

# AUROBINDO PHARMA



*Aurobindo is among the top five pharma companies in India and owns Asia's largest sterile API factory.*

## Background

Aurobindo Pharma was founded in 1986 with a single unit manufacturing semi-synthetic penicillin (SSP) at Pondicherry by PV Ramaprasad Reddy, K. Nityananda Reddy and a small group of professionals. Today, it is one of the top five pharmaceutical companies in India in turnover and amongst the world's top five manufacturers of SSP. It has emerged as a R&D driven, vertically integrated pharma company and is a leading player in API like SSP, cephalosporins, anti-virals, anti-HIV drugs and some lifestyle disease drugs with exports to over 100 countries. The company has also expanded its presence in speciality generic formulation, to help it climb the value chain and build a long and sustainable business model.

In 2001, the company embarked on a major expansion plan to target the rapidly growing global generics market in regulated markets and gear up to meet the challenge of WTO directed post product patent regime. Since then, it has carried out an all-round operational improvement programme and has made considerable investments to create state-of-the-art manufacturing facilities,

marketing capabilities, and a strong R&D function to establish itself as a world class player in the pharmaceutical industry.

Headquartered in Hyderabad, Aurobindo has multiple manufacturing facilities in Hyderabad and Vizag in Andhra Pradesh, Cuddalore in Tamil Nadu and Bhiwadi in Rajasthan. The company has manufacturing subsidiaries and joint ventures in USA, Brazil and China. It has received approvals for several of its manufacturing facilities from leading regulatory agencies like US FDA, UK's MHRA, WHO, Health Canada and South Africa's MCC. It also has number of wholly owned subsidiaries, representative offices and joint ventures for marketing and trading in strategic locations like China, Thailand, Hong Kong, Brazil, Canada, Netherlands and USA. R&D has been identified as a corner stone to success and the company has two research centre in Hyderabad and Mumbai with over 600 scientists.

The company's promoters hold 55.79 per cent stake in the company, foreign institutional investors hold 29.33 per cent and Indian public and others have a 7.89 per cent stake. Several large foreign institutional investors like Fidelity, Morgan Stanley, Standard Chartered private equity, Goldman Sachs, Merrill Lynch, UBS and others have taken a stake in the company.

Company	Products	Established	Founder	Distribution	Production plants
Aurobindo Pharma	Pharmaceuticals	1986	Reddy family	Over 100 countries	India

Key Business Segments	Products
Active Pharmaceutical Ingredients (APIs) & Intermediates	65 APIs in the non-antibiotics and 55 APIs in the antibiotic segment. Six therapeutic areas: <ul style="list-style-type: none"> <li>• Antibiotics</li> <li>• Anti-Retrovirals,</li> <li>• CVS</li> <li>• CNS</li> <li>• Gastroenterologicals</li> <li>• Anti-Allergics</li> <li>• Key Products: Semi-Synthetic penicillin, Sterile SSPs, Cephalosporins, Sterile Cephalosporins, life style disease drugs, Anti-HIV drugs</li> </ul>
Formulation	Fastest growing business segment. Four therapeutic areas: <ul style="list-style-type: none"> <li>• Argus(Cardio Diabetic): 22 brands</li> <li>• Imunus(Anti HIV): 11 brands</li> <li>• Indus(Gastro, Respiratory, Infection and Pain): 15 brands</li> <li>• Genus:General care, Pain Management</li> </ul>

## Products and brands

Though Aurobindo started as a single-product company producing SSP, today it has become a vertically integrated and a multi-product company. It is a leader in API, has a rapidly growing specialty formulation business and a presence in intermediates. In API segment the company has a strong product portfolio, spread over six major therapeutic areas - antibiotics, anti-retrovirals, CVS, CNS, gastroenterologicals, and anti-allergics. It encompasses over 65 API in the non-antibiotics and 55 API in the antibiotic segment. API contribute a major portion of the company's business. Formulations constitute about 13 per cent of revenues in 2005.

Even though the company has retained its leadership in SSP, it has reduced its dependence on this segment to 25 per cent of its business in the year 2005. Sterile Cephalosporins, which involve complex chemistry and are known to have entry barriers, constitute over 17 per cent of the revenues in 2005. In the last 4-5 years, the company has stepped up to take advantage of the growing generics market and has launched newer drugs like cephalosporins, life style disease drugs and anti-HIV drugs.

Aurobindo also manufactures various drug intermediates as part of its strategy of backward integration. These intermediates in themselves form a part of the product mix, offering the company valuable revenue, profits and customer base. The speciality generic formulations business has made Aurobindo a truly diversified and integrated pharma major. The business is organised by the setting up of separate divisions to focus on different therapeutic segments/specialties. These divisions are named as Argus (cardio, diabetic), Indus (gastro, respiratory, infection and pain), Imunus (anti-HIV) and Genus (general care and pain management).

## Financial Analysis

Aurobindo has registered a CAGR of 8 per cent in gross sales between 2000 and 2005, to reach a turnover of US\$ 259 million. Operating profit margin and net profit margin reached a high of 17.8 per cent and 9.5 per cent respectively in 2004, before falling to 10.6 per cent and 3 per cent respectively in 2005. Exports constituted nearly 50 per cent of total sales. R&D expenditure was at 4.62 per cent of total turnover compared to 3.57 per cent in 2004. The year 2005 was marked with lower revenues and profitability due

to severe competitive and pricing pressure in the industry, under-utilised capacities earmarked for regulated markets, awaiting product approvals and higher than expected investments in R&D, maintenance of regulatory plants and other regulatory costs.

However, the company has started reaping the benefits of these investments and has shown a turnaround in nine months ended Dec 2005, with sales at US\$ 233 million, a growth of 20 per cent over the sales of US\$ 95 million for the comparable period of nine months ended Dec 2004. Operating margin has improved at 12.3 per cent in nine months ended Dec 2005 due to lower raw material costs and growth in higher margin formulation business.

### **Aurobindo's contribution in making 'Made in India' global**

Aurobindo started its transition to become a multi-product global player from a single product, domestic player in mid 1990s, when severe margin pressures on its primary product SSP, forced the company to look out for higher margin products and penetrate into new geographies. The company added newer products like cephalosporins, life style drugs and anti-HIV drugs to its stable of products and gave a major thrust on promoting exports, largely confined to non-regulated and semi-regulated markets. It decided to enter newer high growth markets (like Brazil and China) and regulated markets (like USA, Canada and Europe) by getting its manufacturing facilities approved by respective regulatory authorities. The company now exports to more than 100 countries and this renewed focus has given a boost to exports, which grew from US\$ 85 million in 1999 to US\$ 141 million in 2004. In early 2001, the company came out with a comprehensive expansion plan to target the generics segment in the regulated markets.

Aurobindo formed a marketing and manufacturing subsidiary in Brazil in 2001 and has got approval for three of its formulation manufacturing units from Brazilian regulatory authority ANVISA. It also started a manufacturing company in China in 2003 to leverage China's low cost advantage in manufacturing. It formed another joint venture with a local pharmaceutical player to manufacture local products for China market and later bought 100 per cent stake in the company.

The company kick-started its operations in United States in February 2005 to target the rapidly growing generics market. It has already received nine product approvals and approval to set up an API plant in US. The company has filed around 42 ANDA and equal number of DMF to target drugs, which are off patent or going off patent in the near future. Its US operations are already generating revenues close to US\$ 1.5 million per month. Aurobindo is also a participant of the President Bush's Emergency Plan for AIDS Relief (PEPFAR) programme, which is a five-year US\$ 15 billion initiative by the US government, designed to combat HIV/AIDS pandemic and has 10 anti-HIV drugs under this portfolio. WHO has pre-qualified

### **Aurobindo's global operations**

<b>Marketing Subsidiaries</b> Aurobindo (H.K.) Limited APL Pharma Thai Ltd. AB Farmo Quimica Limitada* Helix Healthcare B.V. Aurobindo Pharma USA, Inc. Auro Pharma Inc.	Hong Kong (100%) Thailand (48%) Brazil, (99.8%) Netherlands, (100%) USA (100%) Canada (100%)
<b>Manufacturing Subsidiaries</b> Aurobindo (Datong) Bio-Pharma Aurobindo TongLing (Datong) Cephazone Pharma, LLC Aurosal Pharmaceuticals, LLC	China (100%) China (100%) USA, JV (50%) USA, JV (50%)
<b>Other Subsidiaries</b> APL Holdings, Inc.	USA (100%)

\* Marketing and manufacturing JV

several of its anti-HIV drugs for its sponsored programme around the world.

The company is also expanding in the European generics markets and has established a subsidiary in Netherlands and representative offices in Italy and UK. It has done 15 regulatory filings in Europe and has got approval of Sertraline drug in UK. Recently it acquired, Milpharm, a UK based company into generics which generates US\$ 12 million sales from 30-40 products. The move is expected to give it an immediate access to the European market.

### Factors fuelling Aurobindo's global initiatives

Over the last decade, the pharmaceutical industry has been going through an evolving phase, characterised by intense competition in the bulk drugs market, the post 2005 patent regime under WTO, new emerging opportunities in the generics market and the increasing focus on provision of low cost healthcare globally. Aurobindo was quick to sense the need to expand its business horizons and chalked out a multi-pronged strategy to move up the value chain and target new markets. The company augmented its investments in R&D to prepare for regulatory approvals, develop non-infringing processes, file for process patents and set up an international custom synthesis business. With a strong focus on R&D, it managed to file for several patents even before expiration and hence, get the first mover advantage.

The company has also become a vertically integrated player from semi-synthetic penicillin to cephalosporins, anti-virals and antibiotics and formulations and intermediates. It has emerged as one of the lowest cost producers in bulk drugs, due to continuous revamp of its domestic operations, complete backward integration and leveraging China as a low cost-manufacturing base.



The company also decided to set up marketing and manufacturing joint ventures in several strategic locations like Thailand, Hong Kong, Brazil, China, USA and UK as a part of its marketing strategy to cope with problems of entry barriers and restricted registrations for exporters. It endeavoured to create state-of-the-art manufacturing facilities, equipped with latest technology and got approvals from various regulatory agencies in the target countries. The company also acquired Milpharm in UK to get a foothold in the market. Aurobindo's has managed to carry the change process effectively with strong emphasis on quality, innovation, cost control and efficient co-ordination.

### Future plans

Going forward, the company plans to continue its thrust to become one of the leading global players especially in the key markets of US and Europe. It has made significant investments in its R&D and manufacturing capabilities and will be able to extract the returns on these investments in the coming years. The company's anti-HIV business is shaping up and can be expected to be a big revenue contributor for the company. Several subsidiaries are start-ups and are expected to breakeven in the next few years. The recent acquisition of Milpharm will give the company a good start in the emerging European market. Besides, the company has also managed to grow its

formulation business, which is essential for long-term survival. After setting up in businesses in Europe, and US the company is actively focussing on the Japanese API market, facilitated by recent regulatory changes in Japan.

As aptly put by its Managing Director, Mr PV Ramaprasad Reddy, “We have done all the hard work. We have taken care of the hardware and the software. We are now executing the strategies. The results should be visible in a few months. We believe we have mapped out what needs to be done, and today have the strength and the excitement to ensure that we go on to deliver results”.

#### **Globalisation at a glance**

- Exports to more than 70 countries, contributing roughly 50 per cent to total sales revenues
- Manufacturing and marketing subsidiaries and joint ventures in seven locations outside India
- Offices in Russia, Italy, Netherlands, UK, Tanzania, Vietnam and Costa Rica
- Participant of President Bush’s Emergency Plan for AIDA Relief (PEPFAR) programme
- Several drugs pre-approved for WHO sponsored anti-HIV programme
- Acquired a company Milpharm in UK and plans to expand presence in Japan