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Annual investor conference takeaways

- **RPGL reported revenue growth, margin expansion and debt reduction in FY21 despite Covid-led disruptions in the acute portfolio**
- **Performance gains were driven by an improving product mix in favour of chronic/specialty business and better operating efficiency**
- **India (60% of sales) remains a focus market and growth driver, marked by repositioning of business from generics to specialty/chronic therapies**

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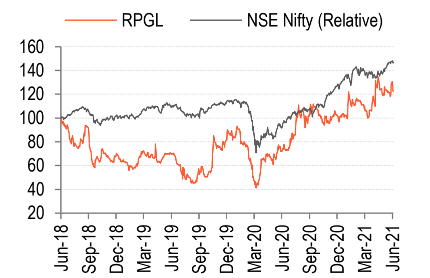
Ticker/Price	RPGL IN/Rs 448
Market cap	US$ 99.8mn
Free float	28%
3M ADV	US$ 0.8mn
52wk high/low	Rs 509/Rs 260
Promoter/FPI/DII	72%/0%/0%

Source: NSE | Price as of 18 Jun 2021

Stock performance



Source: NSE

Focus on specialty and chronic therapies: RPGL was a generic-focused company but is now positioning itself as a specialty/chronic player. The company is a leader in immunosuppressants which contribute 35% of its turnover (including domestic, international and API sales). Azathioprine (flagship brand) currently forms 70-75% of the immunosuppressant portfolio. The company expects the share of other brands such as Mycophenolate to improve significantly going forward.

RPGL has launched four monoclonal antibodies or mAbs (Trastuzumab, Adalimumab, Bevacizumab, Rituximab) in the biosimilar specialty space (8-9% of India sales) and two gliptins (Vildagliptin, Teneligliptin) in the chronic therapy space over the last few years. The mAbs portfolio is seeing good traction and productivity initiatives should aid growth.

Growth in FY21 despite Covid headwinds: RPGL's FY21 revenue grew 4% (despite a predominantly acute portfolio that saw weak demand amid the pandemic) and EBITDA grew 18% with 230bps margin expansion to 18% – the highest level in five years. Margin gains aided 38% PAT growth and were led by a better product mix in favour of chronic & specialty sales and higher operating efficiency. Covid-2.0 has hit demand, particularly in the specialty segment due to reduced hospitals visits, but the supply side remains smooth due to the company's proactive measures.

Debt reduction fortifies balance sheet: RPGL has repaid ~Rs 470mn in debt over FY18-FY21, resulting in a strong balance sheet with D/E at 0.01x in FY21. The company closed FY21 with nominal total debt of Rs 13mn vs. Rs 66mn in FY20. It has also improved its EBITDA-to-FCF conversion significantly, with average FCF/EBITDA for the last three years in excess of 70%.

Five pillars of domestic growth: RPGL is targeting above-industry growth via: (1) rejuvenating the product portfolio via chronic & specialty launches, (2) building strategic brand assets through life cycle management by introducing line extensions, (3) deepening customer coverage in targeted therapies by field force expansion and digital deployment, (4) raising sales force efficacy by building competencies and productivity, and (5) improving profitability by opex control and efficient manufacturing.

Other highlights

- **Domestic business:** Management expects growth to be led by the specialty and chronic segments where the company has increased customer coverage through new product launches. Biosimilars in the specialty segment have shown good traction in the last 1.5-2 years. RPGL is focusing on two kinds of products: (1) where patent expiry takes place in India and it has scope to be amongst the first to launch (6-7 products identified currently), and (2) life cycle management products (6-7).

  The immunosuppressant market in India is worth Rs 2.6bn, growing at 5-8% CAGR. The largest product in the market is Mycophenolate, followed by Tacrolimus, Cyclosporine and Azathioprine.

- **Global business:** Management has identified three steps to growth in the global formulations business (21% of FY21 sales), involving: (1) immunosuppressant portfolio build-up by leveraging leadership in the domestic market, (2) focus on products with competitive advantage such as Nicorandil (requires special manufacturing conditions) and Sodium Valproate PR (complex generic product), and (3) expansion of footprint in emerging markets such as Myanmar, Vietnam, the Philippines, Sri Lanka, Egypt and Sudan.

  Though Azathioprine continues to dominate the immunosuppressant portfolio, RPGL is also focusing on Mycophenolate, Tacrolimus and Cyclosporin in the international market. Further, the company provides Sodium Valproate PR (antiepileptic) to its partner in the UK (partner brand name Dizentil). Covid-19 caused delayed shipments but with the situation now improving, RPGL expect this complex generic product to be a growth driver in the global market.

  The ROW market is predominantly a branded business but being smaller in size, generic business contribution in formulation sales is higher. Myanmar accounts for ~60% (~Rs 200mn) of ROW business. The company is focusing on ROW markets for now and the US is not a priority.

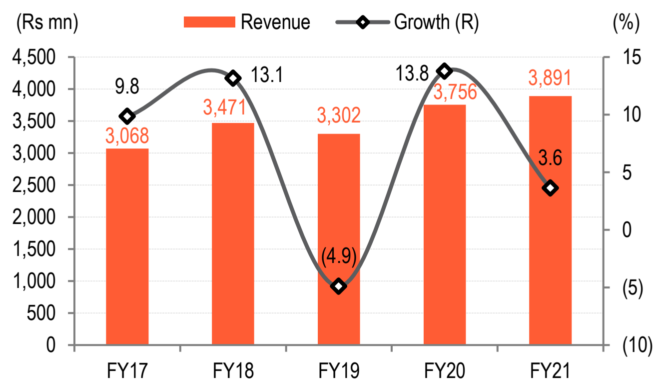
- **API business:** About 85% of the APIs that RPGL manufactures are exported (17% of FY21 sales) while 15% are used for captive consumption.

- **Customer coverage:** In the specialty segment, RPGL covers 70% of India's rheumatologists, 95% of nephrologists, and 75-80% of oncologists. In the chronic space, customer coverage among diabetologists, cardiologists and endocrinologists has risen to 85-90% in FY21 from 45-50% earlier. The company's reach in the GP and CP segments stands at 18-20%. On an overall basis, it covers 72-73k doctors in the country.

- **Productivity:** RPGL has a field force of 550+ staff with productivity in the specialty segment at Rs 1.3mn/person and in the mass segment at Rs 0.3-0.35mn/person (declined due to recent expansion of the force). Management expects these figures to rise due to revenue and productivity enhancement measures.

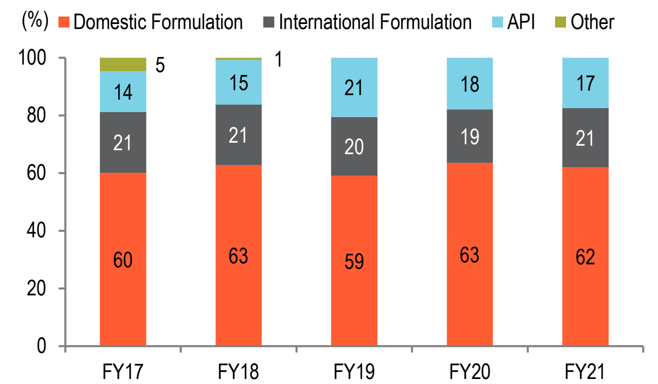
- **Capex:** The company plans to incur capex of Rs 360mn for its F2 formulation facility over the next three years to upgrade to the PIC/S standard, also keeping in mind growth and cost reduction.

Fig 1 – Revenue growth of 6.1% over FY17-FY21



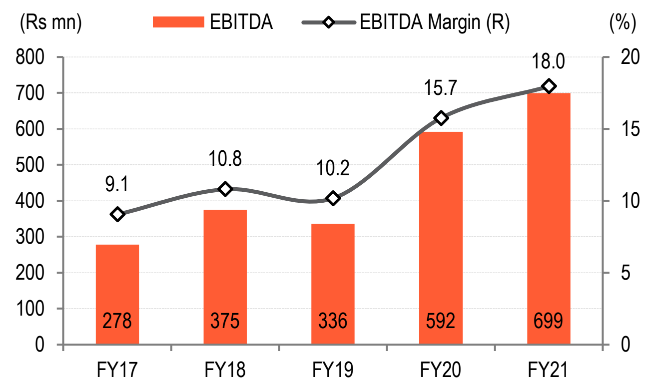
Source: BOBCAPS Research

Fig 2 – Domestic formulations dominate revenue mix



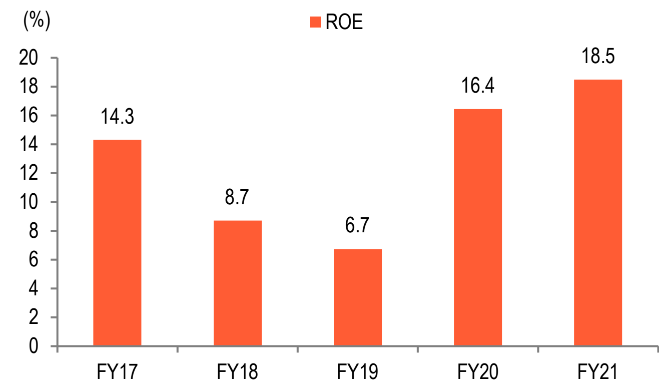
Source: BOBCAPS Research

Fig 3 – EBITDA margin doubled over FY17-FY21



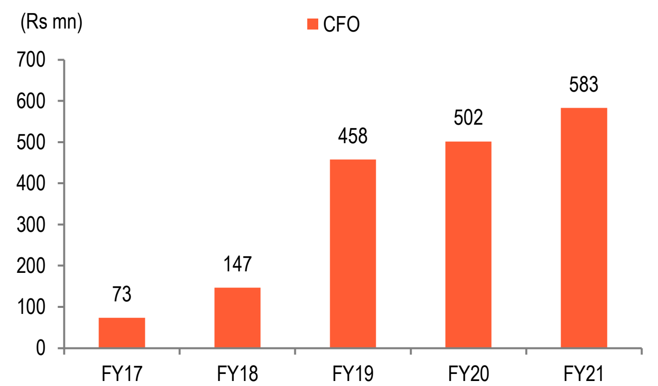
Source: BOBCAPS Research

Fig 4 – ROE on uptrend, highest in last five years



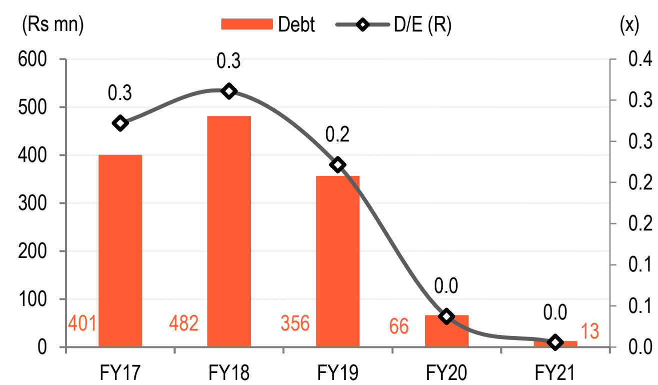
Source: BOBCAPS Research

Fig 5 – Consistent improvement in operating cash



Source: BOBCAPS Research

Fig 6 – Balance sheet improvement with debt retirement



Source: BOBCAPS Research

About the company

Part of RPG Enterprises, RPG Life Sciences (RPGL) is an integrated research-based pharmaceutical company operating in domestic and international markets in the branded formulation, global generic and synthetic API space. The company draws 62% of revenue from domestic formulations, 21% from international formulations and 17% from APIs. It operates three manufacturing facilities with 1,100+ employees and caters to 50+ markets worldwide.

RPGL's key therapy areas are nephrology, rheumatology, oncology, orthopaedics, gastroenterology, cardiology, diabetology, and neuropsychiatry. It is a leader in the immunosuppressant space with brands such as Azoran (Azathioprine), Mofetyl (Mycophenolate Mofetil), Arpimune ME (Cyclosporine) and Imunotac (Tacrolimus).

In the domestic market, the company is increasingly focusing on the specialty and chronic segments. In the specialty business, its portfolio consists of products like Trastuzumab (HerMab), Adalimumab (Adlumab), Bevacizumab (Ivzumab), Rituzimab (Zestmab) and Tofacitinib (T-Jaki). The chronic portfolio includes Vildagliptin (NuGliptin) and Teneligliptin (GliptiNext).

A significant portion of RPGL's domestic revenue is contributed by six textbook brands: Azoran (Azathioprine), Aldactone (Spironolactone), Lomotil (Diphenoxylate HCl), Naprosyn (Naproxen), Serenace (Haloperidol) and Norpace (Disopyramide Phosphate). The top-10 products contribute 10% to the topline and ~38% of its domestic portfolio is under the DPCO price cap.

In the international formulation space, RPGL's generic portfolio includes Azathioprine, Sodium Valproate PR and Nicorandil while the branded generic portfolio has products such as Siloxogene, Azoran, Mofetyl, Arpimune and Dipsope. The company's international business primarily caters to the emerging markets of Myanmar, Vietnam, the Philippines, Sri Lanka, Egypt and Sudan. Key products in the API portfolio include Quinfamide, Azathioprine, Haloperidol, Risperidone, Propantheline Bromide, Nicorandil, Pantoprazole and Diphenoxylate.

Fig 7 – Key therapies and products

Source: Company presentation

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BUY – Expected return >+15%

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

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

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

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