

BUY

TP: Rs 1,728 | ▲ 34%

AUROBINDO PHARMA

Pharmaceuticals

11 November 2024

The worst is over for Eugia plant

- 2QFY25 earnings were marginally below our estimates due to supply issues from Eugia plant affecting Global Specialty/Injectable sales
- Supplies for existing products from Unit 3 to normalise in H2FY25; we expect ARBP to achieve global injectable sales of ~US\$ 700mn in FY26
- We maintain BUY and ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728

Foram Parekh

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Decent earnings amidst Eugia woes: ARBP earnings was marginally below our estimate; revenue grew 8% YoY to Rs 77.9bn driven primarily by Europe and growth markets, while the US reported muted growth affected by price erosion pressure and supply issues in Eugia’s Unit 3 plant and lower gRevlimid sales. Revenue growth seen across businesses was due to volume gains, new product launches and market expansion.

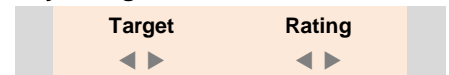
The worst is over for Eugia’s injectables business: Specialty & Injectables revenue in the US was reported at ~US\$ 81mn, while Global Specialty & Injectables revenue performance was ~US\$ 121mn affected by supply issues in the Eugia Unit 3 plant. Management confirmed the worst was over for the Eugia Unit 3 plant, and supplies have resumed. However, due to affected supplies in H1FY25, the full-year guidance of achieving revenue of US\$ 600mn would be affected by +/-5%. However, we feel due to new product launches, gRevlimid and normalised supplies, ARBP would achieve Specialty sales of US\$ 700mn in FY26E.

Pen-G plant to increase margins in FY26: ARBP has commercialised the Pen-G plant and started using it for captive purposes. Management expects the Pen-G plant to turn profitable from 4QFY25. Hence, we believe the normalised Eugia Unit 3 plant and Pen-G plant will raise EBITDA margins to 22% in FY25.

Eugia-III overhang after WL; Vizag to act as backup facility: Warning Letter (WL) status received on Eugia-III will remain a major overhang as this is a critical facility for injectable products (~30 pending approvals). The company will invite the USFDA for inspection by 3QFY26, hence, until then ARBP can use Vizag as a backup facility to mitigate the impact and will go in for dual filing, which is yet to start.

Maintain BUY with TP of Rs 1,728: ARBP has several growth levers in place: (1) a strong generics pipeline, (2) commercialising the Pen-G project, (3) growing the injectables business, and (4) 14 biosimilar products in the pipeline. We maintain our FY25E EPS at Rs 69 and FY26E at 83. Hence, we ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728.

Key changes



Ticker/Price	ARBP IN/Rs 1,289
Market cap	US\$ 8.9bn
Free float	48%
3M ADV	US\$ 21.5mn
52wk high/low	Rs 1,592/Rs 959
Promoter/FPI/DII	52%/18%/23%

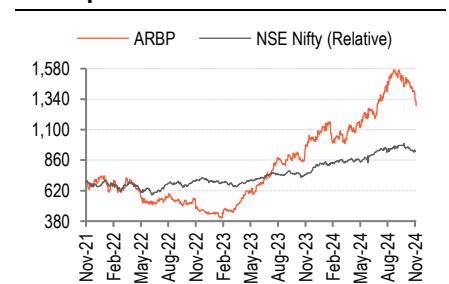
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	290,000	324,596	360,449
EBITDA (Rs mn)	58,411	70,243	81,691
Adj. net profit (Rs mn)	33,990	40,401	48,831
Adj. EPS (Rs)	58.0	69.0	83.3
Consensus EPS (Rs)	58.0	64.8	74.1
Adj. ROAE (%)	12.2	13.1	13.9
Adj. P/E (x)	22.2	18.7	15.5
EV/EBITDA (x)	12.7	10.7	9.1
Adj. EPS growth (%)	69.8	18.9	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Performance drivers:** Volume gains, new product launches, market expansion, favourable product mix, and better capacity utilisation drove ARBP's earnings.
- **US:** US revenue in constant currency (cc) terms in Q2FY25 was US\$ 421mn, which grew by 3% YoY and declined by 1% QoQ. Oral Solids grew 9% YoY to US\$ 289mn, driven by volume growth and new product launches.
- **Specialty & Injectables**
 - Q2FY25: Specialty & Injectables revenue in the US was ~US\$ 81mn (25% of the total US revenue). Global Specialty & Injectables revenue on a proforma basis was ~US\$ 121mn.
 - FY25: Global Specialty & Injectables revenue guidance was maintained at +/- 5% US\$ 600mn.
- **Europe:** European formulations revenue grew by 23% YoY to EUR 229mn driven by growth across geographies in Europe. Europe region to clock EUR 900mn in cc terms in FY25 driven by new launches.

R&D & pipeline development

- R&D expenditure in Q2 was Rs 4.1bn (5.3% of revenue) vs Rs 3bn in Q2FY24 (4.2% of sales) and Rs 3.3 bn (4.5% of sales) in Q1FY25. The increase is mainly due to the development of Phase 3 clinical trials for four Biosimilar products.
- Expect R&D spend to be in the 5.3% range for the next four quarters.

Outlook

- **Growth projections:** ARBP is targeting EBITDA margin of 21-22% for FY25.
- **Strategic focus:** The company's strategic focus involves expanding manufacturing capacities, deepening market presence, and leveraging R&D for long-term growth.
- **Pen-G and 6-APA contribution:** Significant contribution expected from Q3FY25. Management expects the Pen-G plant to break even from 4QFY25 and significantly contribute to margins from FY26.

Biosimilars update

- Denosumab – biosimilar to Prolia – is in Phase 3 of its clinical trials across the European region. The Phase 3 trial is to be completed by Jun'25 (all 436 patients have been recruited).
- Omalizumab – biosimilar to Xolair – is in Phase 3 of clinical trials. It will go commercial in Europe in CY26 and in India in CY27. It will file in EMEA (Europe, Middle East, and Africa) and the US Food and Drug Administration (USFDA) by FY26. Management expects to be among the three to four players in both Europe and EMEA.
- Management expects to file Trastuzumab, the biosimilar to Ogivri, in the US in 4QCY24.

Valuation methodology

ARBP's quarterly earnings were below our estimates marginally mainly due to supply constraints from the Eugia plant. However, the worst is over and management expects supplies from the Eugia plant for existing products to normalise in H2FY25. A fresh inspection for Eugia 3 is expected in 3QFY26; so we believe that until then 30 pending ANDAs from Unit 3 (which received a warning letter) can be filed through the Vizag plant, thus smoothening the way for new product launches in the North America region. This confirms that Eugia is on track to clock sales of ~US\$ 700mn by FY26E. The company has commercialised the Pen-G plant for captive purposes and expects it to become profitable from 4QFY25.

ARBP is transforming from an API company to a biologics/biosimilars company. ARBP is expected to launch its first biosimilar Trastuzumab in the US market by FY26E. Trastuzumab has a global market size of US\$ 5.4bn and would significantly increase its sales run rate and margins. Hence, we maintain our BUY recommendation. As the company has several growth levers in place, like (1) having a strong generics pipeline, (2) being the sole Pen-G seller in the domestic market, (3) growing the injectables business, and (4) having 14 biosimilar products in the pipeline, we ascribe a P/E of 19x on Sep FY26E, a 30% premium to the historical mean P/E of 14.7x, to yield a TP of Rs 1,728.

Fig 1 – Key assumptions

(Rs mn)	FY24A	FY25E	FY26E	FY27E
Sales	290,000	324,596	360,449	396,087
EBITDA	58,411	70,243	81,691	92,850
PAT	33,990	40,401	48,831	56,991
EPS (Rs)	58.1	69.0	83.4	97.4
EBITDA Margin (%)	20.1	21.6	22.7	23.4
PAT Margin (%)	11.7	12.4	13.5	14.4

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- delays in filing biosimilar products,
- heightened intensity of price erosion in the US,
- delays in execution or commercialisation of biologics products,
- regulatory escalation at the Eugia-III facility and delays in remediation, and
- adverse regulatory action on any of the company's facilities.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	248,554	290,000	324,596	360,449	396,087
EBITDA	37,582	58,411	70,243	81,691	92,850
Depreciation	12,446	15,217	17,379	18,790	20,201
EBIT	25,136	43,195	52,863	62,901	72,649
Net interest inc./(exp.)	(1,405)	(2,897)	(3,390)	(3,122)	(2,858)
Other inc./(exp.)	3,254	6,015	4,395	5,329	6,197
Exceptional items	0	0	0	0	0
EBT	26,985	46,312	53,868	65,108	75,988
Income taxes	6,849	12,110	13,467	16,277	18,997
Extraordinary items	(744)	(2,217)	0	0	0
Min. int./Inc. from assoc.	118	212	0	0	0
Reported net profit	19,275	31,774	40,401	48,831	56,991
Adjustments	744	2,217	0	0	0
Adjusted net profit	20,018	33,990	40,401	48,831	56,991

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	38,713	44,542	48,912	53,327	57,514
Other current liabilities	31,178	32,799	38,952	46,858	43,570
Provisions	3,733	4,825	5,401	5,997	6,590
Debt funds	52,862	66,476	56,505	48,029	40,825
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	265,054	289,361	326,753	372,654	426,716
Shareholders' fund	265,640	289,947	327,339	373,240	427,302
Total liab. and equities	392,125	438,589	477,107	527,451	575,800
Cash and cash eq.	60,842	62,783	76,124	88,532	93,991
Accounts receivables	44,664	48,167	57,805	69,127	86,814
Inventories	85,112	98,082	107,606	127,392	146,498
Other current assets	31,943	42,219	49,014	58,032	67,731
Investments	5,428	3,723	3,723	3,723	3,723
Net fixed assets	79,954	115,455	114,676	112,486	108,885
CWIP	53,900	38,687	38,687	38,687	38,687
Intangible assets	30,283	29,473	29,473	29,473	29,473
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	392,125	438,589	477,107	527,451	575,800

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	25,842	31,680	46,313	43,535	35,051
Capital expenditures	(27,123)	(16,600)	(16,600)	(16,600)	(16,600)
Change in investments	4,544	1,705	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(22,579)	(14,895)	(16,600)	(16,600)	(16,600)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	24,349	13,614	(9,971)	(8,476)	(7,204)
Interest expenses	(1,405)	(2,897)	(3,390)	(3,122)	(2,858)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	(4,337)	(22,631)	(80)	0	0
Cash flow from financing	15,678	(14,844)	(16,371)	(14,527)	(12,992)
Chg in cash & cash eq.	18,942	1,941	13,341	12,407	5,459
Closing cash & cash eq.	60,842	62,783	76,124	88,532	93,991

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	32.9	54.2	69.0	83.3	97.3
Adjusted EPS	34.2	58.0	69.0	83.3	97.3
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	453.7	495.3	559.4	637.8	730.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.0	2.6	2.3	2.1	1.8
EV/EBITDA	19.9	12.7	10.7	9.1	7.8
Adjusted P/E	37.7	22.2	18.7	15.5	13.3
P/BV	2.8	2.6	2.3	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	73.4	75.0	75.0	75.0
Interest burden (PBT/EBIT)	107.4	107.2	101.9	103.5	104.6
EBIT margin (EBIT/Revenue)	10.1	14.9	16.3	17.5	18.3
Asset turnover (Rev./Avg TA)	20.9	21.5	21.9	22.4	22.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
Adjusted ROAE	7.8	12.2	13.1	13.9	14.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.0	16.7	11.9	11.0	9.9
EBITDA	(14.3)	55.4	20.3	16.3	13.7
Adjusted EPS	(26.0)	69.8	18.9	20.9	16.7
Profitability & Return ratios (%)					
EBITDA margin	15.1	20.1	21.6	22.7	23.4
EBIT margin	10.1	14.9	16.3	17.5	18.3
Adjusted profit margin	8.1	11.7	12.4	13.5	14.4
Adjusted ROAE	7.8	12.2	13.1	13.9	14.2
ROCE	9.6	14.6	15.5	16.9	17.7
Working capital days (days)					
Receivables	66	61	65	70	80
Inventory	125	123	121	129	135
Payables	57	56	55	54	53
Ratios (x)					
Gross asset turnover	1.4	1.5	1.5	1.6	1.6
Current ratio	3.0	3.1	3.1	3.2	3.7
Net interest coverage ratio	17.9	14.9	15.6	20.1	25.4
Adjusted debt/equity	0.0	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

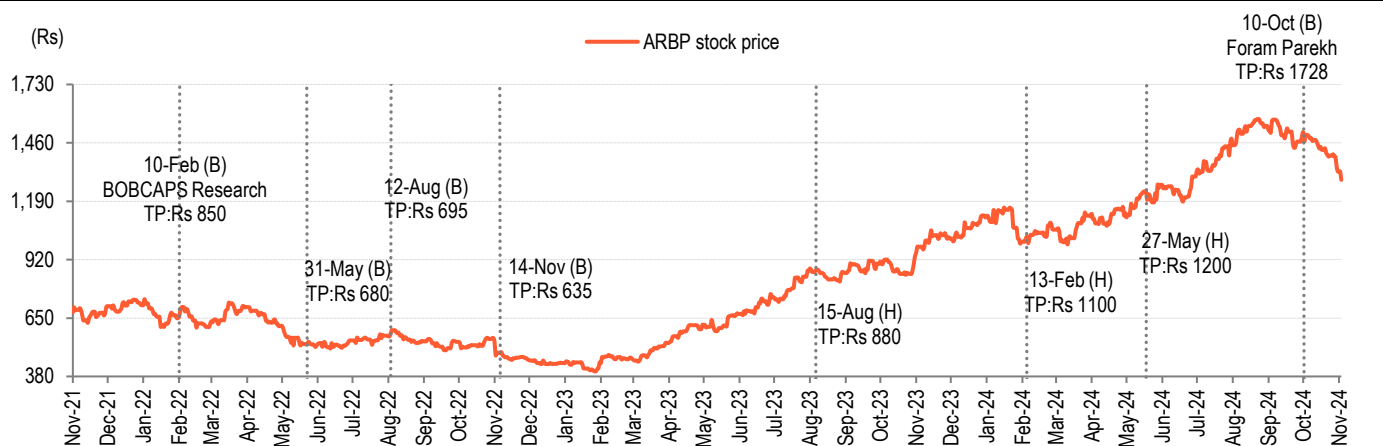
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AUROBINDO PHARMA (ARBP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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