Sept 09, 2019 | PICK OF THE MONTH | VOL-5, NO-6

Anuh Pharma Limited

BUY

CMP: Rs.142 | **TARGET PRICE: Rs.175** | **TIME : 12 months**

OVERVIEW: Industry:

Indian Pharmaceutical Industry:

The Indian Pharmaceutical industry was valued at USD33bn in 2017 and is expected to expand at a CAGR of 22.4% over 2015-2020 to reach the targeted USD55bn (*as per IBEF*). The Industry can be broadly classified into API (Active Pharmaceutical Ingredients) and Formulations which are then classified as Branded and Generics.

Broadly the industry is bifurcated into 4 types of businesses:

- Marketing of generic medicines
- Marketing of branded generic
- Marketing of innovator medicines
- **Manufacture and supply of Active Pharmaceutical Ingredients (APIs) used as ingredients in medicines as well as finished formulations**

What is an API?

An API/ Bulk drug means the active ingredient which is contained in medicine that is biologically active within the drug and is the specific component responsible for the desired effect (it has on the individual consuming it). Any drug or medication is composed of two components: (i) API-the central ingredient and (ii) Excipient-the inactive substance other than the drug which serves as the vehicle for the API itself.

According to Research and Markets.com, the API market was valued at USD152.6bn in 2017 globally and is expected to reach to USD273.5bn by 2026 at a CAGR of 6.7% depicting a fruitful growth during the forecast period from 2018-2026; backed by rising chronic diseases, higher adoption of prescribed drugs, demand for specialty drugs & biologics, increasing awareness and rise in R&D for new drug formulations and development. Increase in healthcare spending is a global phenomenon and this directly benefited the generics API market (in recent years in the developing nations) due to high demand and ease of access. However, the cost of enhancing process outline, higher cost of specialty API drugs and stringent approvals regulations may act as a restraining factor to the overall development of the API market. The total production market of API in India was valued at USD11bn in FY16 with a CAGR growth forecasted of 9% over FY16-22 (*as per the report by Assocham*). It further mentioned that the share of India in the global API market was ~8% in FY16.

The API industry can be bifurcated based on:

a) Manufacturing process into **Captive** (Pharma companies produce API themselves for their needs) and **Merchant** (sold by third parties) markets. Almost 65% of the Indian API market is captive while the remaining being merchant
b) Type of the API into **Chemical API** which accounts for 70% of the market and the remaining being **Biotech API**
c) Based on the **Therapeutic** segment with the major share being of Anti-infectives and Cardiovascular segments

India was once a favoured destination for sourcing low-cost, good quality APIs for manufacturing pharmaceutical formulations. However, China took over this market by creating huge capacities. Also, the price of APIs from China is 15-20% lesser than the production cost in India, thus making it more viable for Indian companies to import. For the last several decades, Indian Pharma players have been dependent on Chinese players for their APIs and intermediates requirements. This is due to the fact that the pricing they offer is based on large scales of manufacturing. The Chinese counterparts take approximately 2-5 years to approve Indian products whereas Indian companies take about 2-5 months in order to approve the Chinese products. Such liberal registration approaches led to cost differential pertaining to the intermediate product.

SNAPSHOT	
52 week H / L	**Mcap (INR mn)**
181/101	3,555
Face value: 5	
BSE Code	**NSE CODE**
506260	-

Annual Performance

(Rs mn)	FY17	FY18	FY19	FY20E
Total Revenue	2,061	2,381	3,207	3,904
EBITDA	220	179	295	386
EBITDA (%)	10.7	7.5	9.2	9.9
Other Income	76	74	47	27
Interest	0.4	0.4	1.7	2.0
Depreciation	19.7	18.3	16.6	29.6
PBT	276	234	324	382
PAT	201	165	234	272
Equity (Rs mn)	125	125	125	125
EPS (INR)	8	7	9	11

Quarterly Performance

Parameters (Rs mn)	Sep-18	Dec-18	Mar-19	Jun-19
Sales (Net)	874	700	830	849
EBITDA	85	64	78	77
EBITDA (%)	9.7	9.1	9.4	9.1
Other Income	15	12	8	13
Interest	0.2	0.8	0.7	0.8
Depreciation	4	4	5	9
PAT	70	54	53	59
Equity (Rs mn)	125	125	125	125

Ratio Analysis

Parameters (Rs mn)	FY17	FY18	FY19	FY20E
EV/EBITDA (x)	15.9	19.8	11.9	9.2
EV/Net Sales (x)	1.7	1.5	1.1	0.9
M Cap/Sales (x)	1.7	1.5	1.1	0.9
M Cap/EBITDA (x)	16.2	19.9	12.0	9.2
Debt/Equity (x)	0.02	0.03	0.1	0.1
ROCE (%)	21.1	16.1	20.6	22
Price/Book Value (x)	2.5	2.4	2.2	2
P/E (x)	17.7	21.5	15.2	13

Shareholding Pattern as on 30th June, 2019

Parameters	No of Shares	%
Promoters	17,984,835	72
Institutions	150	0
Public	7,071,015	28
TOTAL	25,056,000	100

Source: Annual Report

Note: All the data is calculated as per Market Price on 06 Sept, 2019

Anuh Pharma Limited

BUY

CMP: Rs.142 | **TARGET PRICE: Rs.175** | **TIME : 12 months**

OVERVIEW: Industry (contd.)

China Shutdown- Repercussions:

In the past 12-18 months, there has been a sharp spike in the prices of raw materials after the Chinese government had shut down many API producing plants owing to environmental concerns. This has had a negative impact on the Indian domestic manufacturers which mostly imported APIs from China. To mitigate the same, several steps have been taken by Indian players to reduce this dependency on imports of API.

On the other hand, most makers of API capitalized on the opportunity that came in from the increase in key raw materials which led to the supply crunch. This was well depicted through the increase in revenues and margin expansions witnessed in the past few quarters.

Current Scenario:

Post the Chinese chemical market mayhem, a few of the factors that strongly needed a revisit in India were:

- Give an impetus to in-house manufacturing or within India
- Start focusing on the regulatory filings by taking care that Indian source of manufacturing becomes an alternate supplier and slowly replace the Chinese suppliers
- Develop the process from basic chemicals and not from advance intermediates
- Use novel methods of process development to reduce waste and pollution
- Pharma industries need to request the government to dedicate certain zones for chemical industries and give quick environment clearance for taking manufacturing in India
- Cost efficiency measures to be adopted to take up manufacturing within India

The Pharma Vision initiative is aimed at making India a global leader in end-to-end drug and API manufacturing by reducing approval time for new facilities to boost investments. The government is also putting in place mechanisms, such as the Drug Price Control Order and the National Pharmaceutical Pricing Authority, to address the issue of affordability and availability of medicines.

Where does the opportunity lie?

- **Developing Next Generation APIs:** Currently, the Indian Pharma industry is into generic drug API, but with better government budgets and increased resources; novel APIs can be worked on
- **Capitalizing on Captive API Market:** The major requirements are being met by imports which need a captive turn
- **Revival of Generic Drug API Market:** Branded generics dominate the generic drug market currently. Domestic generic API manufacturers need the push
- **Focus on Emerging Therapeutic Segments:** Oncology, diabetes, respiratory disorders, cardiovascular diseases, being the emerging segments should be the focus for innovative API manufacturing
- **New Export Markets:** Several untapped markets like Japan, CIS should be looked at to establish foothold

About the Company:

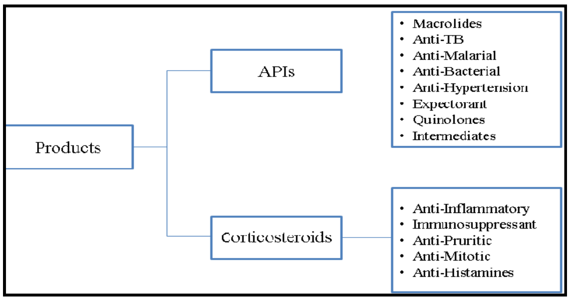
Anuh Pharma Limited (APL), a part of the SK Group of companies (across businesses such as manufacturing of Pharma formulations, trading, distribution and logistics; primarily for large MNC brands), is one of the largest manufacturers of Macrolides and Anti-TB products in India, besides being a major player in Anti-Bacterial, Anti-Malarial, and Corticosteroids. It is engaged in manufacturing of bulk drugs such as, Erythromycin and its salts, higher macrolides like Azithromycin, Roxithromycin, Pyrazinamide and Chloramphenicol. The company has Mr. Bipin Shah as its Managing Director. The company has EU GMP/ WHO pre-qualified approved manufacturing facility at Tarapur, Boisar and an R&D facility at Mahape.

INVESTMENT RATIONALE:

A) Strong Track Record (in API Industry):

APL has been engaged in API manufacturing since 1960, with the product portfolio comprising of erythromycin and its salts, higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol to mention a few. The product basket of the company can be bifurcated broadly into APIs and Corticosteroids. APL occupies a healthy share in the global market for its major products and is one of the key producers of erythromycin salts and anti-tuberculosis APIs in India. The company plays on its strategy to select products with a long term horizon which is proved well by its matured products like Erythromycin that still stand strong in terms of revenue contribution.

Exhibit 01: Product Bifurcation



Source: Company Website, Progressive Research

Anuh Pharma Limited

BUY

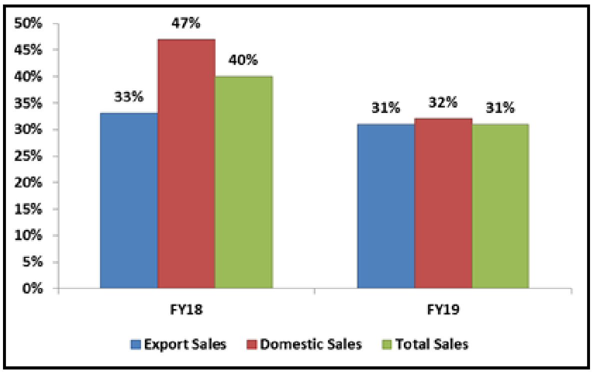
CMP: Rs.142 **TARGET PRICE: Rs.175** **TIME : 12 months**

INVESTMENT RATIONALE: (contd.)

B) Revenue Breakup:

The company has its major business spread across the API space. Hence, Bulk Drugs are the main source of revenues for the company. The domestic and exports contribution is approximately 50% each to the revenues. APL has consistently had a diversified customer base, when it comes to both domestic as well as exports business, without over dependence on any customer.
With regards to the geographical presence, after Asia it is Europe which is the key market for the company. With the non-regulated hold being strong currently; APL is making efforts to slowly increase the share of regulated markets (currently contributes ~10%) to the total revenues. Some of the key markets that the company caters to are, Asia being the major chunk (~39% of the total share of revenues), followed by Europe (27% of the total revenues) Africa, Latin America, America and ROW.

Exhibit 02: Top 5 Customer Contribution

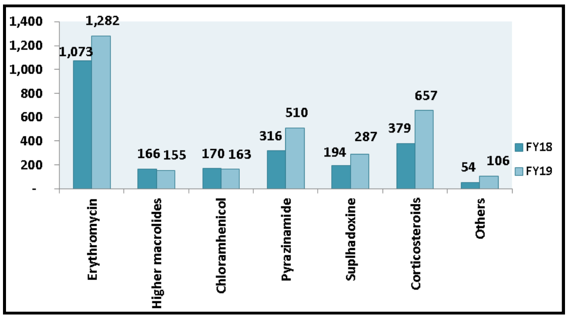


Source: Company Presentation August 2019

C) Sales Mix and Approvals:

There is a range of therapeutic segments that the company caters to, be it volume based or value adds. APL is one of the largest producers of Erythromycin 1st generation salts and pyrazinamide in the world (*as per the company presentation*). It is also one of the very few to have WHO-PQ for sulphadoxine and has applied for WHO-PQ for pyrimethamine (Anti malaria). There has been a gradual increase seen in the contribution of the key products to the revenues when compared with FY19 over FY18. Erythromycin holds the strong leading position inspite of it being the most matured product of the basket. The company has CEP, EU-GMP, COFEPRIS approvals and WHO Geneva pre-qualification for products manufactured at its facilities located at Tarapur that are built and operated according to cGMP standards. There have been a few hiccups in the past with regard to approvals being stalled which has made the company even more vigilant with regards to approvals and overall manufacturing standards.

Exhibit 03: Sales Mix (Rsmn)



Source: Company Presentation-August 2019

Second Major Product Range: Corticosteroids:

Besides the API, the second line of interest for the company is the Corticosteroids. *Corticosteroids are used to provide relief from inflammation. They lessen swelling, redness, itching, and allergic reactions. They are often used as part of the treatment for a number of different diseases, such as severe allergies or skin problems, asthma, or arthritis.* APL has been continuously focusing on increasing its market share in the corticosteroids space, for which manufacturing capacity at L&L site is enhanced to 12MTPA. Within corticosteroids, the focus shall continue to be on higher margin products to maximize profits. The company has an exclusive tie-up with Great Pacific Exports Pvt. Ltd. located at Navi Mumbai for manufacturing of corticosteroids. Some of the key corticosteroids that the company manufactures include salts of Betamethasone, Prednisolone, Dexamethasone, Deflazacort, Triamcinolone, Mometasone Fuorate.

D) Product Pipeline:

Apart from the product range offered by the company, there are certain drugs that are "Under Development" for both APIs and Corticosteroids that are being scaled up for validation batch processes. The company had launched Ambroxol HCL and Moxifloxacine in Q1FY16.
Continuing with the R&D efforts, it further has six new products at an advance stage work.

- Anti-psychotic: Aripiprazole and Olanzapine
- Anti-inflammatory: Celecoxib
- Anti-histamine: Fexofenadine HCL
- Anti-diabetic: Sitagliptin and Gliclazide

These drugs need to be scaled up and by March 2020 the validation batches would be ready and around Q2FY21 all approvals would fall in place.

Exhibit 04: Products Under Development

APIs		Corticosteroids
a) Pantaprazole	b) Pregabalin	Dexamethasone Metasulfobenzoate Sodium
c) Levetiracetam	d) Ethambutol	Prednisolone Metasulfobenzoate Sodium
e) Gliclazide	f) Sulfasalazine	Fluocinonide
g) Clopidogrel	h) Rosuvastatin	
i) Sulfadimethoxine	j) Sulfapyridine	
k) Chlortahlidone	l) Sulfadiazine	

Source: Company Website, Progressive Research

Anuh Pharma Limited

BUY

CMP: Rs.142 | **TARGET PRICE: Rs.175** | **TIME : 12 months**

INVESTMENT RATIONALE: (contd.)

E) Competitive Landscape:

Being one of the key players in the API space, the company has been able to garner decent market share with regard to the global demand.

Exhibit 05: Positioning In Competition

Products	Global Demand (MTPA)	APL's Market Share	Other Key Players
Erythromycin	1800	18%	S.M. Biomed (Malaysia), Linaria Chemical (Thailand)
Higher Macrolides (Azithromycin)	1000	2%	Zhejiang Guobang Pharma, CSPC, HEC Pharma (China)
Chloramphenicol	200	22%	Northeast Pharma, Nanjing Bajingyu, Wuhan Wuyao (China)
Pyrazinamide	1200	33%	Calyx Pharma, Linaria Chemical
Corticosteroids	100	7%	Crystal Pharma, AVIK, Pharmabios (Italy), Symbiotec India

Source: Company Presentation-August 2019

F) Pick Up After A Hiccup:

WHO had suspended pre-qualification of two APIs namely pyrazinamide and sulfadoxine in 2016. The EDQM, after an inspection of Anuh Pharma's manufacturing site at Boisar in Maharashtra, had suspended the certificate of suitability for the company's three anti-infective drugs that include erythromycin ethylsuccinate, erythromycin and pyrazinamide. These were major blows to the company back then. The impact of this was seen in the FY17 numbers reported by the company. However, these approvals have been restored by the respective authorities and the company has indicated of a bounce back in terms of profitability and restoring its regulatory clients. These events have actually made the company even more vigilant in terms of following the protocol with a cautious view for all its future filings. Sales to majority of the customers have been resumed, reflected in the revenues reported in FY18 & FY19.

G) Capacity Crunch: Expansions Done:

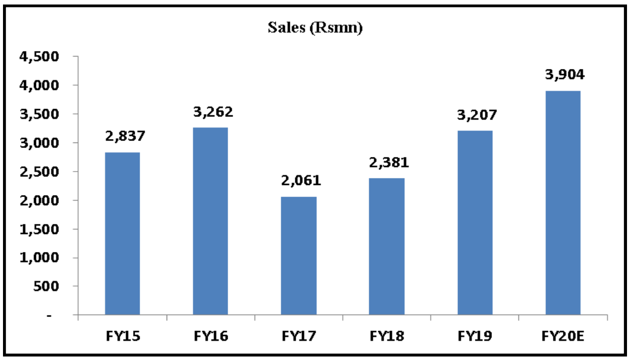
The company had been running at full capacity utilization for the past 2 years which is why there was a capacity crunch felt. After the expansion was planned, there was a delay much more than anticipated to get the approval from the environmental clearances for taking up the process further. Once the clearances were in place, the company has undertaken the expansion project for state of the art manufacturing facility targeted at regulated markets; which is finally completed and inaugurated on 23rd August, 2019. The capacity enhancement in Phase 1 is from 900MT to 1500MT. The company has incurred a capex of Rs650mn for this; all funded by internal accruals. It has indicated that the expanded capacity should be fully utilized in a span of 12-15 months. Once the capacities are in place and starts full fledge contribution, one can expect Rs1,000mn addition to the topline every year. We think that the company may take up the next phase of expansion of 20-25% once the current capacity of 1500MTPA gets fully utilised. Regulatory sales from this expanded capacity are expected to happen in a years' time. Also with the new expansion, APL will be the Zero Liquid Discharge company which is a huge compliance advantage keeping the environmental challenges in mind. The company proposes to utilise the enhanced capacity to manufacture existing as well as new products. Thus, APL will have considerable surplus capacity available to grow the sales of Macrolides, Anti TB drugs, Anti-Malarial drugs and commercialize new products developed in R&D from this new facility.

Financials:

A) Getting Back on Track:

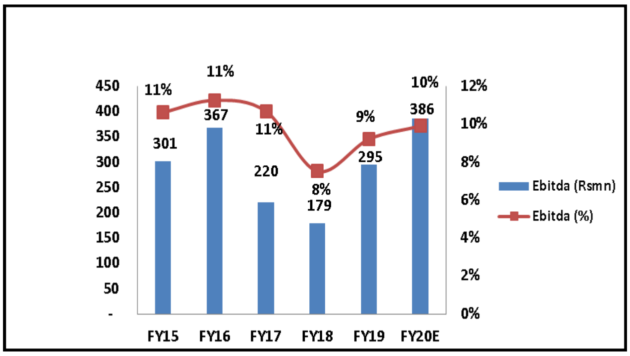
With the blip witnessed in FY17 and FY18, the company is getting back on track with regard to the revenue growth as well as operational efficiencies. At the PAT level as well there has been a gradual improvement coming in. With the future triggers remaining intact, APL is strongly working towards the targeted growth going forward.

Exhibit 06: Revenue Growth Trend



Source: Annual Report, Progressive Research

Exhibit 07: Operational Efficiencies



Source: Annual Report, Progressive Research

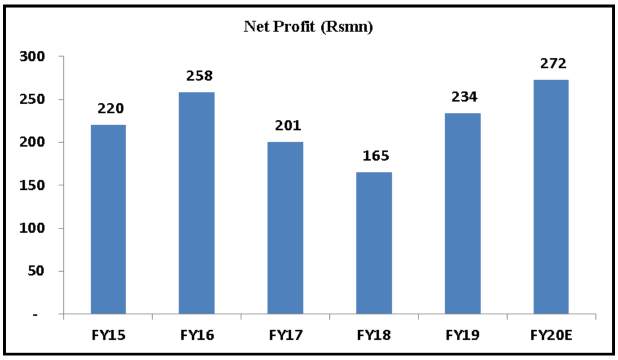
Anuh Pharma Limited BUY

CMP: Rs.142 **TARGET PRICE: Rs.175** **TIME : 12 months**

Financials: (contd.)

A) Getting Back on Track:

Exhibit 08: PAT Trend



Source: Annual Report, Progressive Research

B) Healthy Financial Risk Profile:

APL has been consistently generating positive free cash flows, leading to negligible dependence on external funding for its capex plans and incremental working capital requirements, i.e. the company is enjoying a debt free status. The debt servicing indicators have remained robust for APL. On the liquidity front as well, the company has remained healthy which is evident through the significant liquid investments. However, these are expected to come down going forward as the company is undertaking capacity expansions to be entirely funded through internal accruals and liquid investments. The company enjoys a high fixed asset turnover ratio, well maintained higher than most of the peers. This is majorly attributable to the edge APL has due to the positive turnaround time in product cycle.

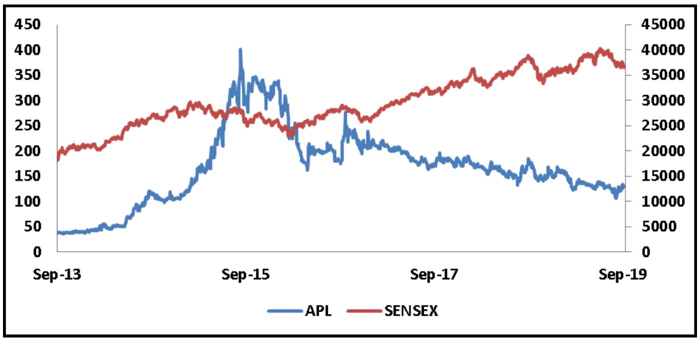
Risks and Concerns:

- Raw material prices volatility
- Currency fluctuations
- Changing industry dynamics, on the domestic front as well as global scale

Outlook and Recommendations:

APL has an established track record in API manufacturing, with a healthy market share in its key products and a diversified base of domestic and export customers. In the current scenario of the Indian Pharma industry where most of the other companies are bearing the brunt from the USFDA, APL is safely placed with limited exposure to the US markets. Although going forward the company is inclined to increase its revenue share from the regulated markets, it is taking steps slowly but accurately towards it. The company also derives strength from the continued strong financial profile with negligible dependence on debt and robust debt protection metrics. Overall we feel that the company would be a safe bet in the Pharma domain. We expect the company to be a slow compounder and volunteers as a sipping candidate for a target of Rs175 over a 12 months horizon.

Exhibit 09: Price v/s Sensex



Source: Ace Equity

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.
PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.
PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

<u>Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report-:</u>

· PSBPL or its associates financial interest in the subject company: NO
· Research Analyst (s) or his/her relative's financial interest in the subject company: NO
· PSBPL or its associates and Research Analyst or his/her relative's does not have any material
conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.
· PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
· Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
· PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.
· The research Analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Terms & Conditions:
This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com
Contact No.:022-40777500.

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-40777500.