

Aurobindo Pharma | BUY

In-line 2Q; Future growth drivers intact

Aurobindo's (ARBP) 2QFY25 results were broadly in-line with our expectations. Revenue/EBITDA/PAT grew 8%/12%/8% YoY, and margins expanded by 65 bps YoY. The US segment, which accounts for 45% of sales, grew by 4% YoY, marred by supply chain challenges – this should ease as production gets streamlined. Europe reported robust 19% YoY growth driven by strong performance across key markets. Growth markets grew 44% YoY and API segments reported muted growth at -1% YoY. ARBP is heavily investing in high ROIC areas (above 20%), such as PenG & its derivatives, biosimilars, biologic CDMO, specialty oncology and complex injectables. These investments are expected to drive Revenue/EBITDA/PAT CAGR of 9%/13%/15% respectively over FY24 to FY27, despite a sharp decline in Revlimid sales in FY27. With improving business fundamentals and structural growth drivers in place, ARBP's currently trades at ~17x/15x on FY26/27 EPS, which appears attractive and represents a significant discount compared to peers. We maintain a BUY with a Dec'25 TP of INR 1,755.

- USA flat on supply chain challenges:** Revenue grew 4% YoY to INR 35.3bn, with specialty & Injectable revenue contributing ~19% of US revenues (USD 81mn) declined 11% YoY due to supply chain challenges. Revenue from oral gx products grew 9% YoY to USD 289mn driven by volume gain and new product launches. Management has indicated that specialty segment is picking up as production is being streamlined. Overall the management indicated that price erosion remained neutral. During the quarter ARBP filed 10 ANDAs with USFDA. The company launched 14 products during the quarter. The company is making steady progress with its biosimilar pipeline; they have completed recruitment for bDenosumab trials and are on track to complete this by May-Jun'25. However, trials for bXolair are ramping slower than expected; the management now expect complete recruitment by Jan-Feb'25. The company has negligible sales for gRevlimid during the quarter, it is expected to pick from 4Q onwards.
- Europe, Growth markets and API:** The Europe business grew 19% YoY to INR 21bn and contributed 27% of overall revenue. The management reiterated annual guidance of EUR 900mn for the segment driven by 4-5 launches and should post high single to low double digit growth going forward. The margin profile of the Europe segment could improve as the biosimilar sales ramp-up. The company aims to commercialise bDenosumab in CY26. Growth markets posted a strong performance, growing 44% YoY this was mainly driven by sales expansion and entry into new geographies. API business was muted declining 1% YoY to INR 1.2bn.
- Future growth drivers:** The company has several near term growth drivers namely; (1) ramp-up of Pen-G & its derivatives; (2) Multiple biosimilar launches in EU, 2+ launches in the US; and (3) Vizag/China plants to strengthen US injectable and EU sales, respectively. The company is setting up 30kl of mammalian drug substance facility (25-30mn vials) for INR 10bn as part of its biologic CDMO agreement with Merck. The commencement could be in FY28 and ramp-up will be faster as it for Merck's existing product. Based on

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	2,46,171	2,87,045	3,12,039	3,50,752	3,72,580
Sales Growth (%)	5.4	16.6	8.7	12.4	6.2
EBITDA	37,582	58,430	67,792	77,957	84,156
EBITDA Margin (%)	15.1	20.1	21.5	22.0	22.4
Adjusted Net Profit	19,571	32,835	37,260	44,988	50,091
Diluted EPS (INR)	33.4	56.0	63.6	76.8	85.5
Diluted EPS Growth (%)	-26.1	67.8	13.5	20.7	11.3
ROIC (%)	7.9	11.5	12.0	13.8	14.3
ROE (%)	7.6	11.6	11.8	12.7	12.5
P/E (x)	38.6	23.0	20.3	16.8	15.1
P/B (x)	2.8	2.5	2.3	2.0	1.8
EV/EBITDA (x)	19.7	12.9	10.7	9.0	7.9
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 11/Nov/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,755
Upside/(Downside)	36.1%
Previous Price Target	1,710
Change	2.6%

Key Data – ARBP IN

Current Market Price	INR1,289
Market cap (bn)	INR748.7/US\$8.9
Free Float	46%
Shares in issue (mn)	585.9
Diluted share (mn)	585.9
3-mon avg daily val (mn)	INR1,858.1/US\$22.0
52-week range	1,593/959
Sensex/Nifty	79,496/24,141
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	-13.8	14.3	31.6
Relative*	-11.8	4.5	7.4

* To the BSE Sensex

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industry standards, we estimate peak sales potential of INR 13bn with EBITDA margins upwards of 30%. The civil work for this project has commenced and is on track to be completed by 2026.

■ Key Financials:

- Revenue/EBITDA/APAT grew 8%/12%/8% YoY to INR 78bn/15.7/8.2bn and were broadly in line with JMFe, however EBITDA/PAT were below consensus by 7%/16% respectively;
- EBITDA margins expanded 65bp YoY to 20.1% due to improved gross margins;
- R&D spend for the quarter amounted to INR 4.1bn (5.3% of sales);
- Net Capex of USD 80mn primarily towards capacity enhancements
- Net debt including investments is at ~USD 133mn as on Sep'24;
- ETR: 30% in FY25

Exhibit 1. 2QFY25 review

Particulars (Rs mn)	Q2FY24A	Q2FY25A	YoY (%)	Q2FY25E	% Change	Q2FY25E (cons.)	% Change	Q1FY25	QoQ (%)
Net Sales	72,194	77,961	8.0	76,908	1.4	77,562.0	0.5	75,670	3.0
Material Expenses	32,367	32,103	(0.8)	32,500	(1.2)			30,727	4.5
Employee Expenses	9,550	11,095	16.2	10,900	1.8			10,720	3.5
Other Expenses	16,245	19,102	17.6	18,000	6.1			18,028	6.0
EBITDA	14,032	15,661	11.6	15,508	1.0	16,769.0	(6.6)	16,196	(3.3)
Depreciation	4,175	3,823	(8.4)	4,050	(5.6)			4,042	
EBIT	9,857	11,839	20.1	11,458	3.3			12,154	(2.6)
Other Income	1,870	1,214	(35.1)	1,500	(19.1)			2,199	
Interest Cost	682	1,127	65.3	1,200	(6.1)			1,110	
FX Gains / (Loss)	(298)	146	(148.9)	11				10	
PBT	10,747	12,072	12.3	11,769	2.6			13,253	(8.9)
Tax	3,237	3,905	20.6	3,700	5.5			4,057	
Minority Interest/Share of loss in JV	52	7	(86.1)	(15)				(4)	
RPAT	7,563	8,174	8.1	8,054	1.5	9,719.0	(15.9)	9,192	(11.1)

Margin Analysis	Q2FY24A	Q2FY25A	YoY (bps)	Q2FY25E	Change (bps)	Q2FY25E (cons.)	Change (bps)	Q1FY25	QoQ (bps)
Material Expenses % Net Sales	44.8	41.2	(366)	42.3	(108)			40.6	57
Employee Expenses % Net Sales	13.2	14.2	100	14.2	6			14.2	7
Other Expenses % Net Sales	22.5	24.5	200	23.4	110			23.8	68
EBITDA Margin (%)	19.4	20.1	65	20.2	(8)	21.6	(153)	21.4	(131)
Tax Rate (%)	30.1	32.3	223	31.4	91			30.6	174
APAT Margin (%)	10.5	10.5	1	10.5	1			12.1	(166)

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	2,46,171	2,87,045	3,12,039	3,50,752	3,72,580	
Sales Growth	5.4%	16.6%	8.7%	12.4%	6.2%	
Other Operating Income	2,383	2,974	3,271	3,598	3,958	
Total Revenue	2,48,554	2,90,019	3,15,310	3,54,350	3,76,538	
Cost of Goods Sold/Op. Exp	1,12,933	1,26,029	1,27,701	1,45,284	1,53,251	
Personnel Cost	35,223	39,229	44,143	46,774	49,703	
Other Expenses	62,817	66,330	75,674	84,335	89,428	
EBITDA	37,582	58,430	67,792	77,957	84,156	
EBITDA Margin	15.1%	20.1%	21.5%	22.0%	22.4%	
EBITDA Growth	-14.3%	55.5%	16.0%	15.0%	8.0%	
Depn. & Amort.	12,446	15,217	16,529	19,447	20,988	
EBIT	25,136	43,213	51,263	58,510	63,169	
Other Income	2,906	5,186	6,679	7,641	9,869	
Finance Cost	1,405	2,897	4,500	4,320	3,888	
PBT before Excep. & Forex	26,638	45,502	53,443	61,832	69,150	
Excep. & Forex Inc./Loss(-)	-396	-1,531	150	0	0	
PBT	26,242	43,972	53,593	61,832	69,150	
Taxes	6,849	12,110	16,078	16,695	18,809	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	117	132	150	149	250	
Reported Net Profit	19,277	31,730	37,365	44,988	50,091	
Adjusted Net Profit	19,571	32,835	37,260	44,988	50,091	
Net Margin	7.9%	11.3%	11.8%	12.7%	13.3%	
Diluted Share Cap. (mn)	585.9	585.9	585.9	585.9	585.9	
Diluted EPS (INR)	33.4	56.0	63.6	76.8	85.5	
Diluted EPS Growth	-26.1%	67.8%	13.5%	20.7%	11.3%	
Total Dividend + Tax	1,465	2,051	2,051	2,637	2,637	
Dividend Per Share (INR)	2.5	3.5	3.5	4.5	4.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	26,125	43,780	53,593	61,832	69,150	
Depn. & Amort.	12,446	15,217	16,529	19,447	20,988	
Net Interest Exp. / Inc. (-)	1,290	2,681	4,500	4,320	3,888	
Inc (-) / Dec in WCap.	-10,950	-16,751	-6,198	-15,176	-8,423	
Others	2,129	-2,915	-6,700	-7,667	-9,797	
Taxes Paid	-7,172	-17,666	-16,253	-16,875	-18,993	
Operating Cash Flow	23,868	24,345	45,470	45,881	56,812	
Capex	-27,204	-35,615	-17,313	-20,002	-20,001	
Free Cash Flow	-3,337	-11,270	28,157	25,879	36,811	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-12,574	-6,945	0	0	0	
Investing Cash Flow	-39,778	-42,560	-17,313	-20,002	-20,001	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-4,395	-2,636	-2,051	-2,637	-2,637	
Inc / Dec (-) in Loans	24,576	14,613	-6,315	-5,684	-5,115	
Others	-2,037	-3,973	2,056	3,206	5,870	
Financing Cash Flow	18,144	8,004	-6,310	-5,114	-1,882	
Inc / Dec (-) in Cash	2,234	-10,210	21,848	20,764	34,929	
Opening Cash Balance	45,689	62,352	63,289	85,136	1,05,901	
Closing Cash Balance	62,352	63,289	85,136	1,05,901	1,40,829	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	2,68,399	2,98,428	3,33,742	3,76,094	4,23,549	
Share Capital	586	586	586	586	586	
Reserves & Surplus	2,67,813	2,97,842	3,33,156	3,75,508	4,22,963	
Preference Share Capital	0	0	0	0	0	
Minority Interest	120	80	82	83	85	
Total Loans	48,615	63,152	56,837	51,153	46,038	
Def. Tax Liab. / Assets (-)	-2,879	-8,561	-8,732	-8,907	-9,085	
Total - Equity & Liab.	3,14,255	3,53,099	3,81,929	4,18,424	4,60,587	
Net Fixed Assets	1,64,137	1,83,615	1,84,399	1,84,954	1,83,967	
Gross Fixed Assets	1,66,647	2,16,564	2,42,564	2,62,565	2,82,566	
Intangible Assets	5,961	5,952	5,952	5,952	5,952	
Less: Depn. & Amort.	62,371	77,587	94,116	1,13,563	1,34,551	
Capital WIP	53,900	38,687	30,000	30,001	30,001	
Investments	3,917	3,217	3,217	3,217	3,217	
Current Assets	2,24,071	2,51,757	2,77,299	3,21,228	3,69,312	
Inventories	85,112	98,082	96,213	1,09,460	1,15,463	
Sundry Debtors	44,664	48,167	56,151	63,103	67,055	
Cash & Bank Balances	62,352	63,289	85,136	1,05,901	1,40,829	
Loans & Advances	180	187	2,751	2,752	2,752	
Other Current Assets	31,763	42,032	37,048	40,012	43,213	
Current Liab. & Prov.	77,870	85,489	82,986	90,975	95,707	
Current Liabilities	38,713	44,542	43,971	50,094	52,870	
Provisions & Others	39,157	40,948	39,016	40,881	42,837	
Net Current Assets	1,46,201	1,66,268	1,94,313	2,30,253	2,73,605	
Total - Assets	3,14,255	3,53,099	3,81,929	4,18,423	4,60,789	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	7.9%	11.3%	11.8%	12.7%	13.3%	
Asset Turnover (x)	0.8	0.9	0.9	0.9	0.9	
Leverage Factor (x)	1.1	1.2	1.2	1.1	1.1	
RoE	7.6%	11.6%	11.8%	12.7%	12.5%	

Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	458.1	509.3	569.6	641.9	722.9	
ROIC	7.9%	11.5%	12.0%	13.8%	14.3%	
ROE	7.6%	11.6%	11.8%	12.7%	12.5%	
Net Debt/Equity (x)	-0.1	0.0	-0.1	-0.1	-0.2	
P/E (x)	38.6	23.0	20.3	16.8	15.1	
P/B (x)	2.8	2.5	2.3	2.0	1.8	
EV/EBITDA (x)	19.7	12.9	10.7	9.0	7.9	
EV/Sales (x)	3.0	2.6	2.3	2.0	1.8	
Debtor days	66	61	65	65	65	
Inventory days	125	123	111	113	112	
Creditor days	67	70	65	66	66	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jul-24	Buy	1,640	
13-Aug-24	Buy	1,710	4.3
4-Sep-24	Buy	1,710	0.0

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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