



BODHI CAPITAL

An Initiative of ABC | INVESTMENTS 

Company Name: Aurobindo Pharma Ltd

Current Price: Rs. 465

Market Capitalization: 27,249 cr

Analyst Take: Buy

Target Price: 540

Date:12/26/19

Analyst Name : Ragini Chatterjee

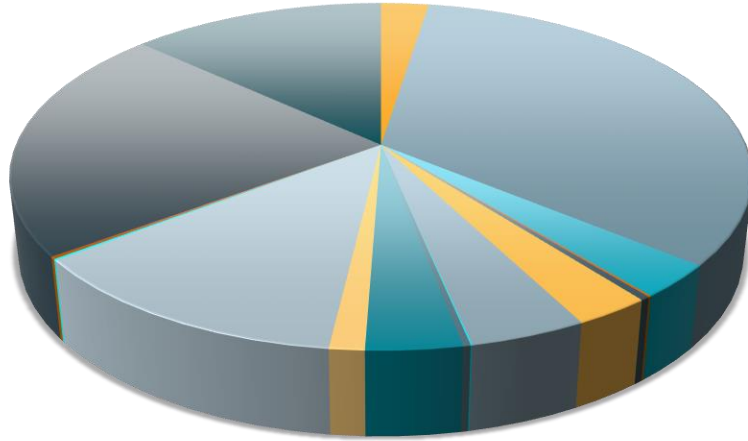


Company Overview

- Aurobindo Pharma Limited is an integrated global generic pharmaceutical company with presence over 155 countries.
- The company has 27 manufacturing facilities across India, USA, Brazil, Portugal and Netherlands. Most of these plants are approved by regulatory authorities like the US FDA, UK MHRA, Japan PMDA, WHO, Health Canada, MCC South Africa, ANVISA Brazil, etc.
- Aurobindo has an employee base of more than 22,000 (including all subsidiaries). The key markets of the Company are the US and Europe, which represents ~72% of consolidated revenues.



Shareholding



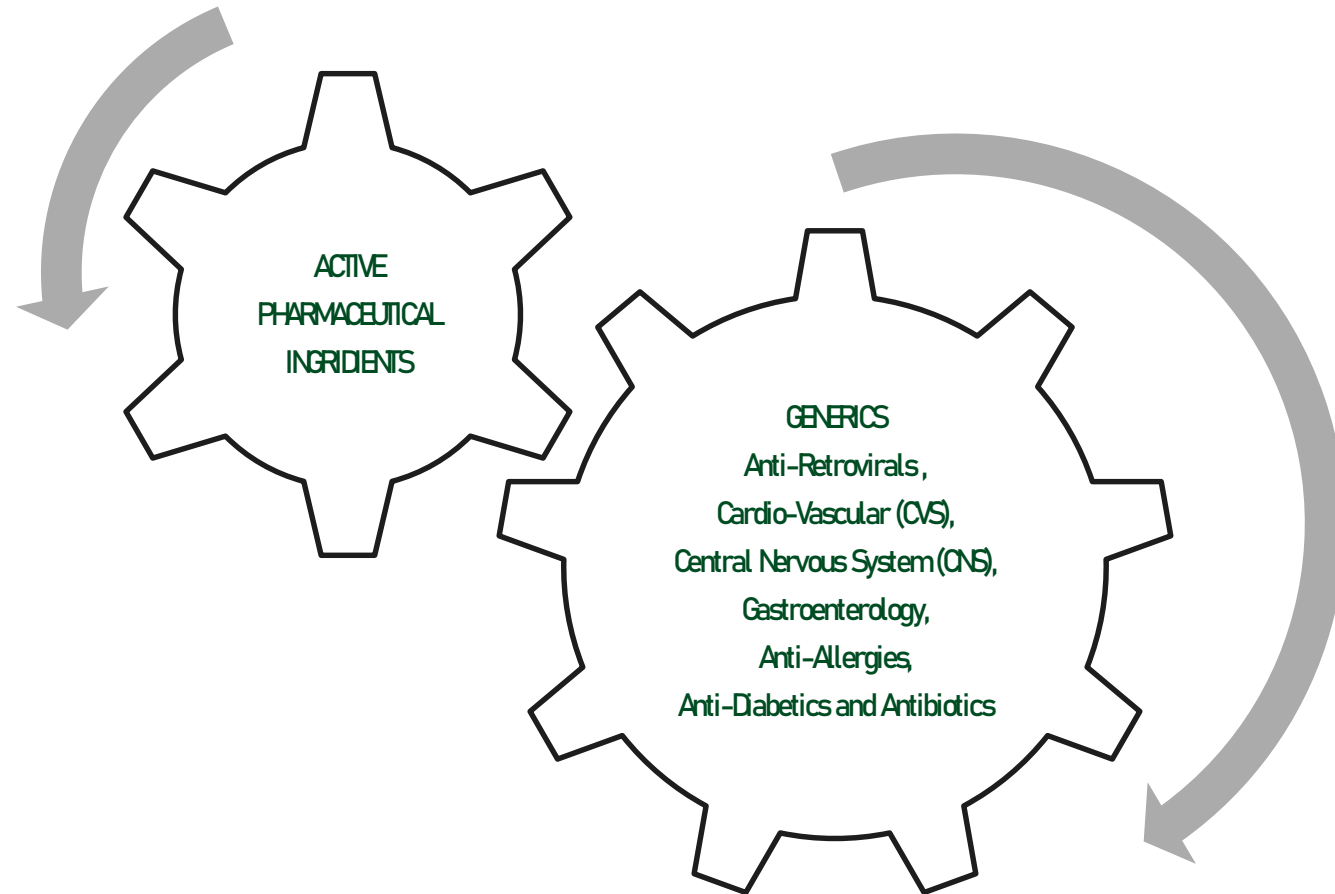
- M Sivakumaran
- RPR SONS ADVISORS PRIVATE LIMITED, MRS.P.SUNEELA RANI (JOINTLY HOLDING)
- Venkata Ramprasad Reddy Penaka
- AXIS CLINICALS LIMITED
- RAJESWARI KAMBAM
- Penaka Neha Reddy
- AXIS CLINICALS LIMITED, TRIDENT CHEMPHAR LIMITED, RPR SONS ADVISORS PVT.LTD. (JOINTLY HOLDING)
- K Nityananda Reddy

M Sivakumaran	14,491,360
RPR SONS ADVISORS PRIVATE LIMITED, MRS.P.SUNEELA RANI (JOINTLY HOLDING)	196,376,250
Venkata Ramprasad Reddy Penaka	18,000,000
AXIS CLINICALS LIMITED	658,000
RAJESWARI KAMBAM	1,975,500
Penaka Neha Reddy	130,000
AXIS CLINICALS LIMITED, TRIDENT CHEMPHAR LIMITED, RPR SONS ADVISORS PVT.LTD. (JOINTLY HOLDING)	16,726,716
K Nityananda Reddy	25,359,572
Prasad Reddy Kambam	301,156
K Suryaprakash Reddy	7,380
M Sumanth Kumar Reddy	1,600,000
Kambam Kirthi Reddy	20,700,000
Kambam Spoorthi	7,600,000
Mutual Funds / UTI	74,172,806
Financial Institutions / Banks	701,662
Insurance Companies	1,252,917
Qualified Foreign Investor	128,642,426
Non-Institutions	77,242,864



Key Business Segments

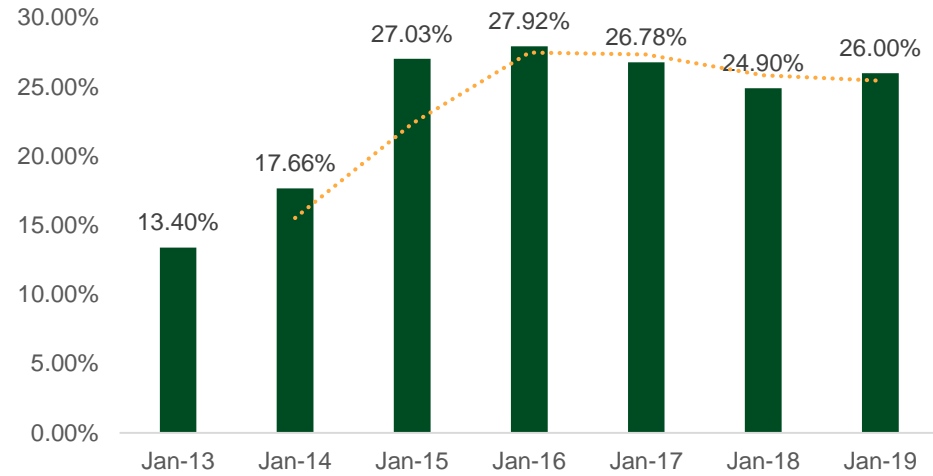
Most of the Company's Revenue comes from the sale of Generics in the United States. However, the company has the advantage of producing the API's that are used in their Generics hence integrating different parts of the supply chain. Recently it has also been expanding to higher value drugs in oncology, hormones and biosimilars. Another way they have been extending their reach is through acquisitions (especially in Europe). Some of these include Generid Pharmaceuticals SA and Sandoz International.



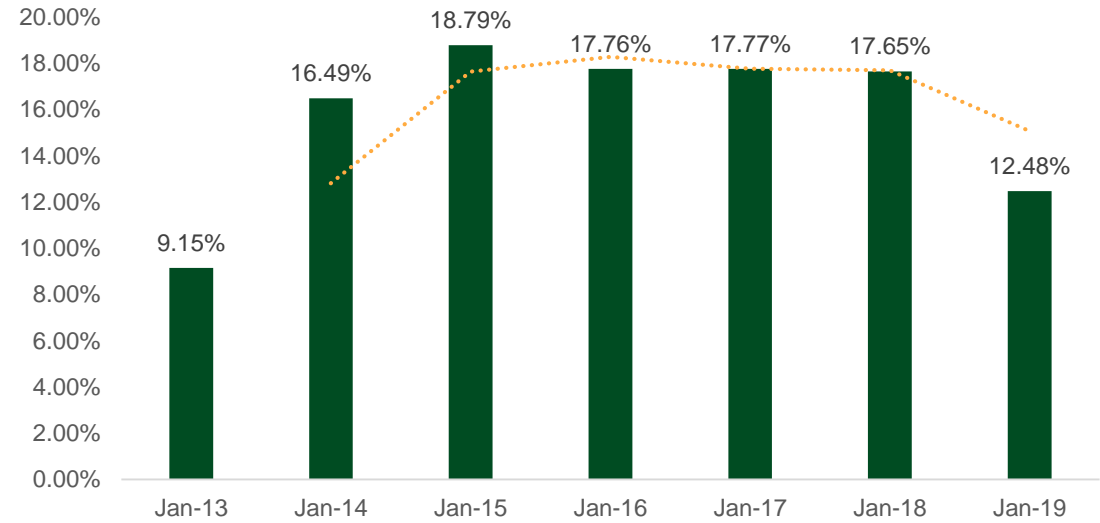
Ratio Analysis



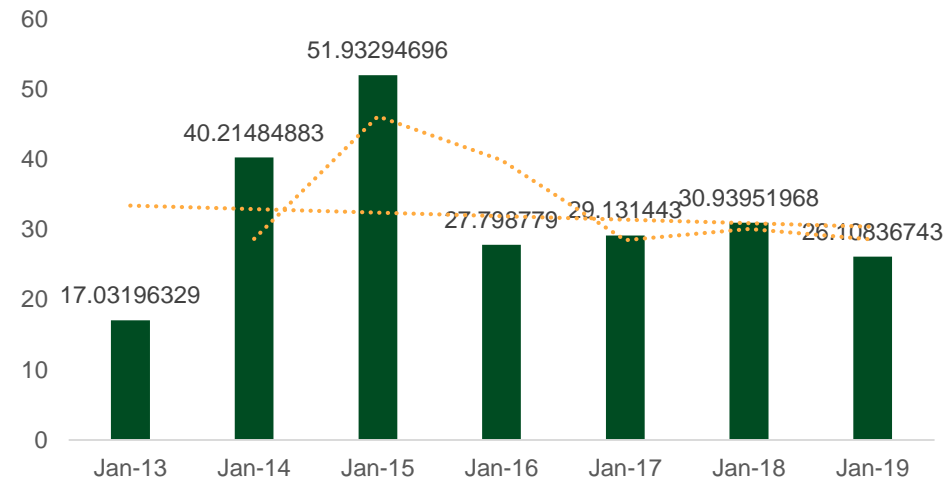
Operating Profit Margin



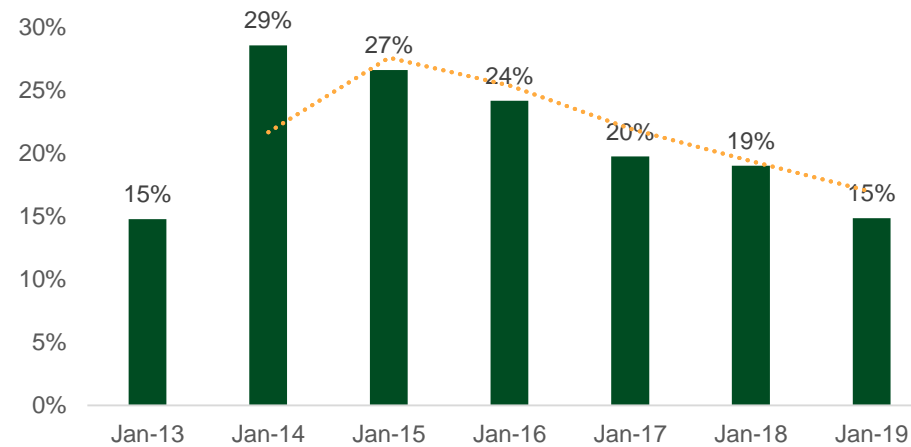
Net profit margin



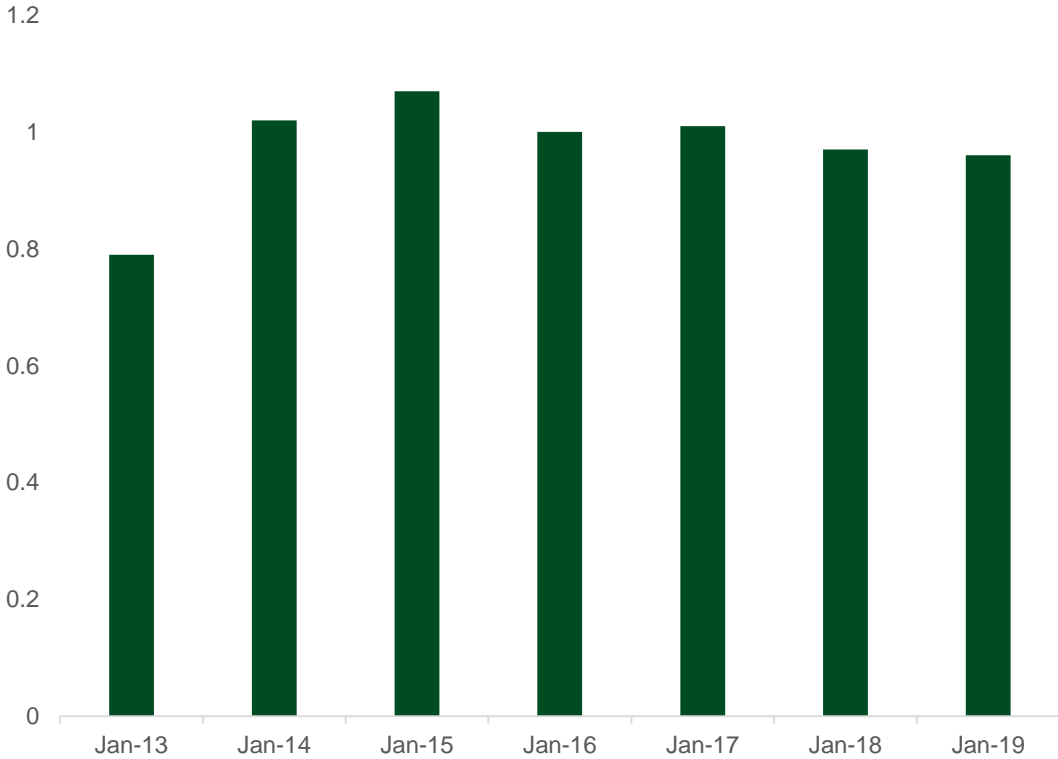
EPS



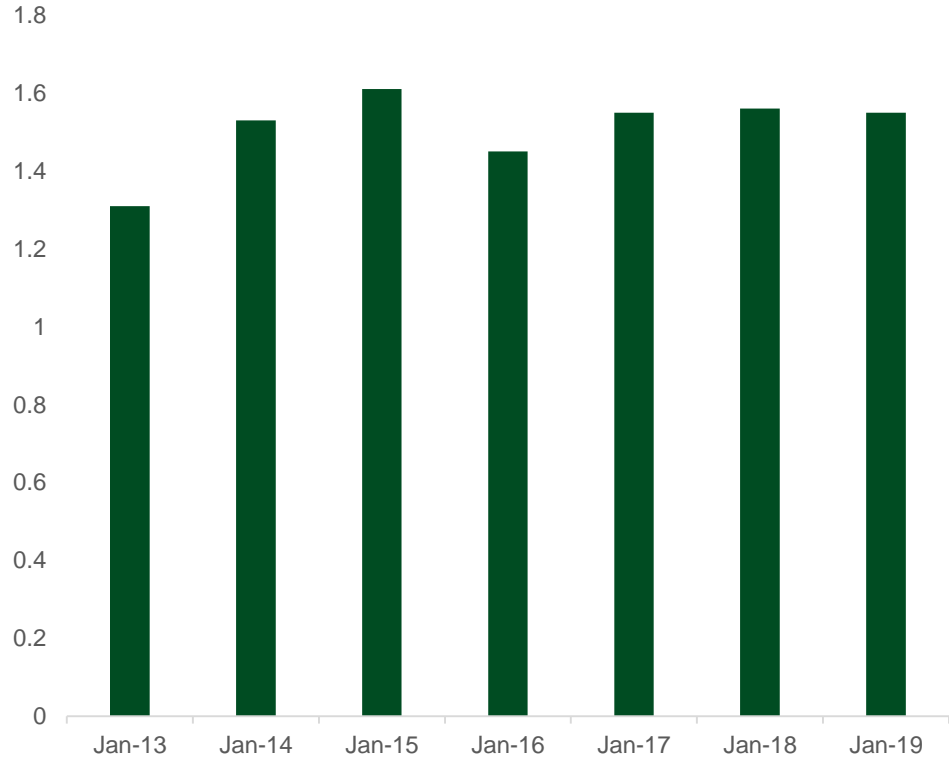
Return on Capital Employed



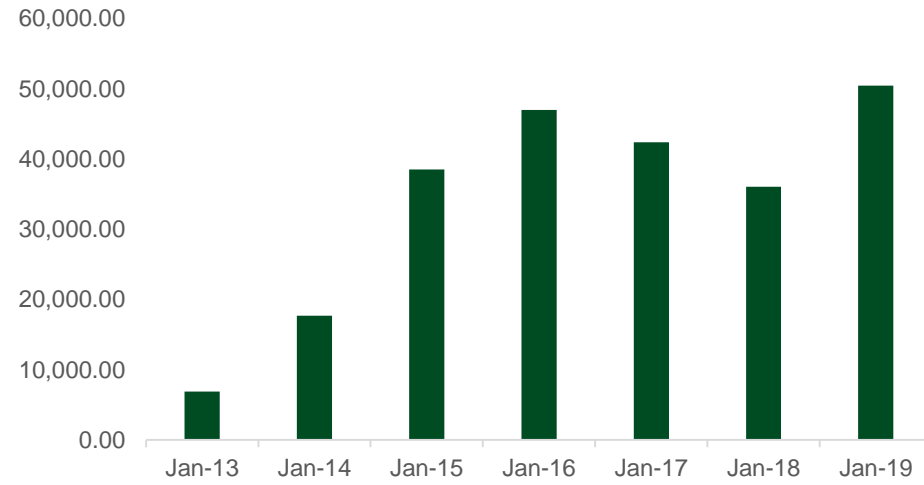
Quick Ratio (X)



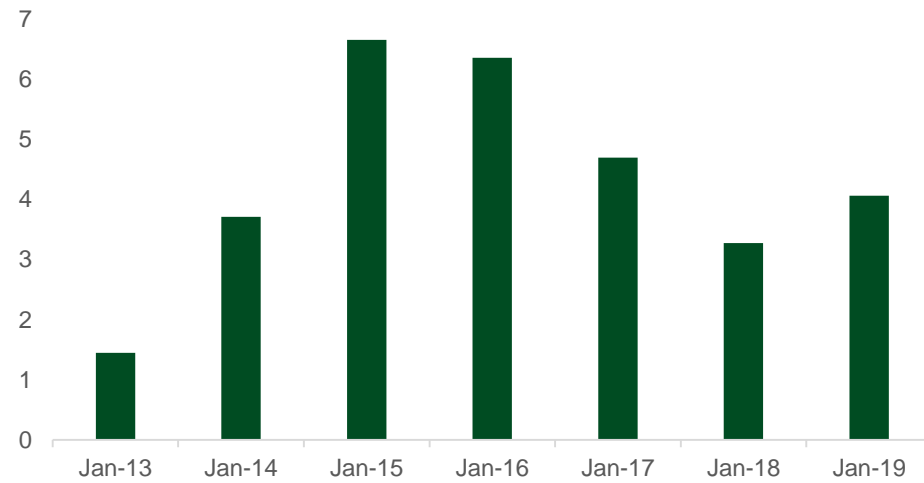
Current Ratio



Enterprise Value (Cr.)



Price/BV



Qualitative Analysis



Key Frameworks



PORTER'S
FIVE FORCES



BCG MATRIX



SWOT
ANALYSIS



Porter's five forces

1. Competition in the industry

High and fragmented owing to many small players in the industry.

2. Barriers to entry

Distribution network, patents, developing and manufacturing capabilities,

3. Power of suppliers

Varies from market to market. In India, distributors are increasingly pushing branded products in a bid to earn higher margins.

4. Power of customers

High, a fragmented industry has ensured that there is widespread competition in almost all product segments. Currently, the domestic market is also protected by the DPCO.

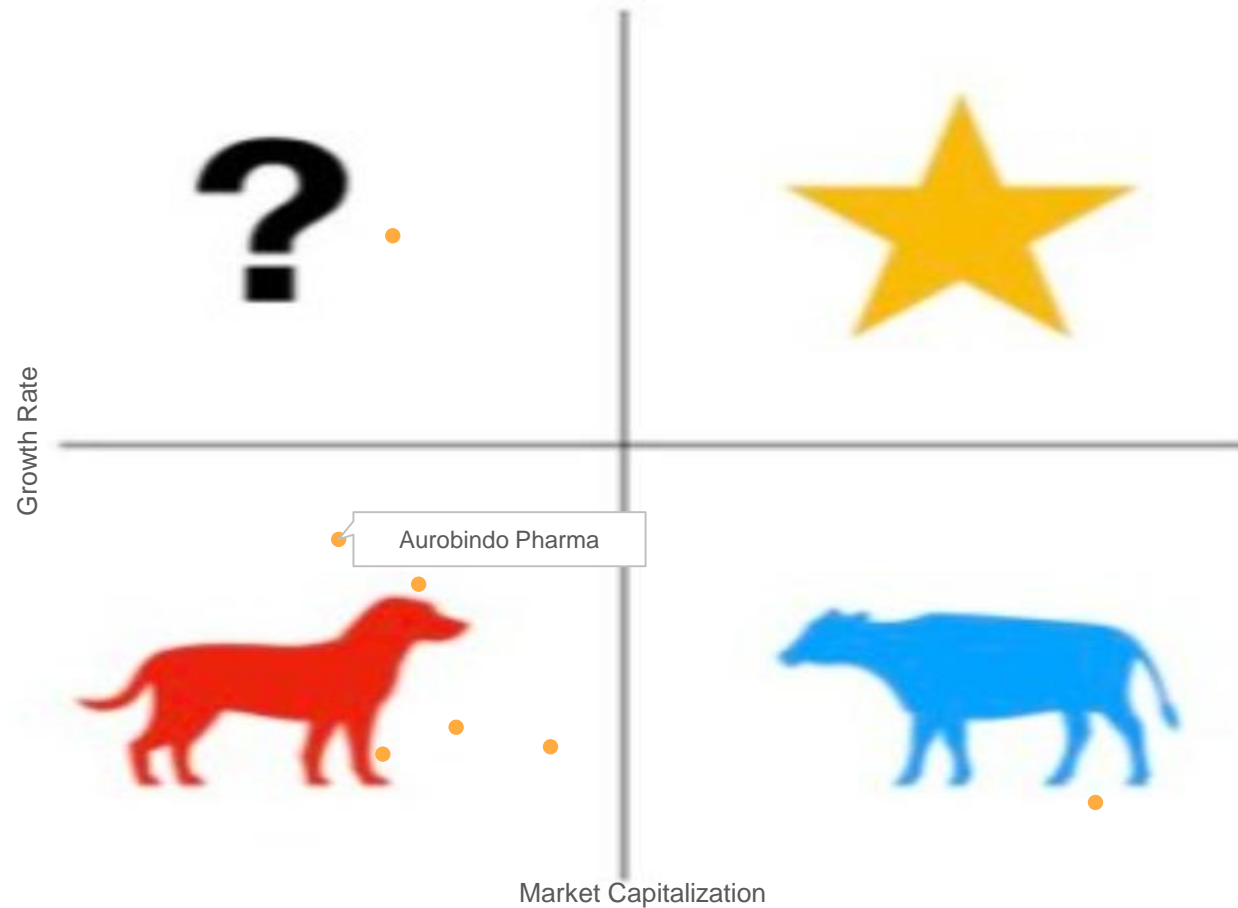
5. Threat of substitute products

Varies



BCG Matrix

Name	Profit growth 5Yrs %	Mar Cap Rs.Cr.
Sun Pharma.Inds.	-5.96	102,211.67
Dr Reddy's Labs	-1.40	48,146.91
Cipla	0.20	38,787.61
Biocon	11.95	35,088.00
Piramal Enterp.	40.60	32,519.61
Torrent Pharma.	-1.99	31,540.07
Aurobindo Pharma	15.65	27,134.82



Strengths

- VERTICALLY INTEGRATED MANUFACTURING 27 MANUFACTURING FACILITIES FOR API AND FORMULATIONS, 70% OF API MANUFACTURED IN-HOUSE
- PRESENCE IN MULTIPLE THERAPEUTIC AREAS CENTRAL NERVOUS SYSTEM (CNS), CARDIOVASCULAR SYSTEM (CVS), ANTIRETROVIRALS, ANTI-DIABETICS, ANTI-ALLERGIES, GASTROENTEROLOGY AND ANTI-BIOTICS
- GLOBAL FOOTPRINT PRESENT IN 34 COUNTRIES MARKETS PRODUCTS ACROSS 155 COUNTRIES

Weaknesses

- REGULATORY OVER-HANG
- THE COMPANY'S PRODUCTION UNITS ARE CURRENTLY FACING USFDA VIOLATIONS IN THEIR PRODUCTION UNITS THAT COULD EITHER TEMPORARILY EFFECT PRICE OR HAVE A LONGER TERM EFFECT ON PRODUCTION

Opportunities

- FAST GROWING INDUSTRY.
- MANY GROWING OPPURTUNITIES FOR COMPANES TO INVEST IN
- SMART WELL-THOUGHT OUT PRODUCT LAUNCHES CAN MAKE USE OF PATENT EXPIRY.

Threats

- COMPETITION IS STRINGENT
- THE INDUSTRY AS A WHOLE IS DEPENDANT ON APPROVALS FROM EXTERNAL AUTHORITIES.
- PRICING PRESSURES CAN EFFECT COMPANES MARGINS.

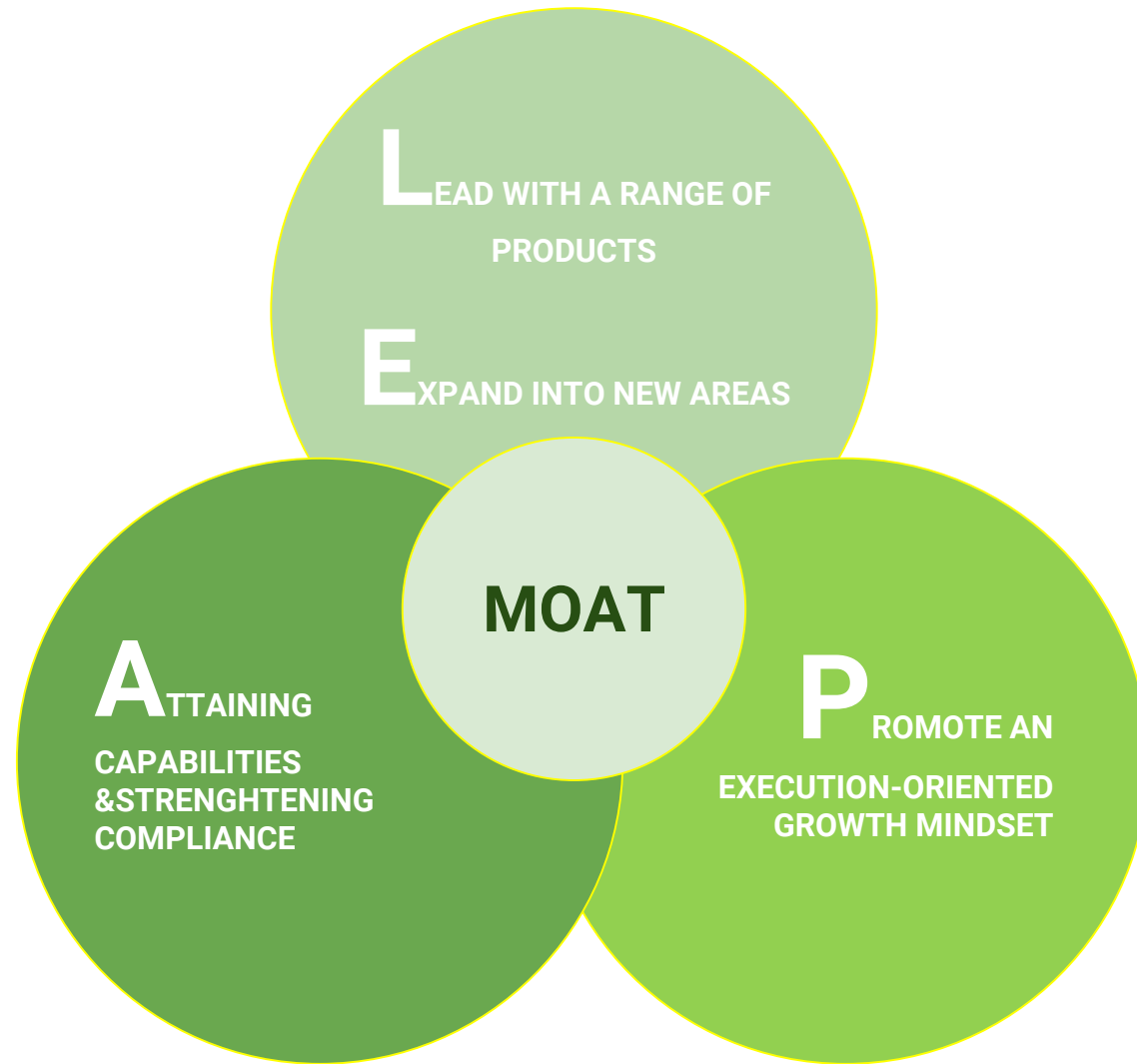


Key Strategies for Risk Management (by the Company)



Business objectives	Business objectives are set by executive management and approved by the Board
Risk identification	A bottom-up approach is adopted through structured interviews, brainstorming sessions and risk questionnaire techniques for the identification of risks which could impact the achievement of business goals. Risk registers are updated with existing and emerging risks.
Risk assessment	It includes evaluating and prioritizing risks, so that their levels stay within defined tolerance thresholds. Risk evaluation is carried out using scenario-based assessments to determine the potential impact and likelihood of risk occurrence. The identified risks are compared with the established thresholds to determine the priority and method of risk mitigation.
Risk mitigation & Monitoring	<p>Aurobindo adopts meaningful mitigation strategies tailored to each identified risk. Risk mitigation procedures involve undertaking appropriate actions by the business heads/process owners who are accountable for mitigating risks in a timebound manner. Risk owners are identified, and mitigation actions are monitored and reviewed periodically.</p> <p>The Company has a detailed internal audit plan and a robust Enterprise Risk Management program, which help to identify risks and take appropriate steps to mitigate the same. The Risk Management Committee (RMC) periodically reviews the scope, adequacy and effectiveness of mitigation actions and provides necessary direction to the mitigation teams.</p>
Risk reporting	<p>Risk reports are submitted to the RMC periodically. The reports help in tracking each identified risk and its impact on the business. The assessment of key risks, analysis of exposure and potential impact are carried out periodically, presented and discussed with the RMC.</p> <p>Periodic updates are provided to the Board highlighting key risks, their subsequent impact and the required mitigation measures.</p>





LEAP

"In business, I look for economic castles protected by unbreachable moats."

–Warren Buffet



Industry Analysis and Macro Economic Trends

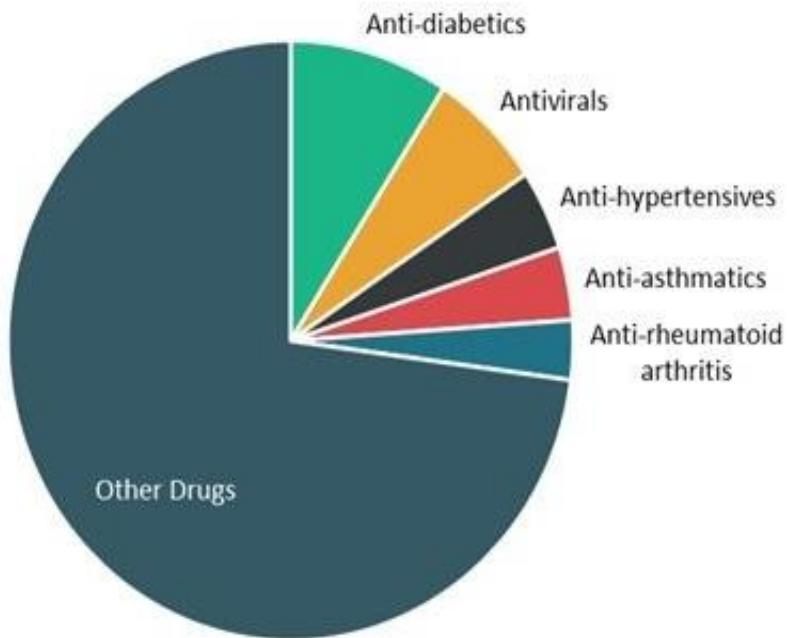
India supplies 20% of global generic medicines market exports, in terms of volume, making the country the largest provider of generic medicines globally and expected to expand even further in coming years. (*Goldstein Research Report, 2016-2024*)

Pharmaceutical spending in developed markets is likely to grow at 2-5% CAGR between 2018-22 compared to 5.8% in the 2013-17 period. While launch of innovative products is likely to drive growth, is expected to be balanced by patent expiries of existing products. (*Equity Master, 2018*)

Major shifts in industry : downward pressure on pricing and the move towards prevention, diagnosis and real cures. These changes are upsetting the established order, opening the door to new competition, and forcing companies to rethink where they play – and who they play with, requiring a growing emphasis on collaboration and partnership. Among others, we see three new 'playing fields' emerging in response to disruption: pharma tech, genetics and immunotherapy. (*KPMG 2030 Outlook*)



Global Drugs Market Top Subsegment Shares



Source: The Business Research Company

•India accounts for the second largest number of Abbreviated New Drug Applications (ANDAs) and is the world's leader in Drug Master Files (DMFs) applications with the US Indian Drugs & Pharmaceuticals sector has received cumulative FDI worth US\$ 15.83 billion. Low cost of production and increasing expenditure on R&D has led to competitive pharma exports. Pharmaceutical exports from India stood at US\$ 17.30 billion in FY18 as compared to US\$ 16.8 billion in FY17. The industry has been growing due to its key factors such as low manufacturing cost, technical growth, skilled workforce and a diverse ecosystem. The sector is highly developed and sources its own bulk drugs & intermediates for most of its formulations.

•The Indian pharma market size is expected to grow at 9-12% CAGR between 2018-21.

•For the US market, Indian companies are developing niche portfolios in various segments. This in turn will help the company to optimize growth and margins, Thus, post patent cliff, the companies which have developed their product basket in the niche category will be ahead in the curve. Moreover, generic penetration in the US is expected increase to 86-87% over the next couple of years from 83% currently. (Equity Master,2018)

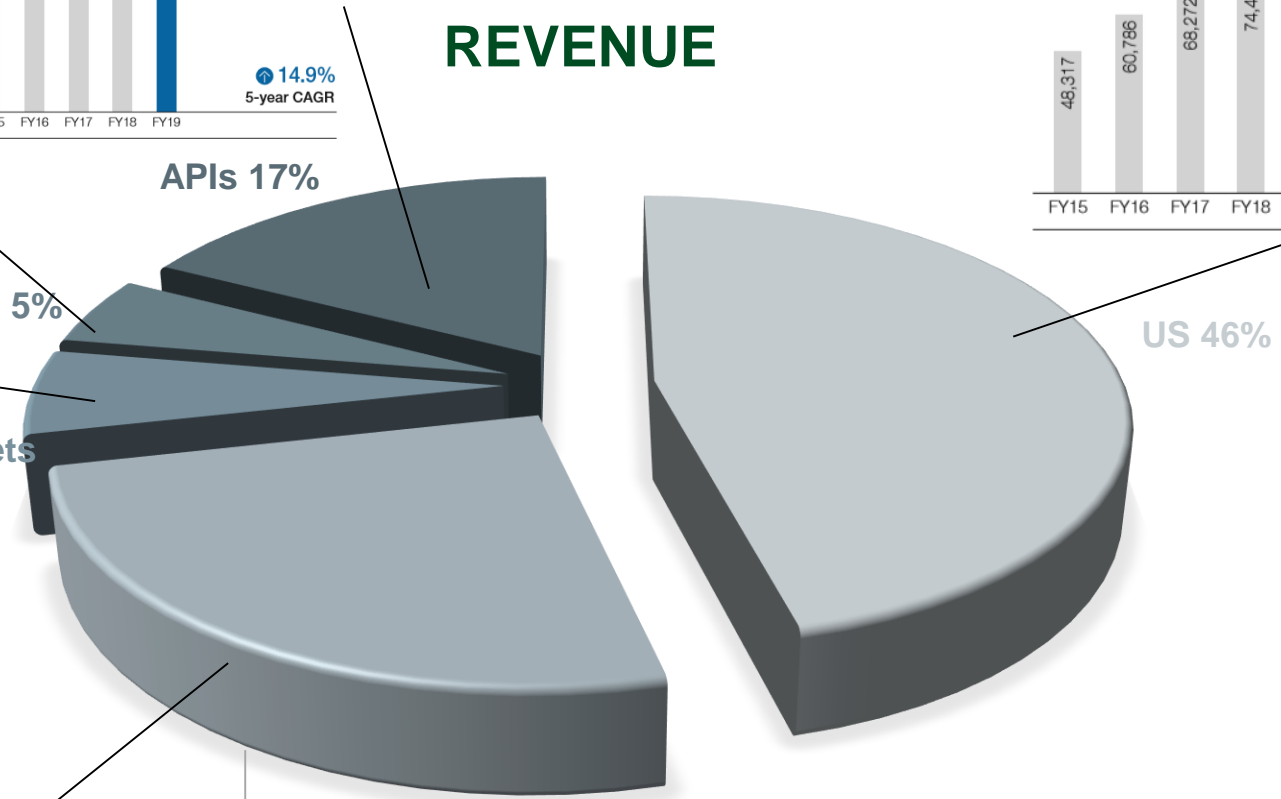


Quantitative Analysis

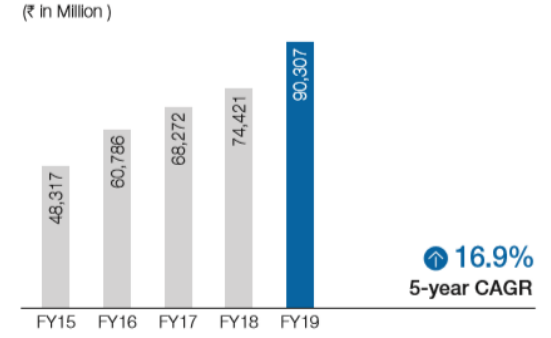


Revenue Growth and Break Up of Business

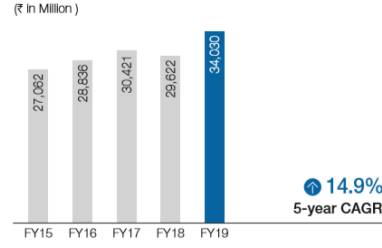
REVENUE



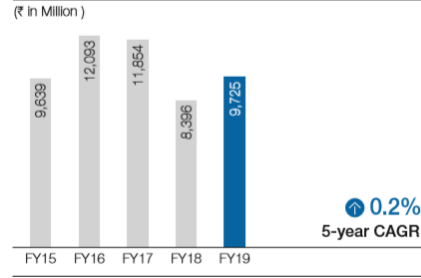
US Formulations revenue trend (FY15-19)



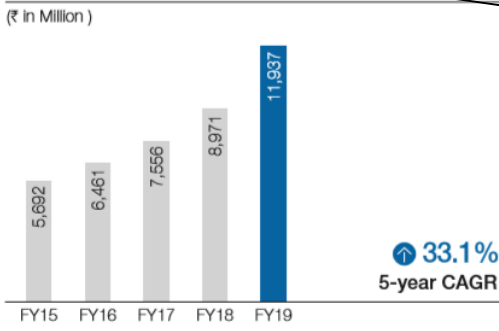
API Business



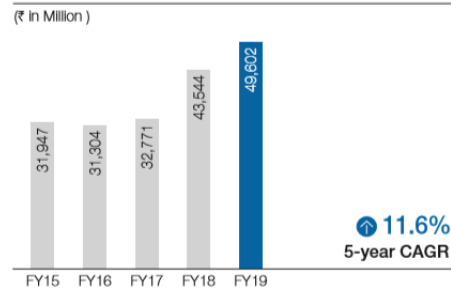
ARV market formulations revenue trend (FY15-19)



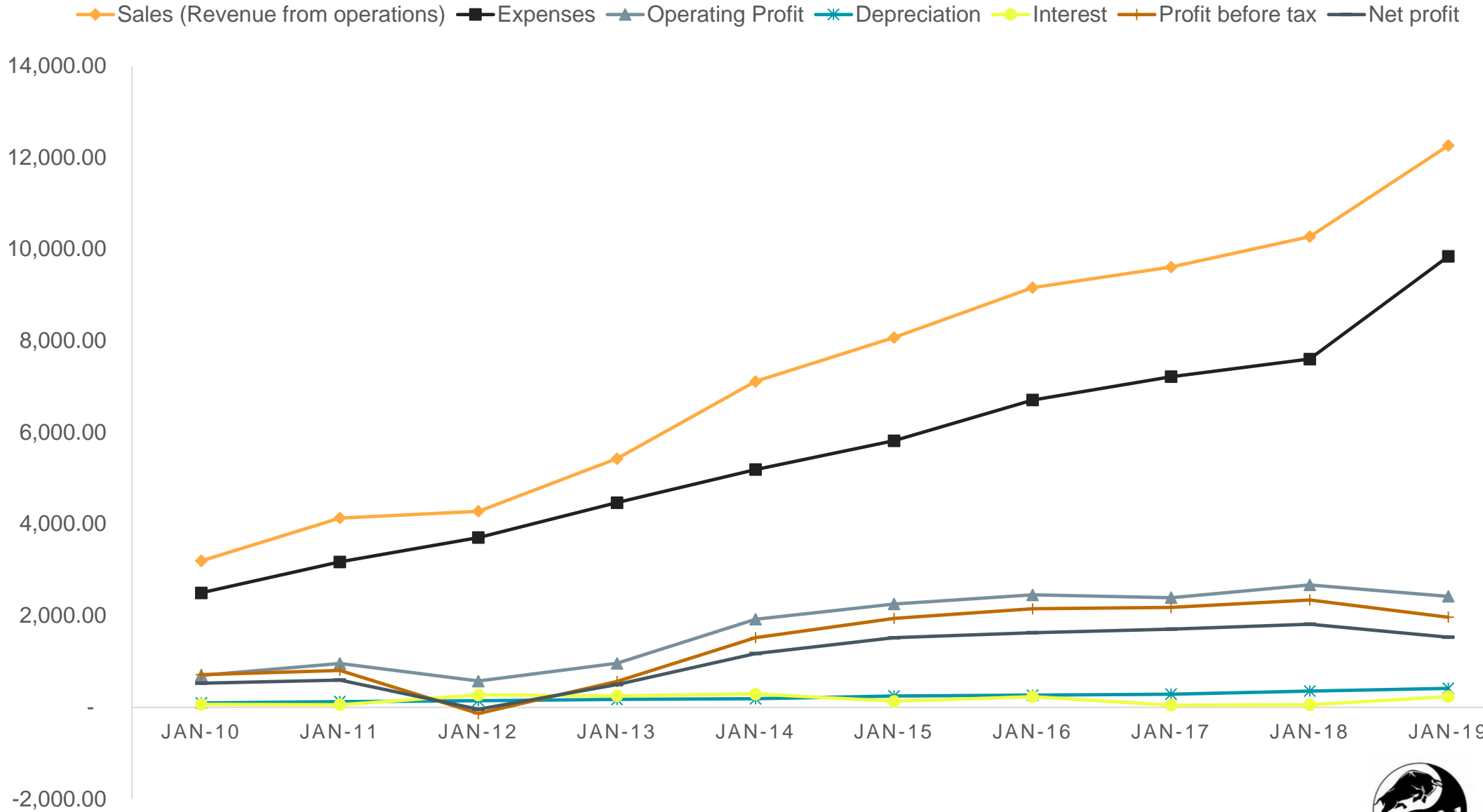
Growth market formulations revenue trend (FY15-19)



EU formulations revenue trend (FY15-19)



BREAKDOWN OF P&L STATEMENT



Profit and Loss Statement

	Mar 10	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Trailing	Best Case	Worst Case
Sales	3,195.28	4,129.52	4,277.02	5,423.58	7,108.27	8,068.57	9,157.79	9,607.05	10,269.90	12,257.89	12,829.17	14,630.70	13,567.34
Expenses	2,497.29	3,172.55	3,704.10	4,465.52	5,186.76	5,815.65	6,704.93	7,215.14	7,599.82	9,837.98	10,314.89	11,224.26	10,908.39
Operating Profit	697.99	956.97	572.92	958.06	1,921.51	2,252.92	2,452.86	2,391.91	2,670.08	2,419.91	2,514.28	3,406.44	2,658.95
Other Income	172.39	28.54	300.22	26.51	72.76	64.72	187.29	117.99	80.58	188.60	228.96		
Depreciation	95.46	125.04	142.94	171.39	185.97	245.15	263.00	286.17	354.83	413.03	451.51	451.51	451.51
Interest	62.58	55.02	267.58	250.06	288.84	132.14	229.31	45.16	52.89	230.86	133.06	133.06	133.06
Profit before tax	712.34	805.45	137.82	563.12	1,519.46	1,940.35	2,147.84	2,178.57	2,342.94	1,964.62	2,158.67	2,821.87	2,074.38
Tax	186.58	211.65	95.21	67.13	347.37	424.00	521.14	471.81	530.17	434.89	506.39	23%	23%
Net profit	525.76	593.80	42.61	495.99	1,172.09	1,516.35	1,626.70	1,706.76	1,812.77	1,529.73	1,652.28	2,159.91	1,587.76



Balance Sheet

	Mar 10	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19
Equity Share Capital	27.86	29.11	29.11	29.12	29.15	29.20	58.52	58.59	58.59	58.59
Reserves	1,886.50	2,540.50	2,464.06	2,909.99	3,983.24	5,330.34	6,807.33	8,377.59	9,923.99	11,292.03
Borrowings	1,944.78	2,317.71	2,794.31	2,781.99	2,925.16	3,284.73	4,165.43	3,053.91	3,719.00	4,519.80
Other Liabilities	750.98	971.25	868.90	1,246.35	1,656.54	1,610.16	1,795.39	1,866.27	2,474.32	2,710.17
Total	4,610.12	5,858.57	6,156.38	6,967.45	8,594.09	10,254.43	12,826.67	13,356.36	16,175.90	18,580.59
Net Block	1,045.34	1,349.89	1,626.74	2,011.91	1,937.94	2,190.01	2,568.13	3,211.62	3,392.97	4,149.70
Capital Work in Progress	499.47	536.73	558.08	166.34	203.89	227.19	742.14	906.98	1,143.98	789.01
Investments	370.91	493.08	629.00	707.98	872.62	1,012.75	1,183.35	1,681.95	1,967.50	2,339.06
Other Assets	2,694.40	3,478.87	3,342.56	4,081.22	5,579.64	6,824.48	8,333.05	7,555.81	9,671.45	11,302.82
Total	4,610.12	5,858.57	6,156.38	6,967.45	8,594.09	10,254.43	12,826.67	13,356.36	16,175.90	18,580.59
Working Capital	1,943.42	2,507.62	2,473.66	2,834.87	3,923.10	5,214.32	6,537.66	5,689.54	7,197.13	8,592.65
Debtors	1,151.35	1,480.29	1,426.28	1,730.59	2,970.12	3,708.94	4,380.97	3,773.63	4,468.23	5,232.07
Inventory	944.82	1,261.02	1,219.26	1,431.73	1,711.81	2,145.05	2,431.60	2,433.62	3,409.23	3,971.26
Debtor Days	131.52	130.84	121.72	116.47	152.51	167.78	174.61	143.37	158.80	155.79
Inventory Turnover	3.38	3.27	3.51	3.79	4.15	3.76	3.77	3.95	3.01	3.09

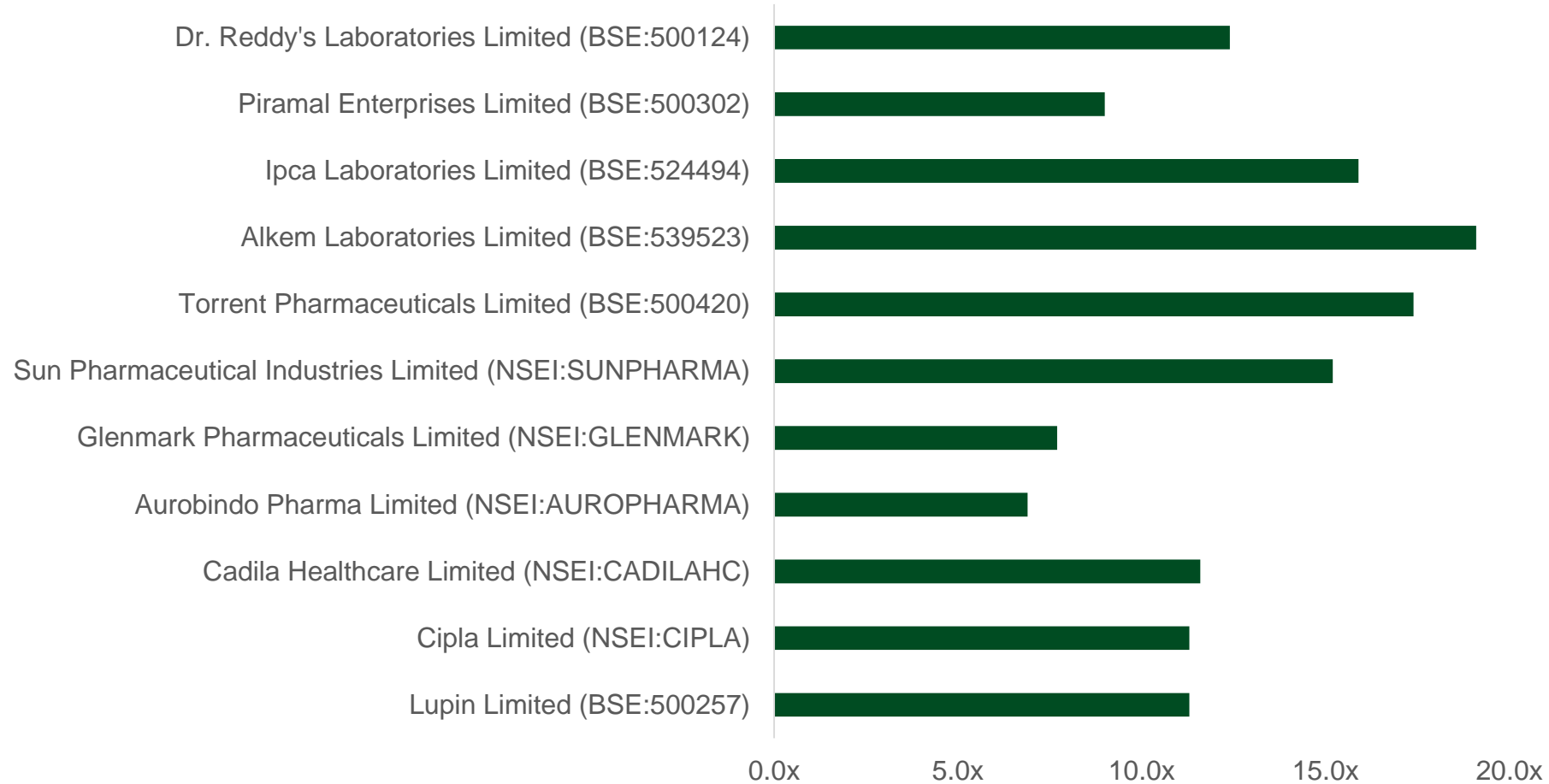
Cash Flow Statement

	Mar 10	Mar 11	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19
Cash from Operating Activity	346.38	244.57	504.05	624.92	328.03	590.41		2,457.20	922.40	526.71
Cash from Investing Activity	407.61	569.46	533.82	294.96	401.44	623.60		1,542.05	990.60	1,297.36
Cash from Financing Activity	13.71	443.12	78.43	229.40	31.44	34.60		1,328.99	439.69	599.40
Net Cash Flow	74.94	118.23	108.20	100.56	104.85	1.41		413.84	371.49	171.25

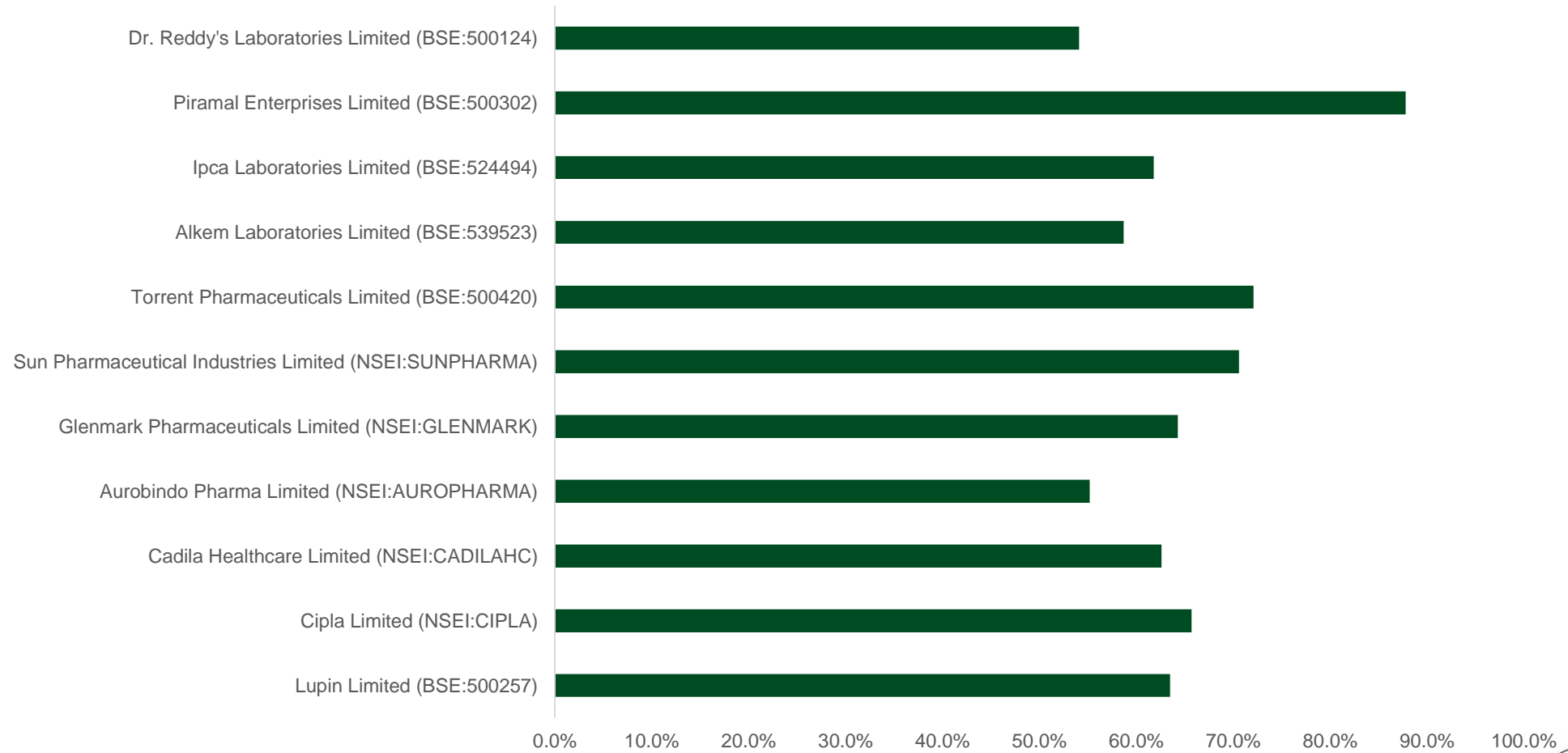


Competitor Analysis Quantitative

EV/EBITDA LTM Latest



LTM Gross Margin %



Valuation



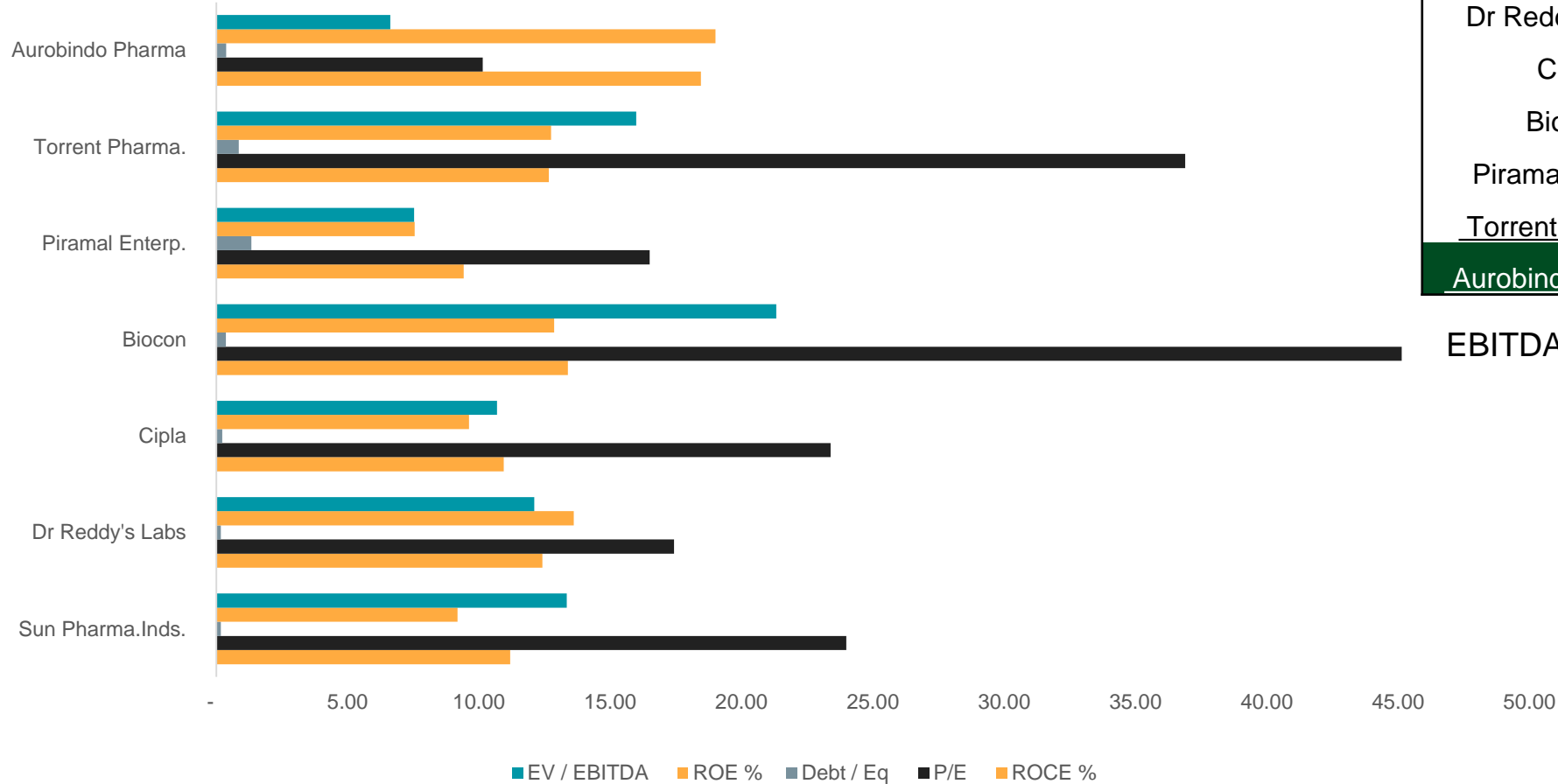
FCFF

NOPAT		3,225.09
(Change in Net Working Capital)		(190.66)
(Change in PPE)		957.09
Free Cash Flow to Firm		2,458.66
Tax Rate for 2019		0.26
Interest payment/ Debt		0.02
COD		0.01
Risk -free Rate		0.07
Beta of the company		1.43
ROE		0.17
COE		0.21
We	0.525144617	
Wd	0.474855383	
WACC		0.12
ROCE		0.18
Terminal Value		44,861.09
No of Shares	585940210.2	
FCFF Price		765.63



Comparable Company Analysis

Ratio Comparisons



Name	EV / EBITDA	EV by Comparable
Sun Pharma.Inds.	13.34	60,933.12
Dr Reddy's Labs	12.11	55,314.85
Cipla	10.69	48,828.71
Biocon	21.32	97,383.36
Piramal Enterp.	7.53	34,394.78
Torrent Pharma.	15.99	73,037.52
Aurobindo Pharma	6.63	30,283.85

EBITDA (OP 12M):4429.95



Equity Risk Management

Entry

Bid Price: Rs.480 or less

Stop Loss

Stop Loss: ; Below Rs.450

Exit

Target price:Rs.540. Even though the intrinsic calculations suggest higher value, the Beta of the company may be more volatile that the moderate 1.43 stated in this report.

Conclusion

The company has decent financials but is plagued by USFDA violations at the moment. Furthermore, the company can only grow more if it diverts its focus from Generics in the US (a slowing down market). However, there are multiple growth opportunities in this industry where Aurobindo is establishing itself as a strong player and at the given price Aurobindo seems undervalued.

