

HOLD
 TP: Rs 1,100 | ▲ 7%

AUROBINDO PHARMA

Pharmaceuticals

13 February 2024

Strong margin uptick

- Q3 EBITDA/PAT surged 68%/90% YoY led by growth in US/EM revenue and ~700bps jump in operating margin
- gRevlimid launch and lower price erosion supported US growth; global/US Eugia sales healthy at US\$ 150mn/US\$ 112mn
- TP raised to Rs 1,100 (vs. Rs 880) on 11-16% increase in FY24-FY25 EBITDA estimates and rollover; retain HOLD

Saad Shaikh

research@bobcaps.in

Stable base, gRevlimid launch boosted US growth: ARBP’s Q3FY24 revenue was largely in line with Bloomberg consensus, but a strong margin uptick drove a 7% beat on earnings, which grew 91%/24% YoY/QoQ. Growth was led by an increase of 25%/9% YoY/QoQ CC in US revenue to US\$ 456mn (including Puerto Rico), supported by volume gains, a stable demand environment and product launches (notably gRevlimid), along with neutral price erosion. Eugia sales globally and in the US grew 18% QoQ to US\$ 150mn and 23% to US\$ 112mn respectively. Closure of Eugia-III plant production is guided to have a ~US\$ 20mn impact in Q4FY24, though ARBP expects global Eugia and gRevlimid sales to ensure strong growth momentum.

Strong performance in growth markets; ARV sales fall: Growth markets, which include India sales of Rs 600mn, reported a strong 26% YoY rise in revenue, marked by traction across countries. Europe business was largely flat (+2% YoY) due to an adverse one-time clawback tax impact of ~US\$ 14mn.

Robust margins: In keeping with the general industry trend, where companies have reported abating US price erosion coupled with moderating raw material prices, ARBP saw these benefits reflecting in gross/EBITDA margin expansion of 255bps/690bps YoY to 57.1%/21.8% in Q3 (55.5%/19.4% in 9MFY24).

Earnings call highlights: (1) ARBP’s Pen-G plant is due to start operations in Q1FY25, with half of the output meant for captive consumption. (2) Subsidiary CuraTeQ Biologics has signed a letter of intent (LOI) with US-based biopharma major MSD to create infrastructure for biologics. (3) The injectables portfolio witnessed low single-digit pricing erosion in Q3. (4) The tax clawback impacted quarterly revenue and EBITDA margin in Europe.

Maintain HOLD, TP revised to Rs 1,100: We raise FY24/FY25 EBITDA estimates 16%/11% to build in the 9M outperformance, while introducing FY26 forecasts in this report. On rolling forward to FY26E valuations, our TP rises to Rs 1,100 (vs. Rs 880), based on an unchanged 9x EV/EBITDA multiple – in line with the stock’s 5Y average. We maintain HOLD as current valuations offer low upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ARBP IN/Rs 1,026
Market cap	US\$ 7.3bn
Free float	48%
3M ADV	US\$ 35.1mn
52wk high/low	Rs 1,177/Rs 445
Promoter/FPI/DII	52%/24%/16%

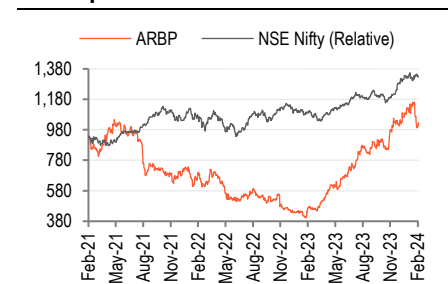
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	248,554	286,848	311,278
EBITDA (Rs mn)	37,582	56,831	61,986
Adj. net profit (Rs mn)	20,018	32,294	35,151
Adj. EPS (Rs)	34.2	55.1	60.0
Consensus EPS (Rs)	34.2	53.1	63.6
Adj. ROAE (%)	7.8	11.5	11.3
Adj. P/E (x)	30.0	18.6	17.1
EV/EBITDA (x)	15.8	10.4	9.4
Adj. EPS growth (%)	(26.0)	61.3	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY22	YoY (%)
Net Sales	73,518	64,071	14.7	72,194	1.8	214,217	183,824	16.5
EBITDA	16,013	9,544	67.8	14,032	14.1	41,559	27,560	50.8
Depreciation	4,233	3,214	-	4,175	-	11,673	8,990	-
EBIT	11,780	6,330	86.1	9,857	19.5	29,886	18,570	60.9
Interest	756	450	-	682	-	2,003	849	-
Other Income	1,625	927	-	1,870	-	4,658	1,905	-
PBT	12,650	6,807	85.8	11,045	14.5	32,541	19,626	65.8
Less: Taxation	3,225	1,891	-	3,237	-	8,885	4,607	-
Less: Minority Interest	63	3	-	(61)	-	19	63	-
Recurring PAT	9,363	4,913	90.6	7,870	19.0	23,638	14,956	58.1
Exceptional items	0	0	-	(298)	-	(995)	(744)	-
Reported PAT	9,363	4,913	90.6	7,572	23.7	22,642	14,212	59.3
Key Ratios (%)								
Gross Margin	57.1	54.6	253bps	55.2	198bps	55.5	54.5	95bps
EBITDA Margin	21.8	14.9	689bps	19.4	234bps	19.4	15.0	441bps
Tax / PBT	25.5	27.8	-	29.3	-	27.3	23.5	-
NPM	12.7	7.7	-	10.9	-	11.0	8.1	-
EPS (Rs)	16.0	8.4	-	13.4	-	40.3	25.5	58.1

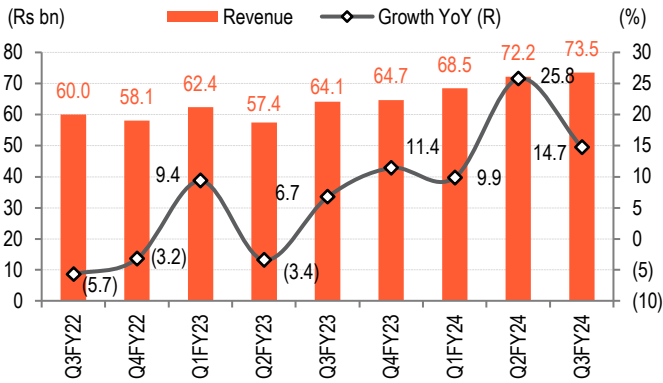
Source: Company, BOBCAPS Research

Fig 2 – Revenue Mix

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY22	YoY (%)
Formulations	63,290	54,525	16.1	60,530	4.6	181,990	155,519	17.0
US	37,950	30,012	26.4	34,700	9.4	105,690	86,099	22.8
Europe	17,280	17,012	1.6	17,690	-2.3	53,340	47,655	11.9
Growth Markets	6,270	4,989	25.7	5,640	11.2	16,770	13,814	21.4
ARV	1,790	2,512	-28.7	2,500	-28.4	6,190	7,951	-22.1
APIs	10,220	9,546	7.1	11,660	-12.3	32,210	28,305	13.8
Net Sales	73,518	64,071	14.7	72,194	1.8	214,217	183,824	16.5
INR/US\$	83	82	1.5	83	0.2	83	80	4.1
US revenue (US\$ mn)	456	366	24.6	418	9.1	1,277	1,083	17.9

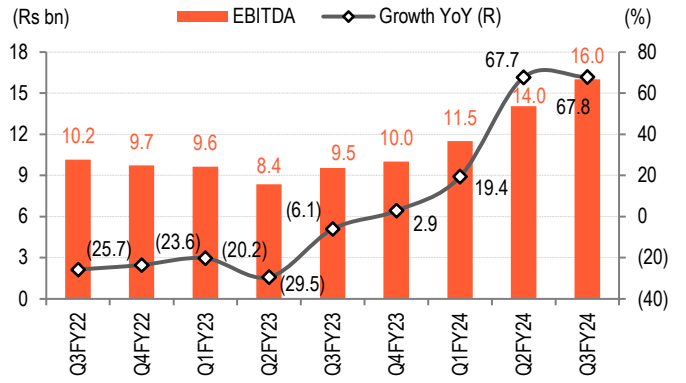
Source: Company, BOBCAPS Research

Fig 3 – Revenue



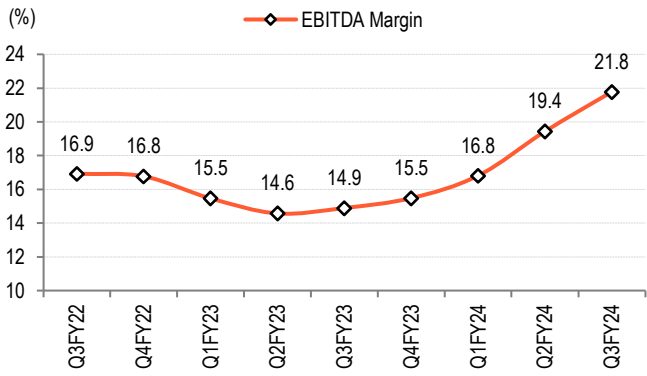
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



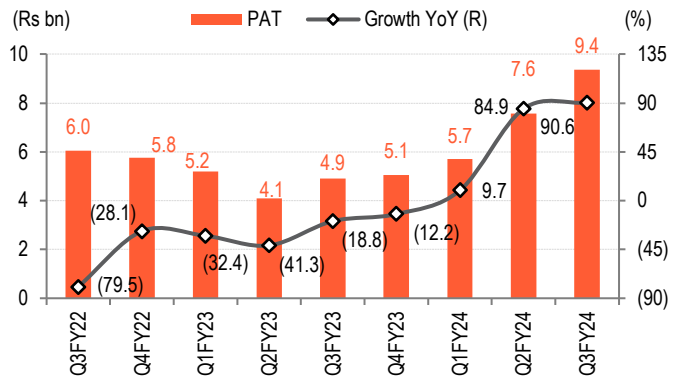
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Valuation methodology

ARBP has delivered a strong 9MFY24 performance on the back of an improved business environment in the US, the launch of gRevlimid and significant margin gains over the last three quarters, leading us to raise our FY24/FY25 EBITDA estimates by 16%/11%. We also introduce FY26 projections in this report. On rolling forward to FY26E valuations, our TP rises to Rs 1,100 (vs. Rs 880), wherein we continue to value the stock at an unchanged 9x EV/EBITDA multiple – in line with the five-year average.

The company has several growth levers in place, including a strong generic pipeline, the Pen-G project, a growing injectables business and a slate of biosimilar products. However, we maintain our HOLD rating as current valuations of 9.4x/8.0x FY25E/FY26E EV/EBITDA offer low upside potential. We note that the regulatory overhang on Eugia-III is a key monitorable as this is an important plant for the company.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	286.8	311.3	337.9	271.1	291.4	-	5.8	6.8	-
EBITDA	56.8	62.0	70.1	48.9	55.8	-	16.3	11.1	-
EBITDA margin (%)	19.8	19.9	20.7	18.0	19.1	-	179bps	77bps	-
EPS (Rs)	55.1	60.0	70.5	49.5	55.8	-	11.4	7.5	-

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23	FY24E	FY25E	FY26E
US	116.5	140.9	155.0	170.5
Europe	64.3	72.0	75.6	79.3
Growth Markets	19.7	22.7	25.0	27.5
Antiretrovirals	9.5	8.6	9.2	9.8
API	38.5	42.7	46.6	50.8

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-expected market share in gRevlimid,
- further reduction in price erosion, and
- drug shortages in the US.

Key downside risks to our estimates are:

- delays in key launches,
- heightened intensity of price erosion in the US,
- 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)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	234,555	248,554	286,848	311,278	337,925
EBITDA	43,868	37,582	56,831	61,986	70,075
Depreciation	11,265	12,446	15,968	17,379	18,790
EBIT	32,603	25,136	40,862	44,607	51,285
Net interest inc./(exp.)	(486)	(1,405)	(2,696)	(2,292)	(1,948)
Other inc./(exp.)	2,504	3,254	6,072	5,187	6,461
Exceptional items	0	0	0	0	0
EBT	34,620	26,985	44,239	47,502	55,798
Income taxes	7,256	6,849	11,944	12,350	14,508
Extraordinary items	(580)	(744)	(995)	0	0
Min. int./Inc. from assoc.	302	118	0	0	0
Reported net profit	26,482	19,275	31,299	35,151	41,291
Adjustments	580	744	995	0	0
Adjusted net profit	27,062	20,018	32,294	35,151	41,291

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	27,031	38,713	39,294	42,641	46,291
Other current liabilities	30,400	31,178	34,422	37,353	40,551
Provisions	3,424	3,733	4,308	4,674	5,075
Debt funds	28,513	52,862	44,933	38,193	32,464
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	246,378	264,934	293,303	325,525	363,886
Shareholders' fund	246,964	265,520	293,889	326,111	364,472
Total liab. and equities	336,331	392,005	416,845	448,972	488,853
Cash and cash eq.	41,900	60,722	74,096	92,306	118,348
Accounts receivables	40,123	44,664	51,083	55,433	60,178
Inventories	75,539	85,112	98,236	106,602	115,728
Other current assets	26,006	31,943	23,235	25,214	27,372
Investments	9,972	5,428	5,428	5,428	5,428
Net fixed assets	77,284	79,954	80,586	79,806	77,616
CWIP	37,472	53,900	53,900	53,900	53,900
Intangible assets	28,036	30,283	30,283	30,283	30,283
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	336,331	392,005	416,845	448,972	488,853

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	45,361	25,842	43,529	46,771	53,247
Capital expenditures	(22,049)	(27,123)	(16,600)	(16,600)	(16,600)
Change in investments	(4,061)	4,544	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(26,110)	(22,579)	(16,600)	(16,600)	(16,600)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(23,860)	24,349	(7,929)	(6,740)	(5,729)
Interest expenses	(486)	(1,405)	(2,696)	(2,292)	(1,948)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	(4,755)	(4,457)	0	0	0
Cash flow from financing	(32,031)	15,558	(13,555)	(11,961)	(10,606)
Chg in cash & cash eq.	(12,780)	18,822	13,374	18,210	26,041
Closing cash & cash eq.	41,900	60,722	74,096	92,306	118,348

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	45.2	32.9	53.4	60.0	70.5
Adjusted EPS	46.2	34.2	55.1	60.0	70.5
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	422.0	453.7	502.2	557.3	622.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.6	2.4	2.1	1.9	1.7
EV/EBITDA	14.0	15.8	10.4	9.4	8.0
Adjusted P/E	22.2	30.0	18.6	17.1	14.6
P/BV	2.4	2.3	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	78.2	74.2	73.0	74.0	74.0
Interest burden (PBT/EBIT)	106.2	107.4	108.3	106.5	108.8
EBIT margin (EBIT/Revenue)	13.9	10.1	14.2	14.3	15.2
Asset turnover (Rev./Avg TA)	21.4	20.9	21.8	22.1	22.2
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
Adjusted ROAE	11.6	7.8	11.5	11.3	12.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	(5.3)	6.0	15.4	8.5	8.6
EBITDA	(17.8)	(14.3)	51.2	9.1	13.0
Adjusted EPS	12.0	(26.0)	61.3	8.8	17.5
Profitability & Return ratios (%)					
EBITDA margin	18.7	15.1	19.8	19.9	20.7
EBIT margin	13.9	10.1	14.2	14.3	15.2
Adjusted profit margin	11.5	8.1	11.3	11.3	12.2
Adjusted ROAE	11.6	7.8	11.5	11.3	12.0
ROCE	12.8	9.6	14.3	14.2	15.2
Working capital days (days)					
Receivables	62	66	65	65	65
Inventory	118	125	125	125	125
Payables	42	57	50	50	50
Ratios (x)					
Gross asset turnover	1.5	1.4	1.5	1.5	1.5
Current ratio	3.0	3.0	3.2	3.3	3.5
Net interest coverage ratio	67.0	17.9	15.2	19.5	26.3
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.2)	(0.2)

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

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Name of the Research Entity: **BOB Capital Markets Limited**
 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
 Brand Name: **BOBCAPS**
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BUY – Expected return >+15%

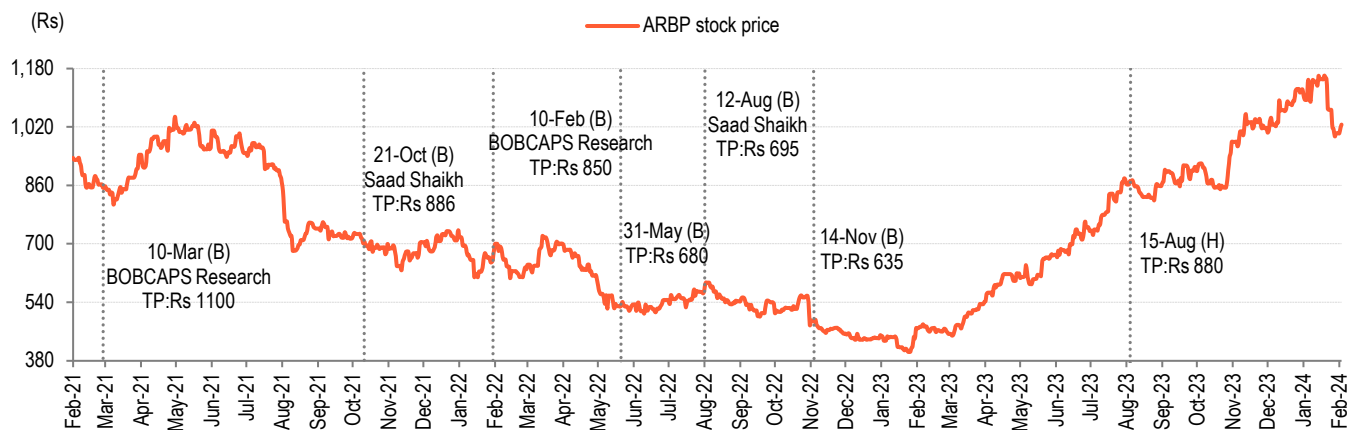
HOLD – Expected return from -6% to +15%

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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