

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Aurobindo Pharma Ltd	47,329	808	940	16%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 4th Sep, 2020



CMP (Rs)	Target (Rs)
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808	940
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MARKET DATA

No. of Shares	58.6 Cr
Market Cap	Rs 47,329 Cr
52-week High / Low	Rs 968 / 281
BSE Code	524804
NSE Code	AUROPHARMA

Aurobindo Pharma Limited (ARBP) manufactures generic pharmaceuticals and active pharmaceutical ingredients. The company's robust product portfolio is spread over 6 major therapeutic/product areas encompassing Antibiotics, Anti-Retroviral, CVS, CNS, Gastroenterological, Pain management and Anti- Allergic, supported by an outstanding R&D set-up.

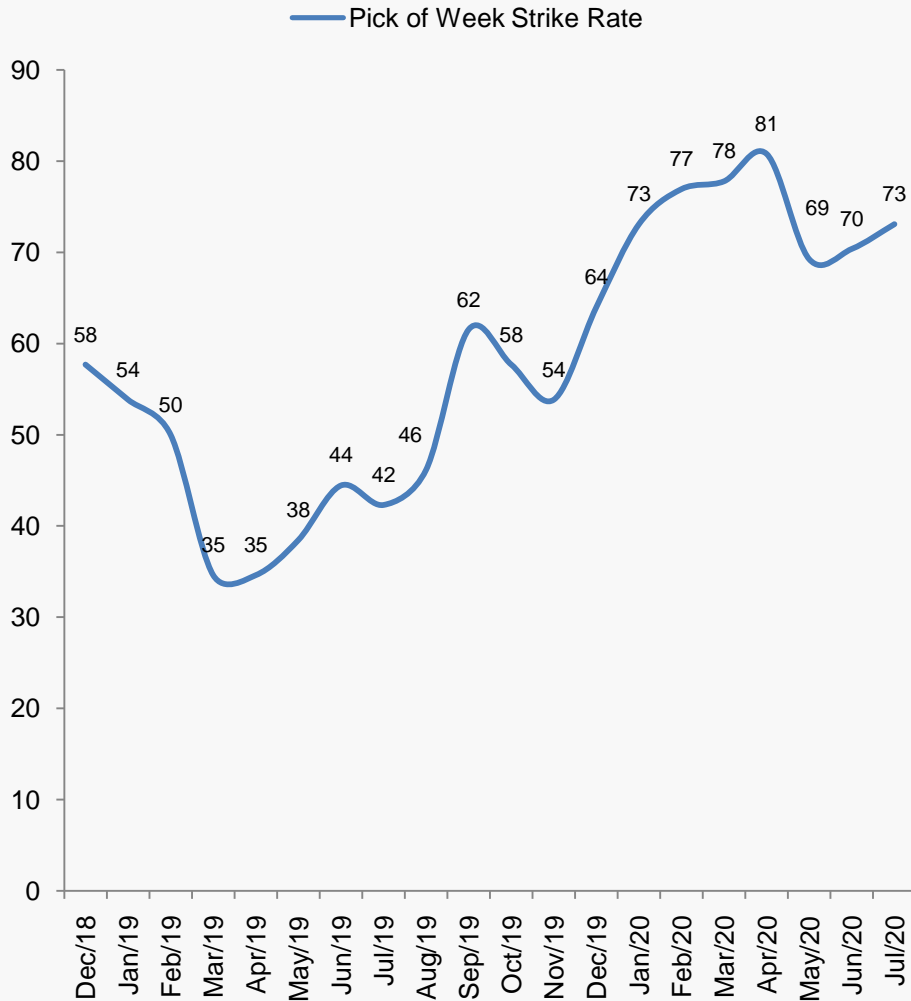
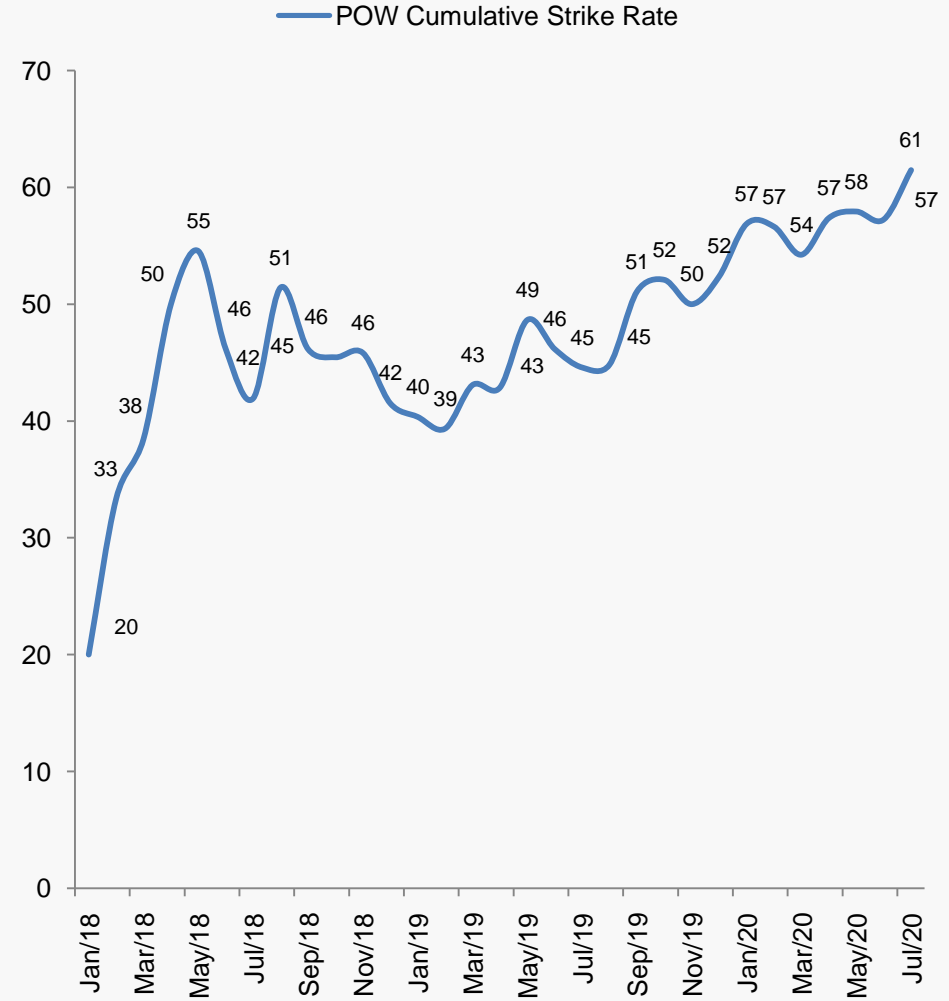
Investment Rationale

- ❑ **Drugs shortage in US due to Covid-19 and disruption in supply chain:** ABRP being an export-oriented pharma company with large drugs portfolio, adequate manufacturing capacity and strong compliance track record before USFDA is expected to get benefit due to drugs shortage in the US market. Drugs shortage is expected in US market due to disruption in pharma manufacturing supply chains and increased demand for drugs, which are being used in the management of Covid-19 patients.
- ❑ **Strong pipeline for new products in Oral Solids and Injectable:** ABRP has planned to launch 50 new products in the US market in current financial year which is expected to drive oral-solids business. Injectable business is expected to deliver growth from FY22, led by the company's pipeline of 80-90 products and expanded injectable capacity in the US which will come online next year. Europe business is expected to be stable with the launch of new products and improvement in Covid-19 situations.
- ❑ **API and ARV businesses could maintain strong growth momentum going onwards:** APIs manufacturers in India have seen strong demand as global and domestic clients have started to diversify the source of API from China to India in-order to de-risk their source of raw material. In India, API industry size is INR 79,800 crore (9.0% CAGR over FY20-FY24) that comprises Chinese import of INR 18,900 crore (70% of total Import) and export of INR 25,000 crore. In ARV business, ABRP has early mover advantage in TLD single pill regimen, as there is rapid transition of TLE to TLD.
- ❑ **Valuations:** We expect earnings to grow at a CAGR of 13.5% for Aurobindo over FY20-FY23E. The stock currently trades at attractive valuations of 13.1x FY22E and 11.3x FY23E earnings and EV/EBITDA multiples of 7.7x FY22E and 6.4x FY23E. We believe the current valuation has upside potential with expectation of consistent positive revenue growth in US each year, and strong free cash flow generation over the next two years which would help the company in becoming debt free.
- ❑ We recommend a BUY with a target of Rs 940.

Financial Summary (Consolidated)

Y/E March	Sales (Rs cr)	EBITDA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	P/BV (x)	ROE (%)	D/E (%)
2020	23,099	4,865	2,830	48.4	16.7	10.3	2.8	16.8	0.3
2021E	25,261	5,431	3,231	55.2	14.6	9.0	2.4	16.3	0.2
2022E	27,603	6,017	3,615	61.8	13.1	7.7	2.0	15.6	0.1
2023E	30,338	6,765	4,165	71.2	11.3	6.4	1.8	15.5	0.0

Source: Axis Securities

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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