NOT RATED

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Investor day takeaways: Chronic and specialty launch focus

- **EBITDA margin up 10ppt from FY19 levels to ~20% in FY22 as efforts to improve operational efficiency pay off**
- **FY19-FY22 revenue CAGR at 10% (+13% in FY22) underpinned by domestic formulations business**
- **Chronic/specialty focus in domestic formulations to sustain growth momentum backed by launches and productivity gains**

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Key takeaways from RPGL's (Not Rated) investor day held on 14 September:

Thrust on specialty and chronic therapies: Chronic and specialty therapies remain focus areas for RPGL with a raft of product launches in FY22, including IroHigh, Azilta, DPO, DPO-M, Mirasmart-S, Solifirst and Tamflo DFZ. 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. Management expects the share of other brands such as Mycophenolate to improve significantly going forward.

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

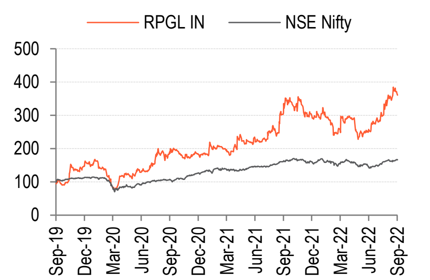
Healthy revenue growth in FY22: RPGL's revenue/EBITDA grew 13%/23% in FY22 with 165bps EBITDA margin expansion to ~20%. Domestic formulations contributed 75% to incremental growth amid sustained prescription generation, portfolio augmentation through launches and extensions, and plugging of sales leakages via better control over product returns and inventory. APIs contributed 18% of revenue led by higher sales of some of the company's key products. Margin gains aided 29% PAT growth and were led by a better product mix in favour of chronic & specialty sales and higher operating efficiency. International formulations declined ~3% in FY22 due to political unrest in the key market of Myanmar.

Strong balance sheet: RPGL has a sound debt-free balance sheet and a cash of Rs. 703mn as of FY22.

Ticker/Price	RPGL IN/Rs 738
Market cap	US$ 154mn
Free float	28%
3M ADV	US$ 0.5mn
52wk high/low	Rs 804/Rs 450
Promoter/FPI/DII	72%/0%/0%

Source: NSE | Price as of 16 Sep 2022

Stock performance



Source: NSE

Investor day takeaways

- **Domestic growth outlook:** RPGL's management expects growth in its domestic formulations business (64% of FY22 sales) to be helmed by the specialty and chronic segments, where the company has increased customer coverage through product launches. The focus is on introducing products that have both double-digit revenue growth and margin expansion potential.

- **Global growth strategy:** Management has identified three steps to growth in the global formulations business (18% of FY22 sales): (1) build-up of the immunosuppressant portfolio by leveraging its leadership in the domestic market, (2) focus on products with a 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.

- **NLEM 2022:** The company does not see much impact from the latest (13 September) revision of the National List of Essential Medicines (NLEM) list. RPGL's drugs such as Montelukast (Romilast) and Teneligliptin (GliptiNext) are a few of the new additions to the list. Some of the company's oncology drugs are also part of the new additions. RPGL's exposure to the NLEM list remains broadly unchanged at 35-36% even after the recent revision.

- **Margins:** All products in RPGL's domestic formulations business have healthy double-digit EBITDA margins. Management highlighted a slew of initiatives taken by the company to promote margin improvement over the last few years. This entailed revisiting every aspect of operational efficiency, right from the frontend to the backend, including salesforce restructuring, as outlined below. The company aims to further improve efficiencies based on the recommendations of a consultant employed to revisit costs.

    - **Salesforce optimisation** resulted in clubbing or liberation of high-paying roles, thus reducing costs.

    - **Improvement in "sales hygiene"** helped plug leakages by better managing marketing inventory, sales returns and product expiries.

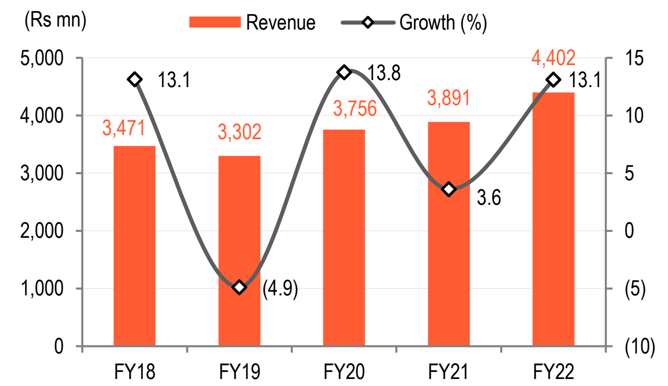
    - **Reworking of backend manufacturing processes** brought down overheads. This involved a reengineering exercise for the domestic formulations business, under which every drug formula was revisited and, where necessary, subject to import substitution, process simplification, batch size optimisation, and shelf-life enhancement initiatives. The company also introduced new formulae, new process and new batches, together with efficiencies in procurement, manufacturing and field-force travel.

- **API business:** About 80-85% of the APIs that RPGL manufactures is exported (18% of FY22 sales) and the rest is used for captive consumption.

- **Productivity:** Productivity per salesperson currently stands in excess of Rs 0.5mn from Rs 0.34mn-0.35mn earlier. Specialty business productivity also improved from Rs 0.85mn-0.9mn to Rs 1.3mn-1.4mn. This stemmed from salesforce optimisation and travel cost efficiencies. Management expects topline growth to improve further as productivity rises.

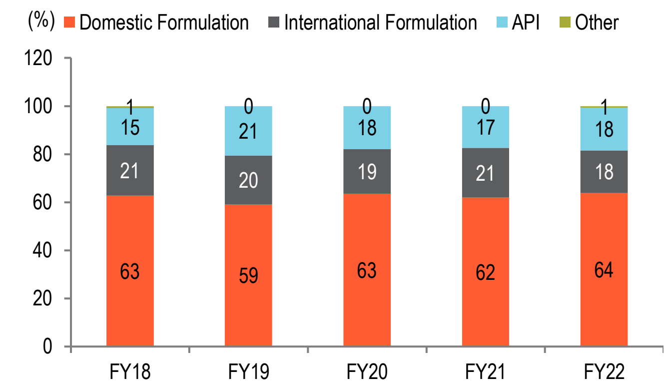
- **Capex:** The company incurred capex of Rs 240mn in FY22 to upgrade its F2 formulation facility to the PIC/S (Pharmaceutical Inspection Co-operation Scheme) standard, bearing in mind growth and cost reduction.

Fig 1 – Revenue growth of 7.5% over last 5Y



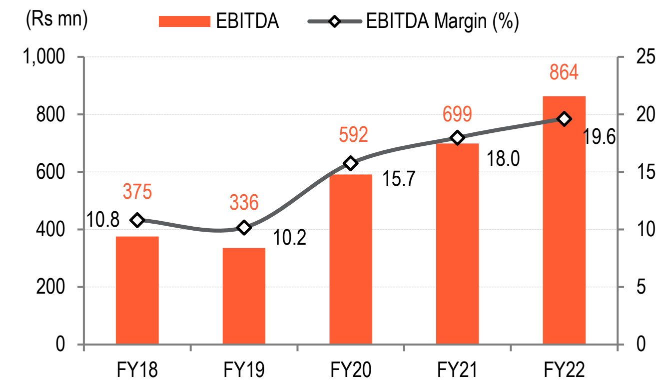
Source: Company, BOBCAPS Research

Fig 2 – Domestic formulations dominate revenue mix



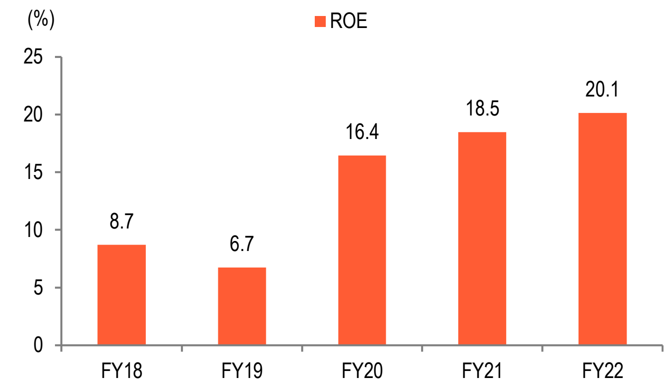
Source: Company, BOBCAPS Research

Fig 3 – 10ppt EBITDA margin expansion over FY19-FY22



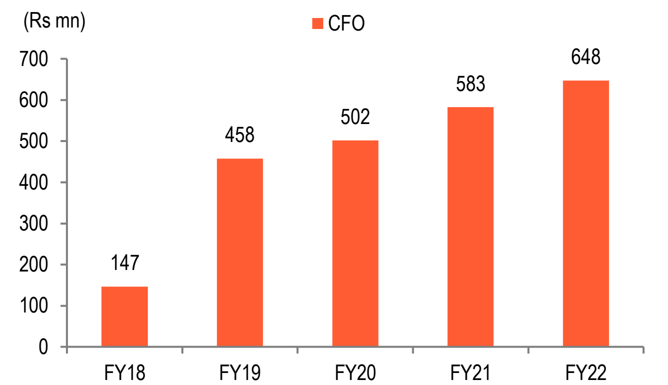
Source: Company, BOBCAPS Research

Fig 4 – ROE on an uptrend



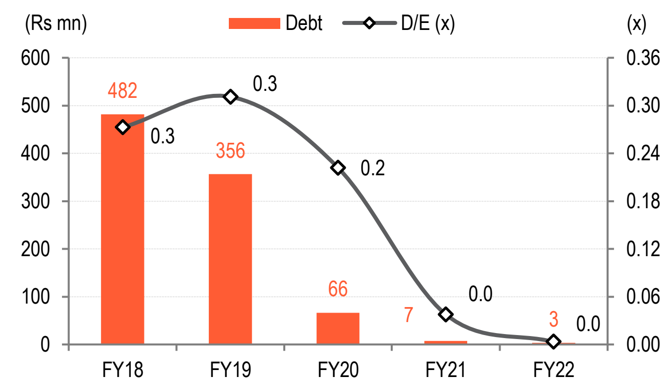
Source: Company, BOBCAPS Research

Fig 5 – Consistent improvement in operating cash



Source: Company, BOBCAPS Research

Fig 6 – Balance sheet improves with debt retirement



Source: Company, BOBCAPS Research

About the company

Part of RPG Enterprises, RPG Life Sciences (RPGL) is an integrated pharmaceutical company operating in domestic and international markets in the branded formulation, global generic and synthetic API space. The company draws 64% of revenue from domestic formulations, 18% from international formulations and 18% from APIs. It operates three manufacturing facilities with 1,100+ employees and caters to 50+ markets worldwide.

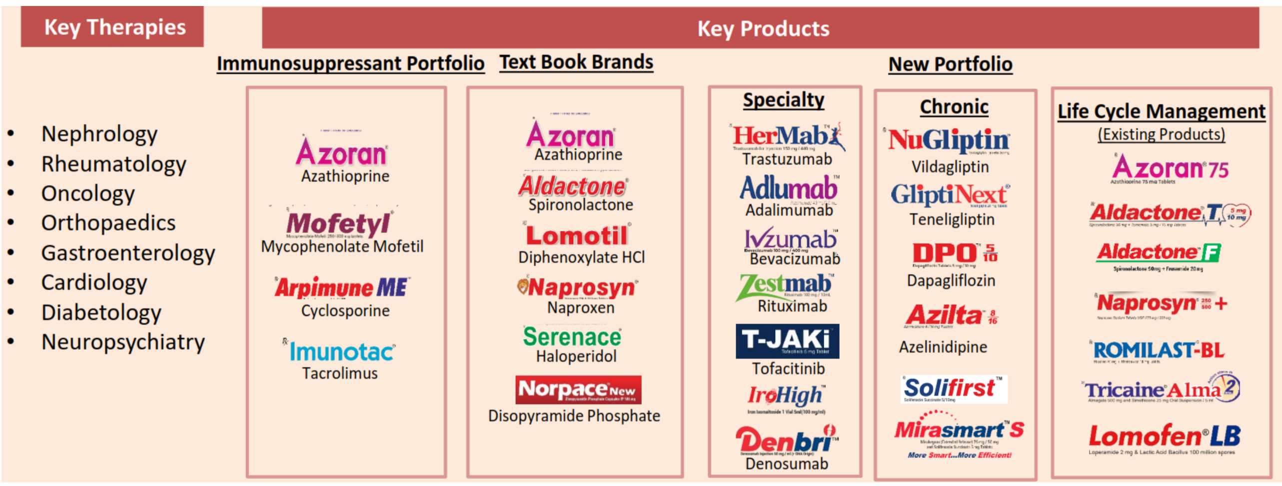
RPGL's key therapy areas are nephrology, rheumatology, oncology, orthopaedics, gastroenterology, cardiology, diabetology, and neuropsychiatry. It is a leader in the immunosuppressant space with brands such as Azoran (Azathioprine), Mofetyl (Mycophenolate Mofetil), Arpimune ME (Cyclosporine) and Imunotac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

In the international formulations space, its generic portfolio includes Azathioprine, Sodium Valproate PR and Nicorandil while the branded generic portfolio has products such as Siloxogene, Azoran, Mofetyl, Arpimune and Dipsope. RPGL'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%

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

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Note: Recommendation structure changed with effect from 21 June 2021

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