

RESEARCH
Aurobindo Pharma | Target: Rs 850 | +20% | BUY

Acquisition of Veritaz Healthcare marks India formulations foray

SUMMARY
Aurobindo Pharma

- ARBP acquired Veritaz Healthcare at 1x FY22E sales (9.8x EBITDA), marking its foray into domestic formulations
- Deal represents a related-party transaction for a cash consideration of Rs 1.7bn on slump sale and debt-free, cash-free basis
- Reiterate BUY on ARBP with TP unchanged at Rs 850 as we await better clarity on Veritaz before revising estimates

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Daily macro indicators

Indicator	25-Mar	28-Mar	Chg (%)
US 10Y yield (%)	2.47	2.46	(1)
India 10Y yield (%)	6.81	6.84	3
USD/INR	76.21	76.17	0.1
Brent Crude (US\$/bbl)	120.7	112.5	(6.8)
Dow	34,861	34,956	0.3
Hang Seng	21,405	21,685	1.3
Sensex	57,362	57,593	0.4
India FII (US\$ mn)	24-Mar	25-Mar	Chg (\$ mn)
FII-D	(15.0)	96.9	111.9
FII-E	(176.5)	(182.4)	(5.9)

Source: Bank of Baroda Economics Research



BUY

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AUROBINDO PHARMA

| Pharmaceuticals

| 29 March 2022

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Veritaz acquired for Rs 1.7bn: ARBP has bought branded generic formulations player Veritaz Healthcare in a Rs 1.7bn all-cash deal – in keeping with management’s guidance of entering the India formulations business where it has a sales target of Rs 1bn by FY25. Veritaz services an addressable market worth ~Rs 268bn and based on 9MFY22 numbers, the acquisition is valued at 1x FY22E sales and 9.8x FY22E EBITDA (annualised). The company is promoted by the sons of the ARBP promoter and hence the deal is a related-party transaction. In addition, it is a slump sale and has no debt liability or cash benefits.

Offers platform for India formulations foray: Incorporated in Sep’06, Veritaz is engaged in wholesale marketing and distribution of branded generic formulations in acute therapeutic areas (anti-infectives, PMS), nutraceuticals and toiletries. The company markets 40 brands across sectors and has 180 registered trademarks. Its largest brands are Fepanil (Paracetamol, sales: Rs 310mn in FY21) and Merogram (Meropenem injectable, sales: Rs 200mn). Veritaz plans to launch products in cardiology/diabetic and orthopaedic/gynaecology segments in the near term. With 900 employees (including 700 representatives) at Veritaz, the acquisition enables ARBP to reach over 70k doctors, 50k retailers and 1,700 stockists in 23 cities.

Our view: While the acquisition offers opportunities for ARBP to build a presence in India formulations, we note that Veritaz has low-value products in highly competitive segments and reasons for the related-party transaction aren’t very compelling. This apart, we expect monetisation of ARBP’s global IPR in India to have back-ended benefits while the addition of employees and brands/promotions related to the deal will raise overhead expenses from FY23. We await better clarity on the strategy and financial planning post acquisition before incorporating Veritaz into our estimates.

Reiterate BUY: ARBP is trading at attractive valuations of 5.8x FY24E EV/EBITDA (9.3x FY24 P/E). We reiterate BUY and maintain our TP at Rs 850, based on 7.5x FY24E EV/EBITDA (implied P/E of 12x). Our target multiple reflects a continued 45% discount to other frontline stocks (SUNP, CIPLA, DRRD) due to ARBP’s low branded sales and high US exposure.

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Ticker/Price	ARBP IN/Rs 707
Market cap	US\$ 5.4bn
Free float	48%
3M ADV	US\$ 20.5mn
52wk high/low	Rs 1,064/Rs 584
Promoter/FPI/DII	52%/22%/16%

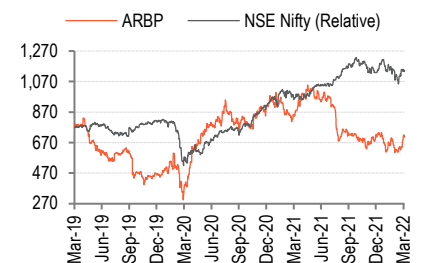
Source: NSE | Price as of 28 Mar 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	2,47,746	2,38,108	2,64,197
EBITDA (Rs mn)	53,334	45,792	55,779
Adj. net profit (Rs mn)	25,203	27,825	34,726
Adj. EPS (Rs)	43.0	47.5	59.3
Consensus EPS (Rs)	43.0	52.0	59.2
Adj. ROAE (%)	12.9	11.9	13.3
Adj. P/E (x)	16.4	14.9	11.9
EV/EBITDA (x)	8.5	9.3	7.2
Adj. EPS growth (%)	(12.2)	10.4	24.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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