

Aurobindo Pharmaceuticals

Acquires branded oncology products

Aurobindo Pharma's subsidiary Acrotech Biopharma has acquired portfolio of seven marketed oncology injectable products from Spectrum Pharmaceuticals. Aurobindo Pharma Limited will be acquiring the portfolio on a debt free and cash free basis. The acquisition will help Aurobindo to enter the branded oncology market with a range of products, which are well recognized by the oncology Industry. The portfolio is expected to generate a revenue of around US\$100mn for the first 12 months after completion of the transaction for Aurobindo. Acquisition will be for an upfront purchase price of US\$160mn in cash plus up to US\$140mn on achieving regulatory and sales-based milestones. Acquisition values the acquired company at 1.6xMarketCap/sales (on upfront payment), which we believe is attractive. The acquired business, as guided by the Management has EBDITA margins better than APL (20-22%), making the deal attractive in terms of payback also. Transaction is expected to be accretive to normalized EPS from first full year of ownership and will augment the net profit growth by 3% on a full year basis (as the acquired entity). We maintain a Buy with a revised target of ₹890.

Adds branded portfolio to the company: Aurobindo Pharma's subsidiary Acrotech Biopharma will acquire portfolio of seven marketed oncology injectable products from Spectrum Pharmaceuticals. The acquisition will help Aurobindo to enter the branded oncology market with a range of products, which are well recognized by the oncology Industry. Thus with this the branded injectable business will be around 3% of sales in FY2020E. The portfolio is expected to generate a revenue of around US\$100mn for the first 12 months after completion of the transaction for Aurobindo. With this, Aurobindo will also acquire a well-established and experienced branded commercial infrastructure to continue commercializing these brands.

Niche product portfolio: The acquired portfolio of the injectable includes Fusilev (levoleucovorin), Folutyn (pralatrexate injection), Zevalin (ibritumomab tiuxetan), Marqibo (vincristine sulfate liposome injection), and Beleodaq (belinostat) for injection, Evomela (melphalan) for injection and Khapzory (levoleucovorin).

Amongst these products, almost 70% of sales is accounted by two products; namely Folutyn (pralatrexate injection) & Evomela (melphalan) for injection. In addition, while Fusilev has seen generic competition, Khapzory (levoleucovorin) has been launched last year and hence has scope of enhancing the sales of the company. These products of the company are in the niche segments witnessing a growth of 3-4% pa; however, its two big products (Folutyn (pralatrexate injection) & Evomela (melphalan)) enjoy market share of around 20% & 44% respectively. In addition, most importantly these two products do not face patent expiry until 2026/27.

BUY

CMP ₹774

Target Price ₹890

Investment Period 12 Months

Stock Info	
Sector	Pharmaceuticals
Market Cap (₹ cr)	45,367
Net Debt (₹ cr)	2,579
Beta	1.1
52 Week High / Low	830/527
Avg. Daily Volume	48,323
Face Value (₹)	1
BSE Sensex	36,374
Nifty	10,905
Reuters Code	ARBN.BO
Bloomberg Code	ARBP.IN

Shareholding Pattern (%)	
Promoters	51.9
MF / Banks / Indian FIs	14.4
FII / NRIs / OCBs	20.1
Indian Public / Others	13.6

Abs.(%)	3m	1yr	3yr
Sensex	3.4	3.7	50.4
Aurobindo Pharma	0.0	17.5	(3.2)

3-year price chart



Source: Company, Angel Research

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Apart from these products, the deal has potential to add to the expected sales. Under the terms of the deal, Aurobindo will make US\$160mn up-front cash payment and up to US\$140mn in milestones as listed below. Thus, the deal provides for further enhancement of sales, which could accrue from further R&D efforts for products Marqibo & Khapzory respectively.

Marqibo Milestones

- \$30mn for FDA Product Approval for MARQIBO with label indicated for diffuse large B-cell lymphoma
- \$10mn for FDA Product Approval for MARQIBO for any indication other than the B-Cell Lymphoma Indication, single vial or pediatric ALL
- \$30mn for Net Sales of MARQIBO during any trailing twelve (12) month period during the Milestone Period are equal to or greater than \$300,000,000
- \$10mn for Net Sales of MARQIBO during any trailing twelve (12) month period during the Milestone Period are equal to or greater than \$400,000,000.

Khapzory Milestones

- \$5 million for Net Sales of KHAPZORY during any trailing twelve (12) month period during the Milestone Period are equal to or greater than \$50,000,000
- \$5 million for Cumulative Net Sales of KHAPZORY are equal to or greater than \$150,000,000 at any time during the Milestone Period
- \$10 million for Cumulative Net Sales of KHAPZORY are equal to or greater than \$200,000,000 at any time during the Milestone Period
- \$15 million for Cumulative Net Sales of KHAPZORY are equal to or greater than \$300,000,000 at any time during the Milestone Period
- \$25 million for Cumulative Net Sales of KHAPZORY are equal to or greater than \$400,000,000 at any time during the Milestone Period.

The milestone period lasts for five years post the closing of the transaction. KHAPZORY milestones only payable in the event KHAPZORY is assigned a unique J-code.

Outlook & Valuations: On valuation front, the company paid almost 1.6xMarketCap/sales (on upfront payment), which we believe is very attractive. The addition whole US\$140mn will be paid up if the sales for the two said above products reach US\$800mn; which we believe is attractive. On the Operating front, the company guided that the acquired business has OMP is better than company's current OPMs (around 20-22%). It's an all cash deal and company has guided that it will take 90 days for such deals to be integrated, so mostly it will start reflecting in FY2020. We believe that the deal can add almost ~3% on EPS growth in FY2020, with major benefits reflecting in FY2021 (when the ramp-up of sales can enhance the profitability of the company). Given the opportunity and Aurobindo Pharmaceuticals position in the global generic, we believe that the company still should give decent upsides on the stock. **Hence, we maintain our buy with a price target of `890.**

Key Financials

Y/E March (` cr)	FY2017	FY2018	FY2019E	FY2020E
Net Sales	14,845	16,233	18,701	24,163
% chg	8.3	9.4	15.2	29.2
Net Profit	2,302	2,423	2,641	3,446
% chg	13.7	5.3	9.0	30.5
EPS (Rs)	39.4	41.5	45.2	59.0
EBITDA Margin (%)	21.5	21.6	20.9	21.6
P/E (x)	19.6	18.7	17.1	13.1
RoE (%)	27.6	23.0	20.6	22.2
RoCE (%)	23.1	20.6	19.3	23.6
P/BV (x)	4.8	3.9	3.2	2.7
EV/Sales (x)	3.2	3.0	2.6	2.0
EV/EBITDA (x)	15.0	13.9	12.3	9.1

Source: Company, Angel Research Note: CMP as of January 17, 2019 FY2020 includes the acquired brands

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Disclosure of Interest Statement	Aurobindo Pharma
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below `1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)