility inspections by the USFDA can affect earnings prospects.

Additional Data

Key management personnel

K Nithyananda Reddy	Vice - Chairman, Whole-time Director, promoter.
N Govindarajan	Managing Director
P.V. Ramaprasad Reddy	Non-executive Director, Promoter
Santhanam Subramanian	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	5.67
2	Axis Clinicals Ltd	3.0
3	Vanguard Group Inc/The	1.59
4	BlackRock Inc	1.34
5	Dimensional Fund Advisors LP	1.13
6	SBI Funds Management Pvt Ltd	0.94
7	ICICI Prudential Life Insurance Co	0.69
8	Norges Bank	0.49
9	IDFC Mutual Fund/India	0.44
10	Invesco Ltd	0.4

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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