Aurobindo Pharma

India | Pharmaceuticals | **Result Update**

7 February 2025

In-line quarter; positive outlook

Aurobindo Pharma (ARBP IN) reported Q2FY25 results marginally weaker than our estimates. Revenue came in 2% higher than our estimates, but the lower margin led to EBITDA missing our estimates by 3%. PAT came in 5% below our estimates. The margin miss seems from the losses at the new Penicillin-G plant at Kakinada. Management expects the plant to breakeven in Q4. Revenue from the US was in line with our expectations; the EU and RoW grew well. Management has retained its EBITDA margin guidance of 21-22% for FY25. We raise our core EPS estimates by 2-3% for FY25-27. We retain **Buy** with a TP of INR 1,568.

In-line US sales; likely larger gRevlimid sales in Q4: US sales was slightly up QoQ and down YoY, in line with our expectations. We expect a gradual pickup in the base run-rate once operations for the Eugia-3 plant normalize after the remediation works. We expect a major bump-up in gRevlimid sales in Q4 – we believe this lends confidence to management to retain 21-22% EBITDA margin target for FY25 despite the nine-month run-rate being lower. For the medium term, we expect the US business to sustain a steady mid-single-digit growth.

EU, RoW perform well: Constant-currency growth of 24% in the EU surprised on the upside. Additional geography-wise & channel penetration and better demand for injectable products helped (due to supply disruption for a few competitors). We expect high growth to continue for the rest of the year before it normalizes to mid-high-single-digit growth. Biosimilar launches could add to this growth, starting in FY27. RoW revenue growth of 39% YoY benefitted from the acquisition in Indonesia. Excluding that, we estimate 25%+ growth in the quarter

Penicillin-G ramping up: Expenses at the new penicillin-G plant continue to hit EBITDA in Q3 as well; management says the plant should be break-even in Q4 and contribute in FY26. At a 50% capacity utilization, the plant could add USD 165mn to top line (or equivalent contribution to the bottom line if used internally), as per our estimates.

Biosimilars, biologics CDMO medium-term growth drivers: ARBP has a biosimilars pipeline of 14 products – three are already filed with the EU regulator. US FDA filings will kickstart in FY26. bAvastin, bProlia, bXolair and bLucentis are in Phase 3 for Europe and ROW. The company is also investing heavily in biologics CDMO. The recently announced partnership with MSD is a strong start, we believe.

Reiterate Buy with a TP of INR 1,568: We raise our core EPS estimates by 2-3% during FY25-27. ARBP trades at 15.1x FY26E core P/E; contribution from one-off gRevlimid justifies the low multiple. We retain our TP at INR 1,568 based on 22.6x FY27E core EPS that has little gRevlimid contribution. We reiterate **Buy**. Escalation of cGMP issues and resumption of pricing pressure in the US market are key risks to our call.

Key financials

YE March	FY23	FY24E	FY25E	FY26E	FY27E
Revenue (INR mn)	248,554	290,019	312,231	348,711	358,730
YoY (%)	6.0	16.7	7.7	11.7	2.9
EBITDA (INR mn)	37,582	58,430	64,417	75,773	69,894
EBITDA margin (%)	15.1	20.1	20.6	21.7	19.5
Adj PAT (INR mn)	19,275	33,648	35,510	45,930	42,420
YoY (%)	(30.6)	74.6	5.5	29.3	(7.6)
Fully DEPS (INR)	32.9	57.4	61.1	79.1	73.0
RoE (%)	7.8	12.5	11.9	14.2	11.6
RoCE (%)	9.2	13.4	13.3	16.5	14.0
P/E (x)	36.2	20.8	19.5	15.1	16.3
EV/EBITDA (x)	18.3	11.8	10.7	9.1	9.9

Note: Pricing as on 6 February 2025; Source: Company, Elara Securities Estimate

Rating: Buy

Target Price: INR 1,568

Upside: 32%

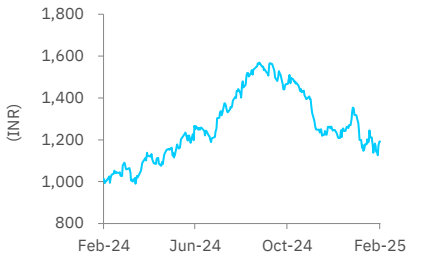
CMP: INR 1,192

As on 6 February 2025

Key data	
Bloomberg	ARBP IN
Reuters Code	ARBN.NS
Shares outstanding (mn)	581
Market cap (INR bn/USD mn)	692/7,905
Enterprise Value (INR bn/USD mn)	704/8,044
Avg daily volume 3M (INR mn/USD mn)	1,389/16
52 week high/low	1,593/959
Free float (%)	48

Note: as on 6 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	51.8	51.8	51.8	51.8
% Pledged	20.9	20.9	20.4	17.8
FII	18.0	16.7	16.6	16.3
DII	23.6	24.8	25.2	25.2
Others	6.6	6.7	6.4	6.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(3.6)	(1.6)	7.6
Aurobindo Pharma	(14.6)	(15.0)	17.5
NSE Midcap	(6.7)	(3.6)	9.2
NSE Smallcap	(9.8)	(4.6)	3.7

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Global Markets Research

Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E	FY27E
Net Revenues	248,554	290,019	312,231	348,711	358,730
EBITDA	**37,582**	**58,430**	**64,417**	**75,773**	**69,894**
Add:- Non operating Income	2,510	5,574	5,844	5,844	5,844
OPBIDTA	40,092	64,004	70,261	81,617	75,738
Less :- Depreciation & Amortization	12,446	15,217	16,250	16,509	16,917
EBIT	**27,647**	**48,787**	**54,011**	**65,108**	**58,821**
Less:- Interest Expenses	1,405	2,897	4,522	2,138	659
PBT	**26,242**	**45,890**	**49,489**	**62,971**	**58,162**
Less :- Taxes	6,849	12,110	13,941	17,002	15,704
Add/Less: - Extra-ordinaries	-	(1,919)	-	-	-
Add/Less: - Minority Interest	(118)	(132)	(38)	(38)	(38)
Reported PAT	**19,275**	**31,730**	**35,510**	**45,930**	**42,420**
Adjusted PAT	**19,275**	**33,648**	**35,510**	**45,930**	**42,420**
Balance Sheet (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Shareholder's Equity	268,399	298,428	323,758	366,166	404,482
Minority Interests	120	80	118	157	195
Borrowings	52,862	63,152	35,626	10,990	8,094
Other Non-current Liabilities	6,039	8,867	8,867	8,867	8,867
Total Liabilities	**327,419**	**370,527**	**368,370**	**386,179**	**421,637**
Net Fixed Assets	124,918	142,849	146,599	151,090	156,223
Intangibles and Goodwill	39,219	40,766	40,766	40,766	40,766
Investments	3,917	3,217	3,217	3,217	3,217
Cash and Cash Equivalents	62,476	63,417	50,079	49,743	79,332
Net Working Capital	81,500	98,451	105,882	119,536	120,272
Other Non-current Assets	15,389	21,827	21,827	21,827	21,827
Total Assets	**327,419**	**370,527**	**368,370**	**386,179**	**421,637**
Cash Flow Statement (INR mn)	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Cash profit adjusted for non-cash items	34,817	41,096	50,438	58,733	54,153
Add/Less : Working Capital Changes	(10,950)	(16,751)	(7,431)	(13,654)	(736)
Operating Cash Flow	23,868	24,345	43,007	45,079	53,417
Less:- Capex	(27,093)	(35,013)	(20,000)	(21,000)	(22,050)
Free Cash Flow	(3,226)	(10,668)	23,007	24,079	31,367
Financing Cash Flow	20,802	11,609	(36,345)	(24,415)	(1,777)
Investing Cash Flow	(916)	-	-	-	-
Net change in Cash	**16,661**	**941**	**(13,338)**	**(336)**	**29,590**
Ratio Analysis	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Income Statement Ratios (%)					
Revenue Growth	6.0	16.7	7.7	11.7	2.9
EBITDA Growth	(14.3)	55.5	10.2	17.6	(7.8)
PAT Growth	(30.9)	69.6	6.9	33.1	(8.4)
EBITDA Margin	15.1	20.1	20.6	21.7	19.5
Net Margin	7.8	11.6	11.4	13.2	11.8
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)
ROE (%)	7.8	12.5	11.9	14.2	11.6
ROCE (%)	9.2	13.4	13.3	16.5	14.0
Per Share data & Valuation Ratios					
Diluted EPS (INR)	32.9	57.4	61.1	79.1	73.0
EPS Growth (%)	(30.9)	69.6	6.9	33.1	(8.4)
DPS (INR)	7.5	4.5	6.0	7.0	8.0
P/E (x)	36.2	20.8	19.5	15.1	16.3
EV/EBITDA (x)	18.3	11.8	10.7	9.1	9.9
EV/Sales (x)	2.8	2.4	2.2	2.0	1.9
Price/Book (x)	3.4	3.1	2.8	2.5	2.3
Dividend Yield (%)	0.6	0.4	0.5	0.6	0.7

Note: Pricing as on 6 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	79,785	73,518	8.5	77,961	2.3	290,019	248,554	16.7
Gross Profit	46,631	42,012	11.0	45,858	1.7	163,990	135,621	20.9
Gross Margin (%)	58.4	57.1	130.0	58.8	(37.6)	56.5	54.6	198.0
EBITDA	16,278	16,013	1.7	15,661	3.9	58,430	37,582	55.5
EBITDA Margin (%)	20.4	21.8	(137.9)	20.1	31.4	20.1	15.1	502.7
Other Income	1,075	1,625	(33.9)	1,360	(21.0)	5,574	2,510	122.1
Interest	1,185	756	56.8	1,127	5.1	2,897	1,405	106.2
Depreciation	4,185	4,233	(1.1)	3,823	9.5	15,217	12,446	22.3
PBT	11,983	12,650	(5.3)	12,072	(0.7)	45,890	26,242	74.9
Tax	3,543	3,225	9.9	3,905	(9.3)	12,110	6,849	76.8
Tax Rate (%)	29.6	25.5	407.6	32.3	(278.3)	26.4	26.1	29.2
PAT	8,440	9,426	(10.5)	8,166	3.3	33,780	19,393	74.2
Minority Interest	18	(63)	(129.2)	7	150.7	(132)	(118)	11.3
Extraordinary items	-	-	NA	-	NA	(1,919)	-	#DIV/0!
PAT	8,458	9,363	(9.7)	8,174	3.5	31,730	19,275	64.6
Adjusted Net Income	8,458	9,363	(9.7)	8,174	3.5	33,648	19,275	74.6
NPM (%)	10.6	12.7	(213.4)	10.5	11.7	11.6	7.8	384.7

Source: Company, Elara Securities Research

Exhibit 1: Valuation

	FY23	FY24	EY25E	EY26E	EY27E
Core EPS (INR)	29.7	50.4	53.9	71.7	65.7
Core EPS growth (%)	(30.9)	69.6	6.9	33.1	(8.4)
Cash per share (INR)	106.6	108.2	86.2	85.6	136.6
Current core P/E (INR)	36.5	21.5	20.1	15.1	16.5
Core ROIC (%)	11.0	16.7	16.2	19.2	16.2

Source: Company, Elara Securities Estimate

Q3FY25 conference call highlights

Business highlights

- ARBP achieved the highest-ever quarterly revenue from operations in Q3FY25, rising 8.5% YoY to INR 79.8bn. Growth was driven by strong base product sales in the US, sustained momentum in the EU, and expansion in the high-growth markets
- Total R&D expenditure (including depreciation) amounted to INR 4.5bn, representing 5.6% of revenue.
- It recorded a forex loss of INR 490mn for the quarter
- EBITDA before forex and other income stood at INR 16.3bn, with an EBITDA margin of 20.4%. This includes the impact of higher R&D cost (~INR 500mn YoY) and lower transient product sales
- Net capex of USD 106mn was primarily allocated to capacity expansion and new business development
- The net cashflow generation was USD 49mn while net debt after investments stood at USD 84mn as on December 2024
- The formulations segment contributed 87% of total revenue, up 11% YoY

US business

- US revenue declined by 2.3% YoY to INR 36.7bn, primarily due to lower transient product sales, contributing 46.0% of consolidated revenue
- In USD terms, revenue dropped 3.7% YoY to USD 435mn

- Revenue from specialty & injectables in the US reached ~USD 76mn in Q3FY25, accounting for 18% of total US revenue. On a global proforma basis, specialty & injectables revenue stood at ~USD 121mn
- ARBP filed four ANDA with the USFDA during the quarter and received the final approval for eight ANDA, including one specialty and injectables product
- The company launched seven new products during the quarter
- It has received USFDA approvals for Metformin Hydrochloride Extended-Release Tablets, Clozapine Orally Disintegrating Tablets, Glycopyrrolate Oral Solution, Cimetidine Tablets, Metronidazole Gel USP, Pazopanib Tablets, and Mometasone Furoate Nasal Spray (OTC)
- For Deutetrabenazine Tablets (FTF), the ANDA, which was previously tentatively approved, received final approval in December 2024. However, the launch depends on the settlement date
- Price erosion remains neutral, supported by a well-diversified portfolio. The company plans to continue selling gRevlimid post-patent expiry
- Oral solids and over-the counter (OTC) segments performed well during the quarter, with management being optimistic about sustained growth in the upcoming period

EU business

- Revenue in the EU surged 22.7% YoY to INR 21.2bn, contributing 26.6% of consolidated revenue. This growth was fueled by strong performance across all key markets
- In EUR terms, revenue rose 22.1% YoY to EUR 236mn, up from EUR 229mn in Q2FY25, with all major EU markets contributing to growth

Growth market formulations

- Revenue from growth market formulations grew 39.3% YoY to INR 8.7bn, accounting for 10.9% of consolidated revenue. In USD terms, revenue increased 37.7% YoY to USD 104mn
- Domestic formulations sales stood at INR 700mn for the quarter
- The China plant was commercialized in the last week of November and is set to contribute to revenue from FY26. It has already received EU approval, and the company is in the process of obtaining China's regulatory approval. Additionally, efforts are underway to secure USFDA approval. In the next 2-3 years, this facility is likely to become a significant contributor to the company
- The China plant has an annual oral solid dosage (OSD) capacity of 2.0bn units, with potential for further expansion in the near to medium term
- For the next 2-4 quarters, the company plans to build its own salesforce for biosimilars. In the interim, biosimilar Trastuzumab will continue to be sold through a partner

Biosimilars

- ARBP is advancing its second wave of oncology and immunology biosimilars, positioning itself for long-term value creation and growth
- The company has received market authorization for Trastuzumab in India, along with an EU-GMP certificate of compliance for both Drug Substance and Drug Product facilities in November 2024
- It has also received positive opinions from CHMP Pegfilgrastim with management expecting market authorization within the next two months
- The biosimilar to Xgeva and Prolia (Denosumab), aimed at post-menopausal osteoporosis treatment, is on track to complete its clinical study by May 2025, with the clinical study report expected by September
- Bevqolva (Avastin Biosimilar): It has been approved by The Medicines and Healthcare products Regulatory Agency (MHRA) while Zefylti received a positive opinion from the European Medicines Agency (EMA) in November 2024

- DyruPeg received a positive opinion from the EMA in January 2025, with commercial supply to the EU expected to begin in the July quarter
- Three product launches are planned for Q1FY25, with two additional product submissions expected in CY25
- Currently, four biosimilars are in global Phase 3 clinical trials
- For Omalizumab recruitment has been slightly delayed by 4-5 months, but management remains confident about completing the clinical study by year-end, with filing is expected in FY26
- For Bevacizumab, the recruitment phase is set to conclude within the next two quarters, with filing targeted for late FY26 or early FY27
- Ophthalmic biosimilar recruitment is progressing slower than expected
- By FY26, 6-7 biosimilar products are likely to be launched in the EU or semi-regulated markets, with FY28-30 anticipated to establish a strong revenue base from this segment
- Around 30-35% of total R&D spending is allocated to biosimilars development, with 70-75% of that budget directed toward conducting pivotal Phase 3 clinical studies

Eugia business

- All corrective actions for Eugia 3 have been successfully implemented
- Management is confident that peak capacity utilization of 65-68% will be achieved starting this quarter
- Management has assured there will be no revenue loss from this business in Q4FY25 due to plant-related issues, eliminating the previous USD 10mn impact
- A meeting regarding the plant was held in October, and all concerns related to Eugia 3 have been resolved
- Eugia continues to expand, registering 20% growth rate in the EU market

PEN-G Plant

- **Pen-G** business is likely to reach break-even by March 2025
- **PEN-G** plant reported an operational loss of INR 600mn for the quarter
- The selling price of Pen-G stands at USD 26
- Following slight modifications, yield has improved, and management expects to scale up Pen-G production by April 2025

ARV, CMO & API business

- Revenue from the Anti-Retroviral(ARV) segment surged 71.2% YoY to INR 3.1bn, contributing 3.8% of consolidated revenue. Growth was driven by additional business opportunities. In USD terms, ARV revenue rose 68.7% YoY to USD 36mn
- Revenue from the Active Pharmaceutical Ingredient (API) segment declined 1.6% YoY to INR 10.1bn, accounting for 12.6% of consolidated revenue. In USD terms, API revenue fell 3.0% YoY to USD 119mn
- **C**ivil construction has commenced for ARBP's large-scale CMO facility, dedicated to manufacturing mammalian cell culture products. The facility is set to be commissioned for qualification activities and engineering runs in CY26, with initial supplies anticipated in CY28
- The CMO segment is likely to be a high-margin business, with estimated margin of around 50%
- The company plans to expand its current 2x 15 KL bioreactor capacity by adding two additional 15 KL bioreactor lines to capitalize on new opportunities in the CMO space

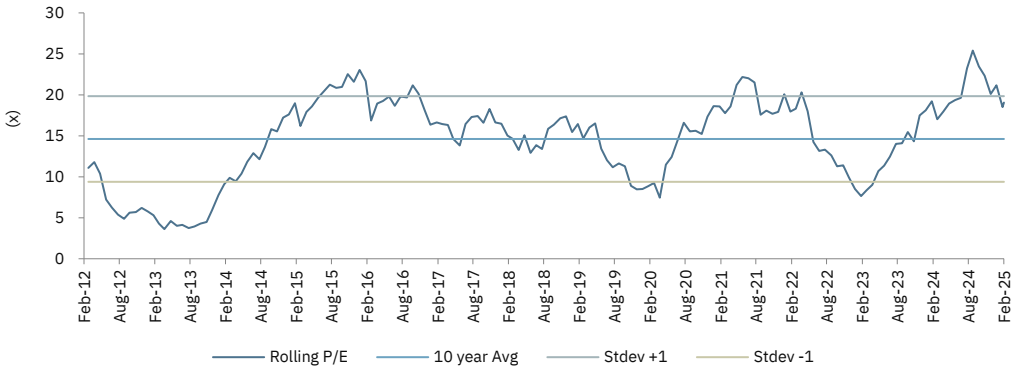
Vaccine and peptides

- ARBP has filed 14 DMF for peptides
- The company has three GLP-1 peptides in its development pipeline. One GLP-1 peptide has already been filed, while another is expected to be filed in FY26
- All GLP-1 products will be filed from the Vizag plant
- ARBP possesses expertise in both solid-phase and liquid-phase synthesis
- The company is enhancing capabilities by establishing oligonucleotide synthesis facilities, expected to be operational by the end of CY25

Guidance

- Further improvement in net debt is likely by the end of FY25
- The company anticipates continued growth momentum in the EU market
- Management remains confident in achieving an EBITDA margin of 21-22% for FY25
- Growth is set to be driven by increased transient sales in the US
- The company maintains an inventory level of 3-6 months at any given time
- Q4FY25 gRevlimid sales is set to surpass that of Q4FY24
- The US-based OSD plant at Dayton is set to be commercialized in the next fiscal year
- Another US facility, currently manufacturing topicals, is likely to be fully operational by FY26, expanding to include transdermal and respiratory production lines

Exhibit 2: On a rolling P/E basis, ARBP is trading at a 4% discount to its STD+1 of 19.8x



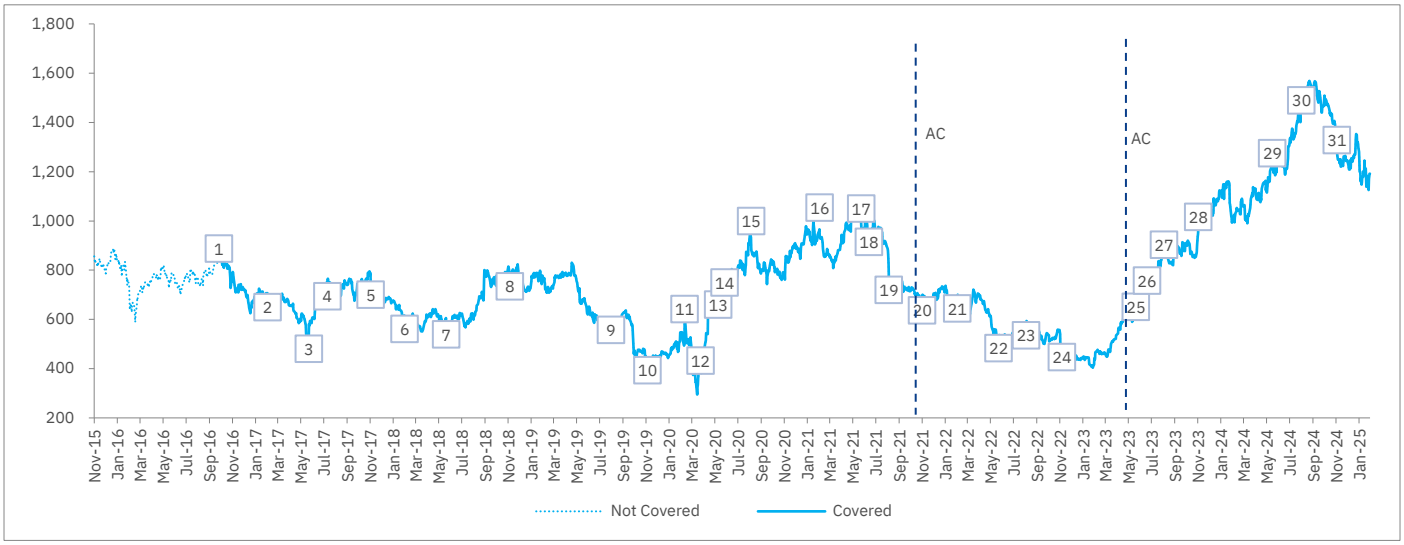
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	309,377	343,529	357,777	312,231	348,711	358,730	0.9	1.5	0.3
EBITDA	64,985	75,391	70,159	64,417	75,773	69,894	(0.9)	0.5	(0.4)
PAT	34,854	45,326	42,310	35,510	45,930	42,420	1.9	1.3	0.3
EPS (INR)	60.0	78.0	72.8	61.1	79.1	73.0	1.9	1.3	0.3

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
25	29-May-2023	Accumulate	INR 691	INR 611
26	27-Jun-2023	Accumulate	INR 800	INR 719
27	11-Aug-2023	Accumulate	INR 949	INR 863
28	10-Nov-2023	Buy	INR 1,208	INR 980
29	24-May-2024	Accumulate	INR 1,384	INR 1,235
30	9-Aug-2024	Accumulate	INR 1,568	INR 1,450
31	11-Nov-2024	Buy	INR 1,568	INR 1,286

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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