

Expecting RoCE expansion in H2FY26

Est. Vs. Actual for Q3FY25: Revenue – **INLINE**; EBITDA – **MISS**; PAT – **MISS**

Changes in Estimates post Q3FY25

FY25E/FY26E: Revenue: 7.0%/1.0%; EBITDA: 3.7%/3.9%; PAT: 4.9%/5.1%

Recommendation Rationale:

- Revenue increases in the European, Growth Markets, and ARV segments were offset by declines in the US and API segments. In the US market, injectable sales saw a \$77 Mn decline, representing a 6% QoQ drop. This reflects significant price erosion despite an additional \$10-\$15 Mn in revenue from gRevlimid.
- Gross margins improved by 130bps YoY but declined by 38bps QoQ. EBITDA margins decreased by 200bps YoY and 31bps QoQ. Reported profit stood at Rs 846 Cr, falling short of the Rs 948 Cr expectation.

Sector Outlook: Positive

Company Outlook & Guidance: Aurobindo has allocated Rs 7,000 Cr in Capex over the past two years, focusing on areas such as Biosimilars and Pen-G (API). The company's future valuations will largely hinge on the return on invested capital (ROIC) generated from this significant investment.

Current Valuation: PE 20x for FY26Earnings (Earlier Valuation: PE 22x)

Current TP: Rs 1,500/share (Earlier TP: Rs 1,500/share)

Recommendation: BUY

Financial Performance

- Aurobindo Pharma's Q3FY25 results were below expectations, with US revenue at \$435 Mn, showing minimal QoQ growth. Revenue increases in the European, Growth Markets, and ARV segments were offset by declines in the US and API segments. In the US market, injectable sales declined by \$77 Mn, representing a 6% QoQ drop, reflecting significant price erosion despite an additional \$10-\$15 Mn in revenue from gRevlimid.
- Gross margins improved by 130 bps YoY but declined by 38 bps QoQ, while EBITDA margins contracted by 200 bps YoY and 31 bps QoQ. Reported profit stood at Rs 846 Cr, missing the Rs 948 Cr expectation.
- Eugia III unit:** This unit has recently received an Official Action Indicated (OAI) status from the USFDA. It is a significant facility that covers injectables and ophthalmology, with 111 approvals already secured and 29 approvals currently under review. This development could potentially have a negative impact on Aurobindo Pharma's upcoming launches.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	7,979	2.3	8.5	7,882	1.2
EBITDA	1,578	0.8	-1.5	1,654	-4.6
EBITDA Margin	19.8%	-31	-201	21.0%	
Net Profit	846	3.5	-10.1	948	-10.8
EPS (Rs)	14.5	3.5	-10.1	16.2	-10.8

Source: Company, Axis Securities Research

(CMP as of 07th February 2025)

CMP (Rs)	1,191
Upside /Downside (%)	26%
High/Low (Rs)	1,592/958
Market cap (Cr)	69,170
Avg. daily vol. (6m)Shrs.	3,00,000
No. of shares (Cr)	58.50

Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	51.8	51.8	51.8
FII	16.7	16.6	16.3
MFs / UTI	19.2	18.5	17.8
Others	12.3	13.0	14.1

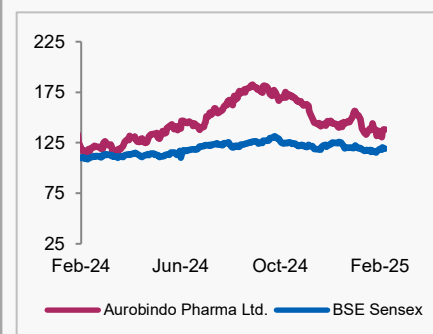
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	29,002	31,500	34,382
EBITDA	5,843	6,615	7,392
Net Profit	3,169	3,740	4,286
EPS (Rs)	54.2	63.9	73.3
PER (x)	22.0	18.6	16.3
EV/EBITDA (x)	12.0	10.3	8.9
P/BV (x)	2.3	2.1	1.9
ROE (%)	10.6	11.2	11.5

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	7.0%	1.0%
EBITDA	3.7%	3.9%
PAT	4.9%	5.1%

Relative Performance



Source: Ace Equity

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Outlook

- The Injectable Business contributes \$300 Mn in revenue, accounts for 25% of US sales, and has the highest gross margins. However, the injectable segment's OAI status may negatively impact new launches. Additionally, price erosion within the injectable portfolio poses a risk to gross margins in the upcoming quarters.
- Despite this, the newly commenced plant in Vizag could support new injectable launches. Aurobindo Pharma has invested Rs 7,000 Cr in Capex over the last two years, primarily in segments such as Biosimilars and Pen-G (API). The company's valuations in the coming years will be influenced by the return on invested capital (ROIC) generated from this Capex, with ROIC improvement expected in 2HFY26.
- Despite these challenges, considering favourable industry trends and investments in high-growth segments, Aurobindo Pharma is projected to deliver a Revenue/PAT CAGR of 8.5%/14.5% over FY24-27E.

Valuations & Recommendation

- Aurobindo Pharma has promising future prospects with upcoming product launches and strategic initiatives in areas such as entry into Biosimilars, peptides, and CDMO services. **We maintain our BUY recommendation on Aurobindo Pharma with a target price of Rs 1,500/share.**

Key ConCall Highlights

- Guidance: Reiterated 21-22% EBITDA margin for FY25 and Q4 to be stronger, led by higher Eugia sales and YoY higher gRevlimid sales in Q4.
- US: Price erosion was muted in the US. We expect US OTCs' growth momentum to continue over the next few quarters.
- Debt: Expects net debt position to improve further going ahead, led by efforts to improve WC, etc.
- Eugia: At 50% utilisation on existing capacity (ex. planned Lines 13-14) and expected to improve to 70% by Mar'24E. Eugia impact per quarter is ~USD 10 Mn.
- Eugia has been growing at a 20% rate in Europe. Multiple players are witnessing supply issues, and Eugia will leverage these opportunities.

Key Risks to Our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressures in the injectable portfolio
- Delay in the launch of Biosimilars in the market

Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	31,500	34,382	31,124	34,034	7.0%	1.0%
EBITDA	6,615	7,392	6,381	7,113	3.7%	3.9%
PAT	3,740	4,286	3,564	4,078	4.9%	5.1%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Sales	7,352	7,580	7,567	7,796	7,979	8.5	2.3
Other Operating Income	0	0	0	0	0		
Net Sales	7,352	7,580	7,567	7,796	7,979	8.5	2.3
Growth (%)	14.7%	17.1%	10.5%	8.0%	8.5%		
Total Expenditure	5,750	5,907	5,947	6,230	6,401	11.3	2.7
Raw Material Consumed	3,151	3,061	3,073	3,210	3,315	5.2	3.3
% of sales	42.9%	40.4%	40.6%	41.2%	41.6%		
Gross margins %	57.1%	59.6%	59.4%	58.8%	58.4%	130	-38
Employee Expenses	990	1,026	1,072	1,109	1,132	14.3	2.0
% of sales	13.5%	13.5%	14.2%	14.2%	14.2%		
Forex	0	14	0	0	50		
Other Expenses	1,610	1,806	1,803	1,910	1,904	18.6	6.0
% of sales	21.9%	23.8%	23.8%	24.5%	23.9%		
EBITDA	1,601	1,673	1,620	1,566	1,578	-1.5	0.8
EBITDAM (%)	21.8%	22.1%	21.4%	20.1%	19.8%	-201	-31
Interest	76	89	111	113	118		
Depreciation	423	354	404	382	419		
Share of JV	-3	-13	-1	0	2		
Exceptional Items	0	-122	0	0	0		
Other Income	163	136	221	136	157		
PBT	1,263	1,230	1,324	1,207	1,200	-5.0	-0.6
Tax	322	323	406	391	354		
Tax (%)	25.5%	26.2%	30.6%	32.3%	29.5%		
Reported PAT	940	908	919	817	846		
Adj. PAT	940	999	919	817	846	-10.1	3.5

Source: Company, Axis Securities Research

Geographical Breakup

Particulars (Rs Cr)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
USA	3,756	3,588	3,555	3,530	3,671	-2.3	4.0
EU	1,728	1,832	1,982	2,105	2,121	22.7	0.8
Growth markets	627	852	709	812	873	39.2	7.5
ARV	169	238	229	193	307	81.7	59.1
Betalactum	737	698	791	837	722	-2.0	-13.7
Non Betalactum	285	321	321	319	284	-0.4	-11.0

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net Sales	29,002	31,500	34,382	37,061
Growth (%)	16.7%	8.6%	9.2%	7.8%
Total Expenditure	23,159	24,885	26,990	28,908
Raw Material Consumed	12,603	12,915	14,097	15,010
% of sales	43.5%	41.0%	41.0%	40.5%
Gross margins (%)	56.5%	59.0%	59.0%	59.5%
Employee Expenses	3,923	4,410	4,814	5,189
% of sales	13.5%	14.0%	14.0%	14.0%
Other Expenses	5,155	5,922	6,258	6,671
% of sales	17.8%	18.8%	18.2%	18.0%
EBIDTA	5,843	6,615	7,392	8,153
EBITDAM (%)	20.1%	21.0%	21.5%	22.0%
Depreciation	1,522	1,676	1,741	1,885
EBIT	4,321	4,939	5,652	6,269
EBITM (%)	14.9%	15.7%	16.4%	16.9%
Interest	290	277	277	277
Other Income	557	305	310	325
Exceptional Items	-192	0	0	0
Share of P/L of Associates	-17	20	30	30
PBT	4,380	4,987	5,715	6,347
Tax Rate (%)	27.6%	25.0%	25.0%	25.0%
Tax	1,211	1,247	1,429	1,587
Reported PAT	3,169	3,740	4,286	4,760

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Share Capital	59	59	59	59
Reserves & Surplus	29,792	33,269	37,292	41,788
Shareholders Fund	29,851	33,327	37,350	41,847
Total Debt	6,648	6,148	6,148	6,148
- Deferred Tax (Net)	3,022	3,017	3,075	3,129
- Trade Payables	4,454	4,747	4,898	5,077
Provisions	12,199	12,390	12,898	13,406
Others	45,071	48,735	53,323	58,382
Total Liabilities	1.6	1.6	1.6	1.6
Gross Block	5,239	1,800	1,800	1,800
Depreciation	18,157	19,957	21,757	23,557
% of GB	6,896	8,572	10,313	12,197
Net Block	38.0%	43.0%	47.4%	51.8%
CWIP	11,261	11,384	11,444	11,359
- Fixed Assets	2,739	2,739	2,739	2,739
Investment	20,866	21,099	21,389	21,519
- Deferred Tax (Net)	51	51	51	51
Loans & Advances	9,808	10,788	11,775	12,692
Others	4,817	5,696	6,217	6,701
- Inventories	6,278	7,464	9,922	13,141
- Trade Receivables	3,239	3,625	3,956	4,265
- Cash	24,205	27,636	31,933	36,863
Total Assets	45,071	48,735	53,322	58,382

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
PBT	4,380	4,987	5,715	6,347
Add: Depreciation	1,522	1,676	1,741	1,885
Add: Interest	290	277	277	277
Cash flow from operations	6,191	6,940	7,732	8,508
Change in working capital	1,926	1,666	1,506	1,362
Taxes	1,211	1,247	1,429	1,587
Miscellaneous expenses	0	0	0	0
Net cash from operations	3,055	4,027	4,798	5,560
Capital expenditure	-3,473	-1,800	-1,800	-1,800
Change in Investments	101	-1	0	0
Net cash from investing	-3,373	-1,801	-1,800	-1,800
Increase/Decrease in debt	1,362	-500	0	0
Dividends	-264	-264	-264	-264
Interest	-290	-277	-277	-277
Others	-296	-0	0	0
Net cash from financing	512	-1,040	-540	-540
Net Inc./(Dec.) in Cash	194	1,186	2,457	3,219
Opening cash balance	6,084	6,278	7,464	9,922
Closing cash balance	6,278	7,464	9,922	13,141

Source: Company, Axis Securities Research

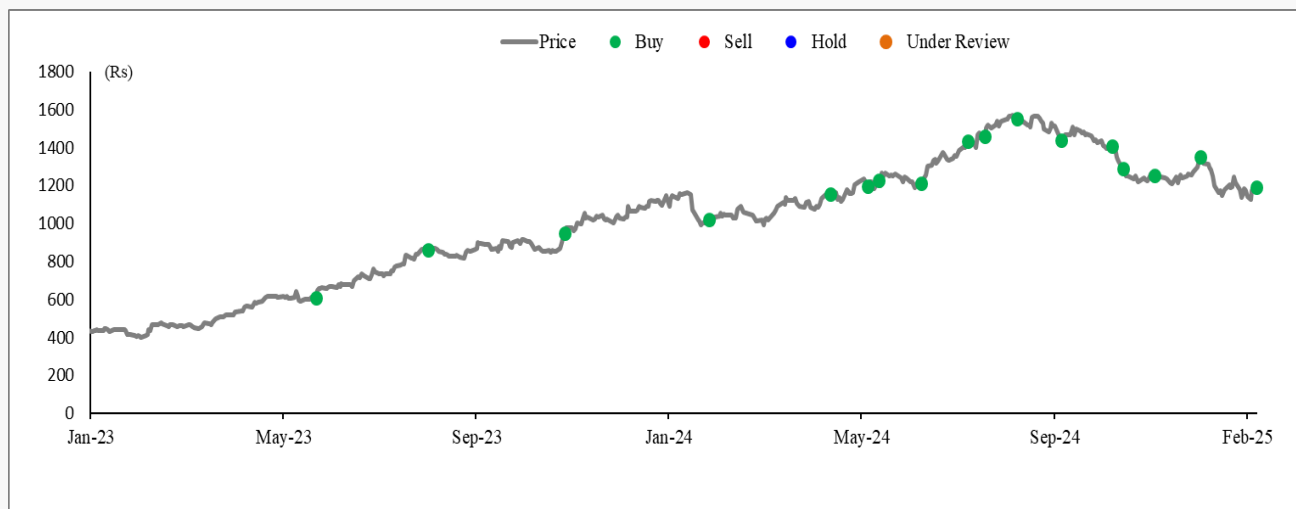
Ratio Analysis

(%)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Sales growth				
OPM	16.7	8.6	9.2	7.8
Oper. profit growth	20.1	21.0	21.5	22.0
COGS / Net sales	57.1	13.2	11.7	10.3
Overheads/Net sales	43.5	41.0	41.0	40.5
Depreciation / G. block	31.3	32.8	32.2	32.0
Effective interest rate	8.4	8.4	8.0	8.0
Net wkg.cap / Net sales	27.6	25.0	25.0	25.0
Net sales / Gr block (x)	40.4	42.5	43.3	43.8
RoCE	1.6	1.6	1.6	1.6
Debt/equity (x)	15.1	16.3	17.8	19.1
Effective tax rate	0.2	0.2	0.2	0.1
RoE	27.6	25.0	25.0	25.0
Payout ratio (Div/NP)	10.6	11.2	11.5	11.4
EPS (Rs)	4.5	4.5	4.5	4.5
EPS Growth	54.2	63.9	73.3	81.4
CEPS (Rs)	64.4	18.0	14.6	11.1
DPS (Rs)	80.2	92.6	103.0	113.6

Source: Company, Axis Securities Research

Aurobindo Pharma Price Chart and Recommendation History



Date	Reco	TP	Research
29-May-23	BUY	700	Result Update
11-Aug-23	BUY	1,000	Result Update
09-Nov-23	BUY	1,100	Result Update
12-Feb-24	BUY	1,170	Result Update
02-May-24	BUY	1,265	Top Picks
27-May-24	BUY	1,320	Result Update
03-Jun-24	BUY	1,320	Top Picks
01-Jul-24	BUY	1,330	Top Picks
01-Aug-24	BUY	1,650	Top Picks
12-Aug-24	BUY	1,612	Result Update
02-Sep-24	BUY	1,650	Top Picks
01-Oct-24	BUY	1,730	Top Picks
04-Nov-24	BUY	1,730	Top Picks
11-Nov-24	BUY	1,460	Result Update
02-Dec-24	BUY	1,730	Top Picks
01-Jan-25	BUY	1,500	Top Picks
10-Feb-25	BUY	1,500	Result Update

Source: Axis Securities Research

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