

ADD

TP: Rs 640 | ▲ 28%

AUROBINDO PHARMA

Pharmaceuticals

19 February 2020

EIR received for Unit IV – a key sentiment booster

Aurobindo Pharma (ARBP) has received an establishment inspection report (EIR) from the USFDA for its Unit IV injectable plant, with the observations classified as voluntary action indicated (VAI). To recap, this plant was last inspected in Nov'19 wherein the FDA had issued 14 observations (some observation was critical in our view). The EIR is a positive surprise vis-à-vis street expectations of a warning letter and should bolster stock sentiment. Retain ADD with a new TP of Rs 640 (vs. Rs 560) as we raise our target multiple from 7x to 8x EV/EBITDA.

EIR comes as a big relief: We believe Unit IV is a key driver for ARBP's future injectable sales growth given that the site has 46 ANDAs pending for approval, forming 30% of total pending filings. With regulatory issues at the site now resolved, these approvals should gradually come through. The event materially reduces the potential risk to our FY21/ FY22 EPS estimates of Rs 49/Rs 50 and should boost stock sentiment, nudging valuations closer to the high end of the five-year band (6-11x) from 8x FY21E EV/EBITDA currently. ARBP has significant share in injectable products in the US and hence an EIR by the FDA was critical to prevent drug shortages.

Near-term events to watch: The USFDA will start inspections at Unit 10 from 24 February and at the Eugia unit sometime in April. Together both house 62 pending ANDAs, accounting for 40% of pending approvals. These units will be key growth drivers over the next 2-3 years. Sandoz regulatory approval is another key monitorable.

Retain ADD – raising target price: We raise our target price to Rs 640 (from Rs 560) as we increase our 12-month forward target multiple from 7x to 8x EV/EBITDA (vs. the five-year mean of 9x). The stock has rallied 55% since 14 Nov 2019 (including current 18% upmove) and is now trading at 8x FY21E EBITDA, a 10% premium to global peers Teva, Endo and Perrigo. Following the rally, risk-reward appears balanced even as the scope for further multiple improvement looks minimal.

Downside risks: Key risks include Sandoz consolidation delays, penalty risk from the Aceto supply sabotage claim, and adverse outcomes on upcoming FDA inspections for Unit 10 and Eugia.

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Ticker/Price	ARBP IN/Rs 500
Market cap	US\$ 4.1bn
Shares o/s	586mn
3M ADV	US\$ 24.1mn
52wk high/low	Rs 838/Rs 389
Promoter/FPI/DII	52%/19%/15%

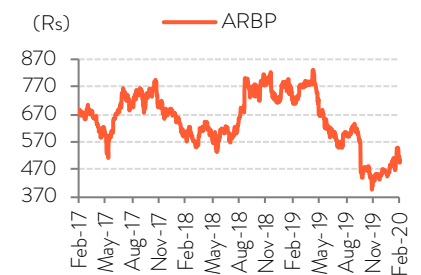
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	230,854	285,827	292,957
EBITDA (Rs mn)	47,118	55,500	57,116
Adj. net profit (Rs mn)	27,331	28,939	29,294
Adj. EPS (Rs)	46.6	49.4	50.0
Adj. EPS growth (%)	13.3	5.9	1.2
Adj. ROAE (%)	18.0	16.4	14.4
Adj. P/E (x)	10.7	10.1	10.0
EV/EBITDA (x)	7.1	6.1	6.4

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

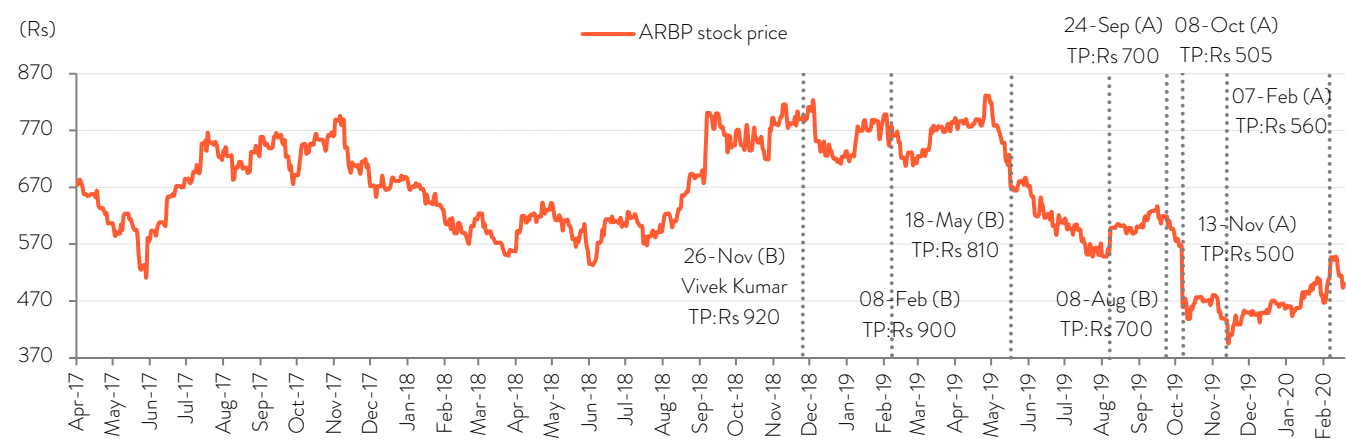
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: AUROBINDO PHARMA (ARBP IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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