

HOLD

TP: Rs 1,200 | ▲ 0%

AUROBINDO PHARMA

Pharmaceuticals

27 May 2024

Strong quarter; OAI at Eugia-III an overhang

- ARBP reported strong Q4 with EBITDA/Adj. PAT beat of 10%/23%. Exceptional expense of Rs 1.2bn reduced reported PAT beat to 8%
- Operating leverage and operational efficiencies improved gross /EBITDA margin by 500bps/660bps YoY to 59.6%/22.1%
- Given optimistic margin commentary we raise our FY25E-FY26E EBITDA by 6-7% and TP to Rs 1,200 (from Rs 1,100). Maintain HOLD

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US and growth markets drive revenue: ARBP delivered a revenue beat of 4% and reported strong growth of 17% YoY to Rs 75.8bn. Revenue growth was driven primarily by the US and growth markets, while Europe too reported healthy growth. Revenue growth seen across businesses was due to volume gains, new product launches, market expansion, and stable pricing.

FY25 to be muted growth year for global specialty & injectable business:

Specialty & Injectables revenue in the US was ~US\$ 104mn in Q4, while Global Specialty & Injectables revenue on a proforma basis was ~US\$ 143mn. The company has indicated that in the absence of any blockbuster product launch in FY25, the Global Specialty business will maintain a quarterly run rate of US\$ 150mn unless there is a potential increase in the gRevlimid contribution depending on the volume-share agreement with the innovator.

Further room for margin improvement: Lower raw material prices, favourable product mix, and better capacity utilisation helped improve full-year EBITDA margins to 20.1% in FY24. The company expects to improve this further to 21-22% in FY25.

Eugia-III overhang after OAI; Vizag to act as backup facility: Official action indicated status received on Eugia-III will remain a major overhang as this is a critical facility for injectable products (~30 pending approvals). The company has indicated the use of Vizag as a backup facility to mitigate the impact and will go for dual filing, which is yet to start.

Maintain HOLD; increase TP to Rs 1,200: Despite raising FY25E-FY26E EBITDA by 6-7%, we remain cautious about the negative impact of Eugia-III (under OAI) with ~30 pending approvals. We maintain our valuation at 9x EV/EBITDA – in line with the 5Y average, resulting in a higher TP of Rs 1,200 (Rs 1,100 earlier). ARBP has growth levers like a strong generic pipeline, the Pen-G project, a growing injectables business, and biosimilars. However, we maintain a HOLD rating as current valuations of 10.5x/9.3x FY25E/FY26E EV/EBITDA offer low upside potential.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ARBP IN/Rs 1,196
Market cap	US\$ 8.5bn
Free float	48%
3M ADV	US\$ 22.4mn
52wk high/low	Rs 1,246/Rs 585
Promoter/FPI/DII	52%/18%/23%

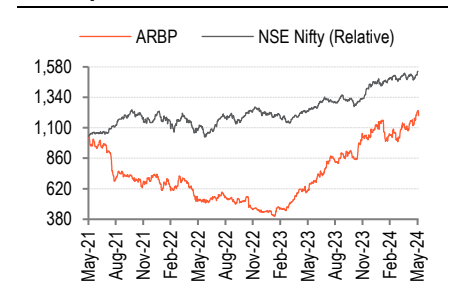
Source: NSE | Price as of 27 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	290,000	314,776	341,805
EBITDA (Rs mn)	58,411	66,245	74,103
Adj. net profit (Rs mn)	33,990	37,403	43,773
Adj. EPS (Rs)	58.0	63.8	74.7
Consensus EPS (Rs)	58.0	64.8	74.1
Adj. ROAE (%)	12.2	12.2	12.7
Adj. P/E (x)	20.6	18.7	16.0
EV/EBITDA (x)	11.8	10.5	9.3
Adj. EPS growth (%)	69.8	10.0	17.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	75,802	64,730	17.1	73,518	3.1	290,019	248,554	16.7
EBITDA	16,728	10,022	66.9	16,013	4.5	58,287	37,582	55.1
Depreciation	3,543	3,456	-	4,233	-	15,217	12,446	-
EBIT	13,185	6,566	100.8	11,780	11.9	43,071	25,136	71.4
Interest	894	556	-	756	-	2,897	1,405	-
Other Income	1,356	1,349	-	1,625	-	6,015	3,254	-
PBT	13,647	7,359	85.4	12,650	7.9	46,188	26,985	71.2
Less: Taxation	3,226	2,242	-	3,225	-	12,110	6,849	-
Less: Minority Interest	113	55	-	63	-	132	118	-
Recurring PAT	10,309	5,063	103.6	9,363	10.1	33,946	20,018	69.6
Exceptional items	(1221.1)	0	-	0	-	(2,217)	(744)	-
Reported PAT	9,088	5,063	79.5	9,363	(2.9)	31,730	19,275	64.6
Key Ratios (%)								
			(bps)		(bps)			(bps)
Gross Margin	59.6	54.7	490	57.1	247	56.5	54.6	198
EBITDA Margin	22.1	15.5	659	21.8	29	20.1	15.1	498
Tax / PBT	23.6	30.5	-	25.5	-	26.2	25.4	-
NPM	13.6	7.8	-	12.7	-	11.7	8.1	-
EPS (Rs)	17.6	8.6	-	16.0	-	57.9	34.2	-

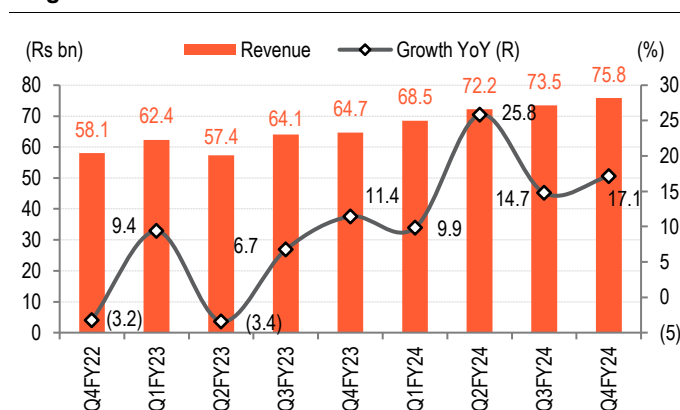
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Formulations	65,610	54,560	20.3	63,290	3.7	247,600	210,079	17.9
US	36,390	30,450	19.5	37,950	(4.1)	142,080	116,549	21.9
Europe	18,320	16,600	10.4	17,280	6.0	71,660	64,255	11.5
Growth Markets	8,520	5,920	43.9	6,270	35.9	25,290	19,734	28.2
ARV	2,380	1,590	49.7	1,790	33.0	8,570	9,541	(10.2)
APIs	10,190	10,180	0.1	10,220	(0.3)	42,400	38,485	10.2
Net sales	75,802	64,730	17.1	73,518	3.1	290,019	248,554	16.7
INR/US\$	83	82	1.0	83	(0.2)	82.9	80.2	3.3
US revenue (US\$ mn)	438	370	18.3	456	(3.9)	1,715	1,453	18.0

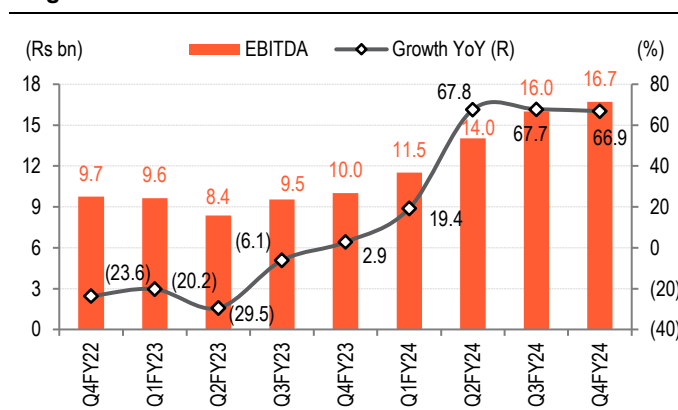
Source: Company, BOBCAPS Research

Fig 3 – Revenue



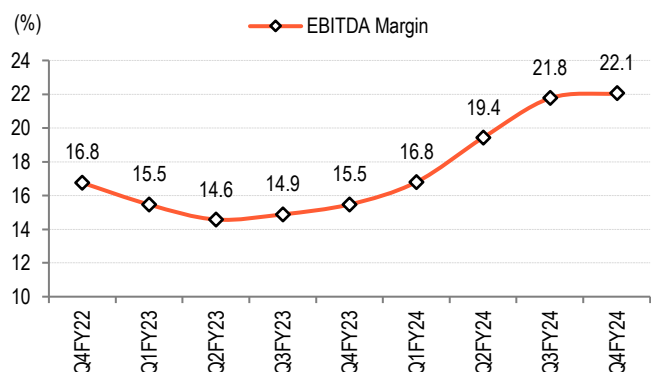
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



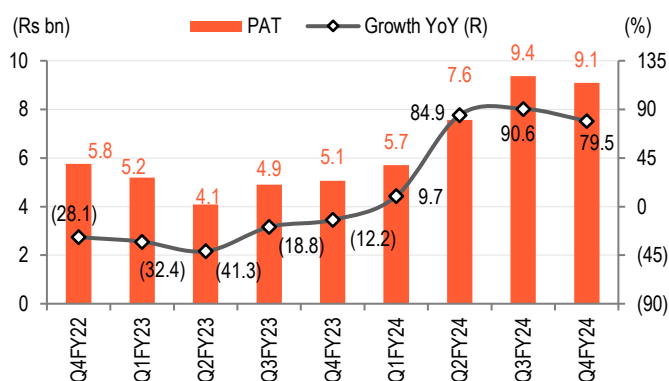
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Earnings call highlights:

- **Performance drivers:** Volume gains, new product launches, market expansion, stable pricing, lower raw material prices, favourable product mix, and better capacity utilisation.
- **US:** US revenue (including Puerto Rico) in Q4FY24 increased by 18% YoY and decreased by 4% QoQ to US\$ 438mn.
- **Specialty & Injectables:**
 - **Q4FY24:** Specialty & Injectables revenue in the US was ~US\$ 104mn (24% of the total US revenue). Global Specialty & Injectables revenue on a proforma basis was ~US\$ 143mn.
 - **FY24:** Specialty & Injectables revenue in the US was ~US\$ 397mn and global was ~US\$ 541mn.
- **Europe:** European formulations revenue grew by 10% YoY.
- **Growth Markets:** Growth market revenues increased by 44% YoY.
- **API business:** Revenue remained flat YoY for Q4, but increased 10% for the full year.

R&D & Pipeline development

- R&D expenditure in Q4 was Rs 3.9bn (5.2% of revenue). Full-year R&D spending was Rs 14.8bn (5.1% of revenue).
- Continued investment in growth pipeline and manufacturing capacities.

Future outlook

- **Growth projections:** Targeting an EBITDA margin of 21% to 22% for FY25.
- **Strategic focus:** 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. Vizag injectables and active projects to start contributing from H2FY25.
- **Biosimilars:** Positive trends in the US and Europe due to cost effectiveness. Monetisation expected by FY26 or calendar year 2027.
- **Margins:** Stable pricing environment; no major declines in EBITDA or gross margins expected.
- **Global Injectables & Specialty:** Muted growth expected in FY25 due to lack of blockbuster product approvals. Significant growth anticipated in FY26 with new product approvals. Higher volume share in gRevlimid with agreement with innovator to bring positive surprise.
- **Auropeptides business:** Focus on oncology and diabetes segments, particularly GLP-1 products. Plans to expand synthesis and purification capabilities for GLP-1 by early next year. Approval for Linaclotide, a synthetic peptide, to be launched in India soon.
- **OAI classification at Eugia-III an overhang:** USFDA has determined the inspection classification of Eugia III as Official Action Indicated (OAI) which is a negative development. This facility has 29 ANDAs awaiting final approval.

Valuation methodology

ARBP delivered a strong performance in FY24 on an improved business environment in the US, the launch of gRevlimid and strong growth witnessed in Europe and growth markets. Margins recovered significantly and ended at 20% for FY24, while management guided for optimistic margin guidance of 21-22% in FY25.

Though we have raised our FY25-FY26 EBITDA estimates by 6-7%, we remain wary of the negative overhang on Eugia-III (under OAI) which is critical site for the company with ~30 pending approvals. Hence, we continue to value the stock at an unchanged 9x EV/EBITDA, in line with its five-year average, yielding a revised TP of Rs 1,200 (Rs 1,100 earlier). 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 10.5x/9.3x FY25E/FY26E EV/EBITDA offer low upside potential.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	314.8	341.8	311.3	337.9	1.1	1.1
EBITDA	66.2	74.1	62.0	70.1	6.9	5.7
EBITDA margin (%)	21.0	21.7	19.9	20.7	113bps	94bps
EPS (Rs)	63.8	74.7	60.0	70.5	6.4	6.0

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY24A	FY25E	FY26E
US	142.1	156.3	171.9
Europe	71.7	75.2	79.0
Growth Markets	25.2	27.7	30.5
Antiretrovirals	8.7	9.3	9.9
API	42.4	46.3	50.5

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Better-than-expected market share in gRevlimid,
- further reduction in price erosion,
- continued drug shortages in the US and Europe, and
- faster remediation in Eugia-III and backup filing from the Vizag plant.

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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,423	2,585	BUY
Alembic Pharma	ALPM IN	2.3	950	970	HOLD
Alkem Labs	ALKEM IN	7.9	5,452	4,800	SELL
Aurobindo Pharma	ARBP IN	8.5	1,196	1,200	HOLD
Cipla	CIPLA IN	14.6	1,486	1,576	BUY
Divi's Labs	DIVI IN	13.3	4,122	3,000	SELL
Dr Reddy's Labs	DRRD IN	11.9	5,866	5,900	HOLD
Eris Lifesciences	ERIS IN	1.5	878	1,200	BUY
Glenmark Life Sciences	GLS IN	1.3	840	790	HOLD
Laurus Labs	LAURUS IN	2.9	439	305	SELL
Lupin	LPC IN	8.9	1,614	1,600	HOLD
Sun Pharma	SUNP IN	43.4	1,487	1,530	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	234,555	248,554	290,000	314,776	341,805
EBITDA	43,868	37,582	58,411	66,245	74,103
Depreciation	11,265	12,446	15,217	17,379	18,790
EBIT	32,603	25,136	43,195	48,866	55,312
Net interest inc./(exp.)	(486)	(1,405)	(2,897)	(3,390)	(2,882)
Other inc./(exp.)	2,504	3,254	6,015	4,395	5,934
Exceptional items	0	0	0	0	0
EBT	34,620	26,985	46,312	49,871	58,365
Income taxes	7,256	6,849	12,110	12,468	14,591
Extraordinary items	(580)	(744)	(2,217)	0	0
Min. int./Inc. from assoc.	302	118	212	0	0
Reported net profit	26,482	19,275	31,774	37,403	43,773
Adjustments	580	744	2,217	0	0
Adjusted net profit	27,062	20,018	33,990	37,403	43,773

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	27,031	38,713	44,542	43,120	46,823
Other current liabilities	30,400	31,178	32,799	37,773	41,017
Provisions	3,424	3,733	4,825	5,237	5,687
Debt funds	28,513	52,862	66,476	56,505	48,029
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	246,378	265,054	289,361	323,755	364,599
Shareholders' fund	246,964	265,640	289,947	324,341	365,185
Total liab. and equities	336,331	392,125	438,589	466,976	506,740
Cash and cash eq.	41,900	60,842	62,783	84,769	109,924
Accounts receivables	40,123	44,664	48,167	56,056	60,869
Inventories	75,539	85,112	98,082	107,800	117,056
Other current assets	26,006	31,943	42,219	31,792	34,522
Investments	9,972	5,428	3,723	3,723	3,723
Net fixed assets	77,284	79,954	115,455	114,676	112,486
CWIP	37,472	53,900	38,687	38,687	38,687
Intangible assets	28,036	30,283	29,473	29,473	29,473
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	336,331	392,125	438,589	466,976	506,740

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	45,361	25,842	31,680	54,958	56,041
Capital expenditures	(22,049)	(27,123)	(16,600)	(16,600)	(16,600)
Change in investments	(4,061)	4,544	1,705	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(26,110)	(22,579)	(14,895)	(16,600)	(16,600)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(23,860)	24,349	13,614	(9,971)	(8,476)
Interest expenses	(486)	(1,405)	(2,897)	(3,390)	(2,882)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	(4,755)	(4,337)	(22,631)	(80)	0
Cash flow from financing	(32,031)	15,678	(14,844)	(16,371)	(14,287)
Chg in cash & cash eq.	(12,780)	18,942	1,941	21,986	25,154
Closing cash & cash eq.	41,900	60,842	62,783	84,769	109,924

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	45.2	32.9	54.2	63.8	74.7
Adjusted EPS	46.2	34.2	58.0	63.8	74.7
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	422.0	453.7	495.3	554.2	624.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.0	2.8	2.4	2.2	2.0
EV/EBITDA	16.3	18.4	11.8	10.5	9.3
Adjusted P/E	25.9	35.0	20.6	18.7	16.0
P/BV	2.8	2.6	2.4	2.2	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	78.2	74.2	73.4	75.0	75.0
Interest burden (PBT/EBIT)	106.2	107.4	107.2	102.1	105.5
EBIT margin (EBIT/Revenue)	13.9	10.1	14.9	15.5	16.2
Asset turnover (Rev./Avg TA)	21.4	20.9	21.5	21.3	21.5
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	11.6	7.8	12.2	12.2	12.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	(5.3)	6.0	16.7	8.5	8.6
EBITDA	(17.8)	(14.3)	55.4	13.4	11.9
Adjusted EPS	12.0	(26.0)	69.8	10.0	17.0
Profitability & Return ratios (%)					
EBITDA margin	18.7	15.1	20.1	21.0	21.7
EBIT margin	13.9	10.1	14.9	15.5	16.2
Adjusted profit margin	11.5	8.1	11.7	11.9	12.8
Adjusted ROAE	11.6	7.8	12.2	12.2	12.7
ROCE	12.8	9.6	14.6	14.4	15.4
Working capital days (days)					
Receivables	62	66	61	65	65
Inventory	118	125	123	125	125
Payables	42	57	56	50	50
Ratios (x)					
Gross asset turnover	1.5	1.4	1.5	1.5	1.5
Current ratio	3.0	3.0	3.1	3.3	3.4
Net interest coverage ratio	67.0	17.9	14.9	14.4	19.2
Adjusted debt/equity	(0.1)	0.0	0.0	(0.1)	(0.2)

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

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BUY – Expected return >+15%

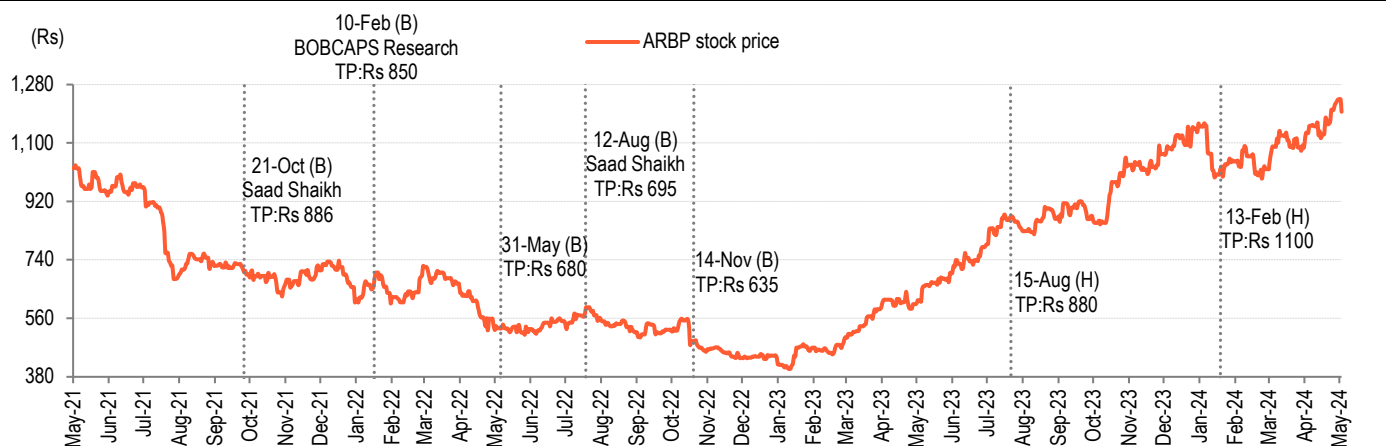
HOLD – Expected return from -6% to +15%

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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