

Aurobindo Pharma

Estimate change

TP change

Rating change



Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USD\$)	510.8 / 6.2
52-Week Range (INR)	887 / 397
1, 6, 12 Rel. Per (%)	19/76/37
12M Avg Val (INR M)	1046

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	248.6	281.8	299.5
EBITDA	40.3	51.3	56.6
Adj. PAT	22.5	29.0	32.5
EBIT Margin (%)	11.2	13.3	14.0
Cons. Adj. EPS (INR)	38.4	49.5	55.6
EPS Gr. (%)	-12.8	28.8	12.3
BV/Sh. (INR)	458.4	503.4	552.9

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	8.7	10.3	10.5
RoCE (%)	8.0	9.2	9.8
Payout (%)	10.9	10.0	10.8

Valuations

P/E (x)	18.9	14.7	13.0
EV/EBITDA (x)	10.2	8.3	7.1
Div. Yield (%)	0.6	0.7	0.8
FCF Yield (%)	-1.9	-3.1	5.8
EV/Sales (x)	1.7	1.5	1.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.8	51.8	51.8
DII	15.7	15.1	17.3
FII	24.1	23.0	20.7
Others	8.3	10.1	10.2

FII Includes depository receipts

CMP: INR872

TP: INR910 (+4%)

Neutral

US/EU markets drive profitability

Re-exploring restructuring of Eugia business

- Aurobindo Pharma (ARBP) delivered operationally better-than-expected 1QFY24 performance, on the back of a healthy volume off-take in the US as well as the EU market. With improved outlook, ARBP has re-started the exercise to restructure the Eugia business and evaluate options to unlock the inherent value of its injectable business.
- We raise our earnings estimate by 8%/7% for FY24/FY25, factoring a) superior execution in the EU segment, b) reduced scope of price erosion in the US base portfolio, c) moderation in business prospects in the ARV segment. We value ARBP at 15x 12M forward earnings to arrive at a price target of INR910.
- With the current favourable macro-economic environment and broad portfolio offerings by ARBP, we believe it is well-placed to capitalize on the opportunity related to US generics. The better margins of the EU segment further support overall profitability. However, valuation provides limited upside from its current levels. We reiterate our Neutral rating on the stock.

Improved operational performance offset by higher depreciation/interest/tax

- Aurobindo's (ARBP) 1QFY24 sales grew 10% YoY to INR69b (our est.: INR66b). US formulation revenues grew 11% YoY to INR33b (CC: +4% YoY to USD403m; 48% of sales). ARV revenue declined 50% YoY to INR2b (3% of sales). Growth Markets sales grew 13% YoY to INR4.9b (7% of sales). Europe formulation sales grew 19% YoY to INR18.4b (27% of sales).
- API sales grew 14% YoY to INR10.3b (15% of sales).
- Gross margin (GM) expanded 20bp YoY to 53.9%.
- EBITDA margin expanded 40bp YoY to 16.8% (our est.: 16.2%). Lower other/employee expense (down 60bp/30bp YoY as a percentage of sales) were offset by higher R&D expense (70bp YoY as a percentage of sales).
- EBITDA was up 12% YoY to INR12b (our est.: INR11b).
- An exceptional income of INR698m was realized, attributed to the strategic restructuring of Auro PR's facility in Puerto Rico, which resulted in a significant increase in production volume.
- Adjusting for this exceptional item and forex gain of INR377m, PAT declined at a higher rate of 17% YoY to INR5b (our est.: INR5.2b), due to higher depreciation/interest cost/tax rate.

Highlights from the management commentary

- Ex-Revlimid, ARBP guided EBITDA margin of 18% for FY24.
- The improvement in EBITDA margin (from 16.8% in 1QFY24) is expected to be driven by higher volume offtake/reduced price erosion in base portfolio, PLI benefit and enhanced production from the Puerto Rico facility.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	62.4	57.4	64.1	64.7	68.5	69.1	71.4	72.8	248.6	281.8	65.5	4.6%
YoY Change (%)	9.4	-3.4	6.7	11.4	9.9	20.4	11.5	12.5	6.0	13.4	5.0	
EBITDA	10.2	10.5	9.5	10.0	11.5	11.7	13.3	14.8	40.3	51.3	10.6	8.6%
YoY Change (%)	-15.3	-11.3	-6.1	2.9	12.4	11.6	39.2	47.2	-8.1	27.2	3.5	
Margins (%)	16.4	18.3	14.9	15.5	16.8	17.0	18.6	20.3	16.2	18.2	16.2	
Depreciation	2.8	3.0	3.2	3.5	3.3	3.5	3.5	3.7	12.4	13.9	3.5	
EBIT	7.5	7.5	6.3	6.6	8.2	8.3	9.8	11.1	27.9	37.4	7.2	
YoY Change (%)	-19.8	-15.5	-11.7	-8.9	10.7	9.7	54.6	68.4	-14.5	34.0	-4.0	
Interest	0.1	0.3	0.4	0.6	0.6	0.5	0.4	0.3	1.4	1.8	0.5	
Other Income	0.4	0.6	0.8	1.1	0.8	0.8	0.9	0.9	2.9	3.3	0.8	
PBT before EO expense	7.7	7.9	6.7	7.1	8.5	8.6	10.2	11.6	29.4	38.9	7.5	13.4%
Forex loss/(gain)	0.3	0.5	-0.1	-0.2	-0.4	0.0	0.0	0.0	0.4	-0.4	0.0	
Exceptional (expenses)/income	-0.6	0.0	0.0	0.0	-0.7	0.0	0.0	0.0	-0.6	-0.7	0.0	
PBT	6.8	7.4	6.8	7.4	8.1	8.6	10.2	11.6	28.4	38.6	7.5	9.1%
Tax	1.6	1.1	1.9	2.2	2.4	2.4	2.2	2.1	7.3	9.1	2.2	
Rate (%)	23.2	15.3	27.8	30.4	29.7	28.0	21.3	18.3	25.6	23.7	30.0	
Minority Interest	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	
Reported PAT	5.2	6.2	4.9	5.1	5.7	6.2	8.0	9.4	21.0	29.3	5.2	9.8%
Adj PAT	5.9	6.6	4.8	5.1	4.9	6.2	8.0	9.8	22.5	29.0	5.2	-5.5%
YoY Change (%)	-21.4	-4.5	-14.3	-10.3	-16.5	-6.9	66.5	91.5	-12.8	28.8	-11.6	
Margins (%)	9.4	11.6	7.5	7.9	7.2	8.9	11.2	13.5	9.0	10.3	7.9	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

(INR b)

Y/E March	FY23E				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Formulations	53.3	47.7	54.5	54.6	58.2	59.1	61.4	62.6	210.1	241.3	53.6
YoY Change (%)	9.0	-7.6	9.2	11.4	9.2	23.9	12.6	14.8	5.4	14.9	9.5
ARV form.	3.8	1.6	2.5	1.6	1.9	1.8	1.9	4.3	9.5	9.9	2.4
YoY Change (%)	28.1	13.1	61.3	-32.6	-49.8	12.0	-25.0	170.2	24.0	4.0	0.9
US generic form.	29.7	26.4	30.0	30.5	33.0	33.5	34.9	34.3	116.5	135.6	30.7
YoY Change (%)	10.8	-11.1	9.3	11.6	11.2	26.8	16.1	12.5	4.8	16.4	12.6
EU and ROW form.	19.8	19.7	22.0	22.5	23.2	23.8	24.7	24.1	84.0	95.8	20.5
YoY Change (%)	3.5	-3.9	5.2	16.6	17.4	21.0	12.1	6.8	5.2	14.0	6.3
APIs	9.1	9.7	9.5	10.2	10.3	10.0	10.0	10.2	38.5	40.5	9.6
YoY Change (%)	11.6	24.1	-5.5	11.4	14.0	3.0	5.0	0.2	9.5	5.3	5.0
Cost Break-up											
RM Cost (% of Sales)	46.3	41.0	45.4	45.3	46.1	45.9	44.5	43.6	44.3	45.0	44.6
Staff Cost (% of Sales)	14.1	15.1	14.4	13.2	13.9	13.9	13.6	13.4	14.2	13.7	14.8
R&D Expenses(% of Sales)	5.0	4.8	6.5	6.3	5.7	5.9	5.9	5.7	5.7	5.8	6.8
Other Cost (% of Sales)	18.2	20.7	18.9	19.7	17.6	17.3	17.4	16.9	19.6	17.3	18.8
Gross Margins(%)	53.7	59.0	54.6	54.7	53.9	54.1	55.5	56.4	55.7	55.0	55.4
EBITDA Margins(%)	16.4	18.3	14.9	15.5	16.8	17.0	18.6	20.3	16.2	18.2	15.0
EBIT Margins(%)	12.0	13.1	9.9	10.1	12.0	12.0	13.7	15.2	11.2	13.3	9.9

E: MOFSL Estimates

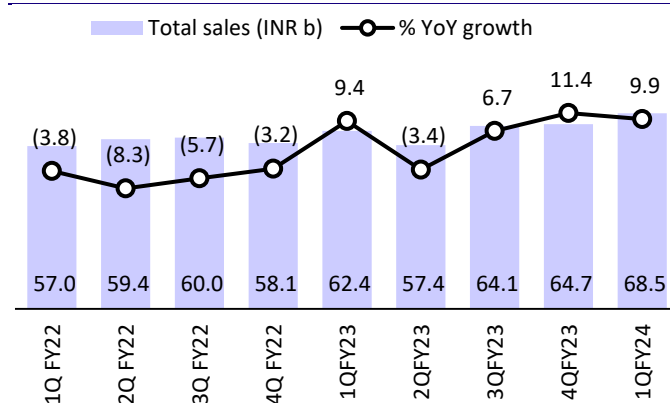


Conference call highlights

- ARBP expects to sustain healthy growth in the EU segment on the back of product launches, market share gains as well as increased reach. It has achieved mid-teen margins in this segment for the quarter.
- ARBP guided for Eugia sales to be USD100m/USD130m per quarter in the US/global segments for FY24. ARBP has re-initiated the restructuring of the Eugia business to unlock the inherent value of its injectable business.
- Gross margin improvement was adversely impacted to some extent due to higher sales from EU and lower API Non-betalactum sales for the quarter.
- PLI cumulative capex is USD160m till now with USD34m in 1QFY24.
- Net cash at the end of 1QFY24 stood at USD178m.

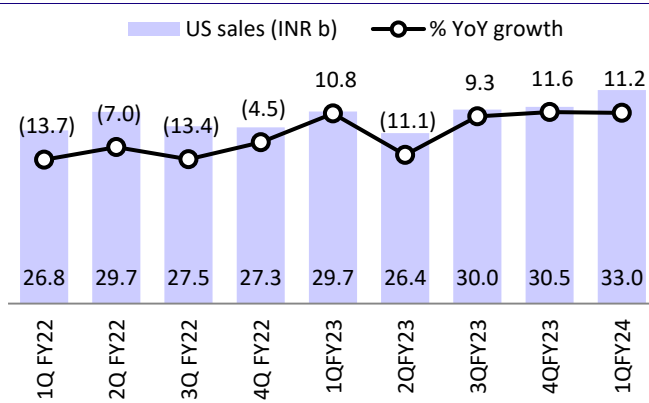
Key Exhibits

Exhibit 1: Revenue grew 10% YoY in 1QFY24



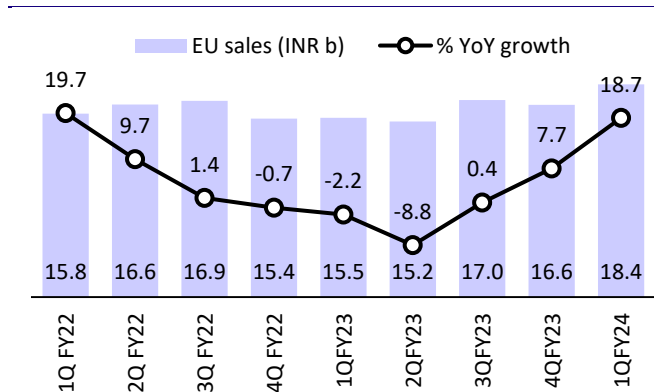
Source: MOFSL, Company

Exhibit 2: US sales up 11% YoY in 1QFY24 in INR terms



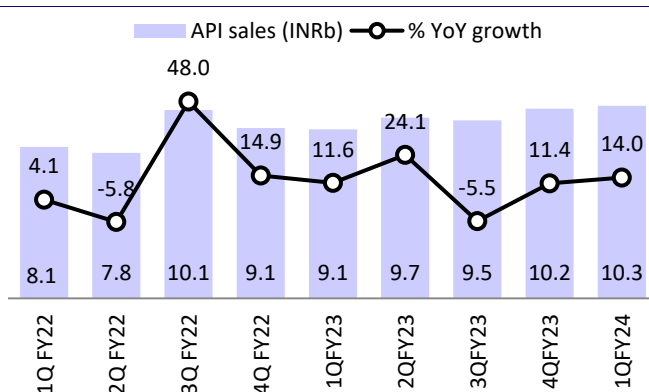
Source: MOFSL, Company

Exhibit 3: EU sales increased 19% YoY in 1QFY24

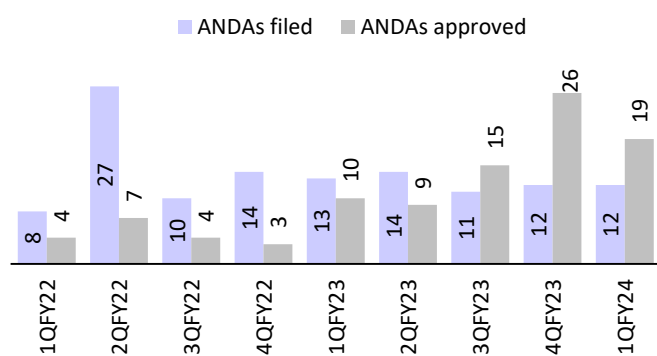


Source: MOFSL, Company

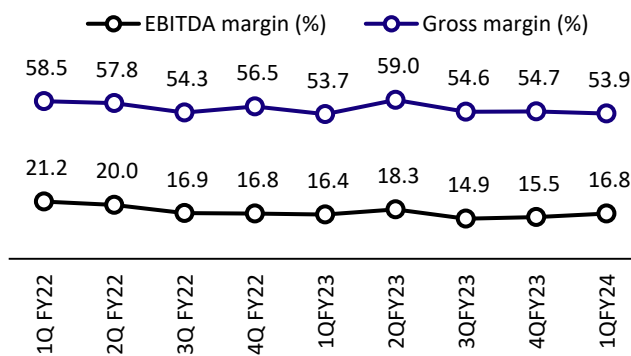
Exhibit 4: API sales rose 14% YoY in 1QFY24



Source: MOFSL, Company

Exhibit 5: ARBP filed 12 ANDAs in 1QFY24

Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted 130bp YoY

Source: MOFSL, Company

Superior execution across US/EU to drive better growth prospects

US segment growth to be led by niche launches/stable pricing

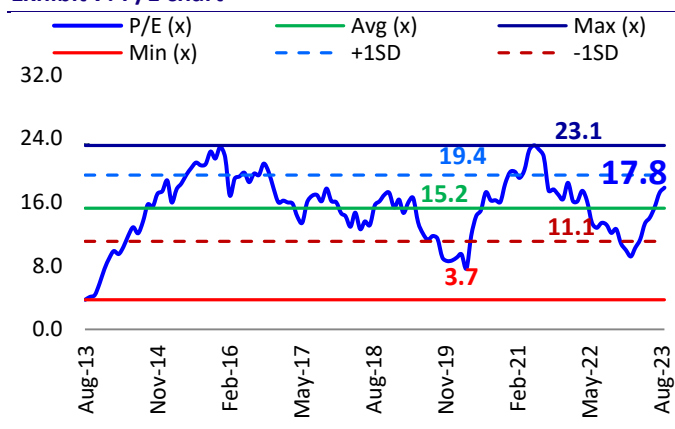
- In 1QFY24, ARBP's US sales grew 4% YoY in CC terms to USD403m. Eugia revenue in the US stood at USD91m in 1QFY24 (~23% of the total US revenue), including USD80m from generic injectables.
- Considering robust demand and sturdy portfolio, we believe that ARBP is well positioned to gain better traction.
- ARBP has a pipeline of 167 ANDAs pending for approval, giving it an edge to gain opportunities prevalent in the US market.
- Additionally, the US business will be aided by contribution from g-Revlimid from 3QFY24 onwards.
- Accordingly, we expect an 11% sales CAGR over FY23-25 to INR143b (USD1.9b).

EU: New launches/market share gain to drive growth

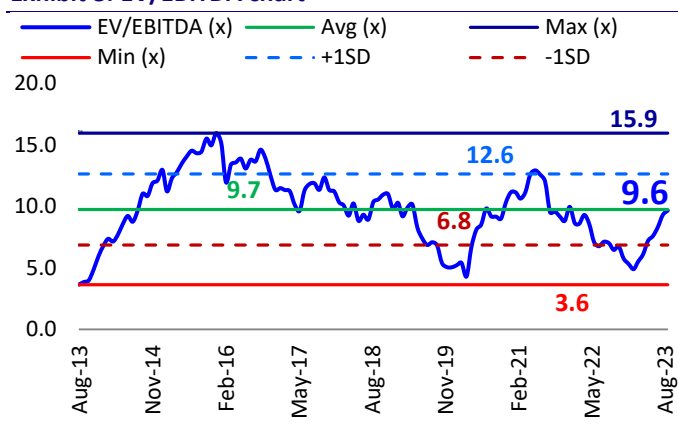
- In 1QFY24, EU sales grew 19% YoY to INR18.4b, led by a diverse product portfolio and an exceptional customer coverage. As a result, ARBP is strategically positioned to capitalize on market opportunities and increase its market share, considering the current shortages faced by some competitors.
- Accordingly, we expect a 12% sales CAGR over FY23-25 to INR80b.

Valuation and view

- We raise our earnings estimate by 8%/7% for FY24/FY25 factoring a) superior execution in the EU segment, b) reduced scope of price erosion in the US base portfolio, c) moderation in business prospects in the ARV segment. We value ARBP at 15x 12M forward earnings to arrive at a price target of INR910.
- With the current favorable macro environment and broad portfolio offerings by ARBP, we believe it is well-placed to capitalize on the opportunity related to US generics. The better margins of the EU segment further support overall profitability. However, valuation provides limited upside from its current levels. We reiterate our Neutral stance on the stock.

Exhibit 7: P/E chart

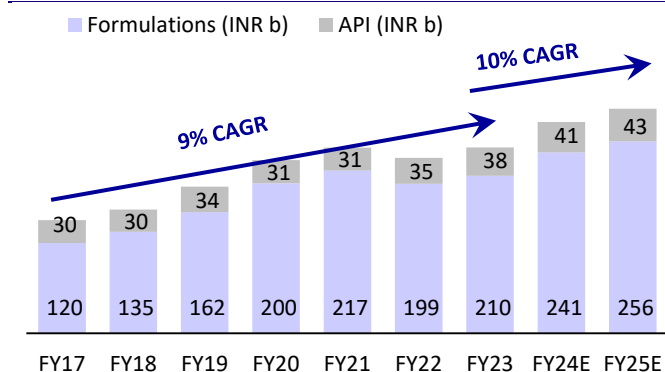
Source: MOFSL, Company, Bloomberg

Exhibit 8: EV/EBITDA chart

Source: MOFSL, Company, Bloomberg

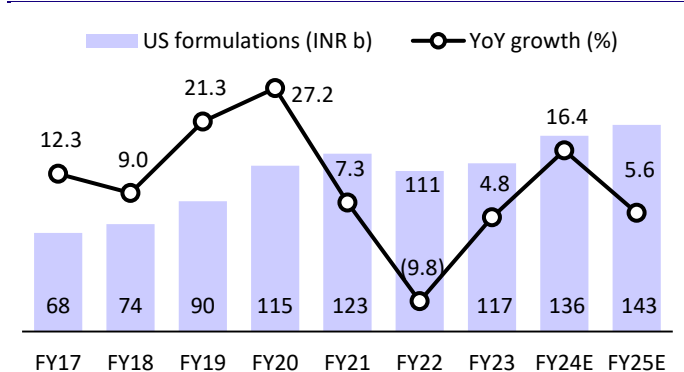
Story in charts

Exhibit 9: Expect sales CAGR of 10% over FY23-25



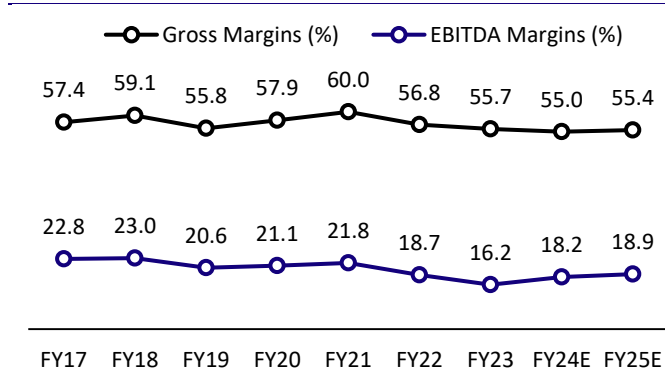
Source: Company, MOFSL

Exhibit 10: US sales to clock 11% CAGR over FY23-25



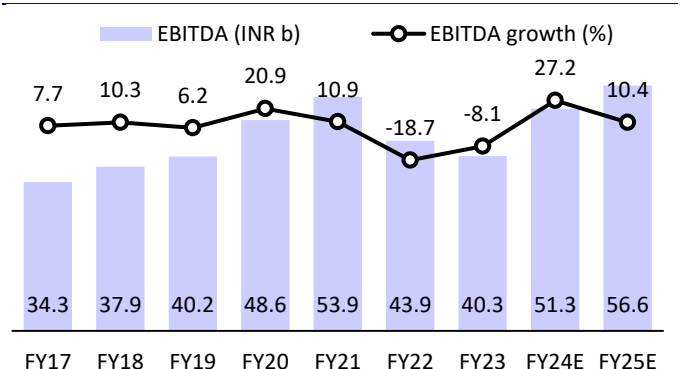
Source: Company, MOFSL

Exhibit 11: EBITDA margin to expand over FY23-25



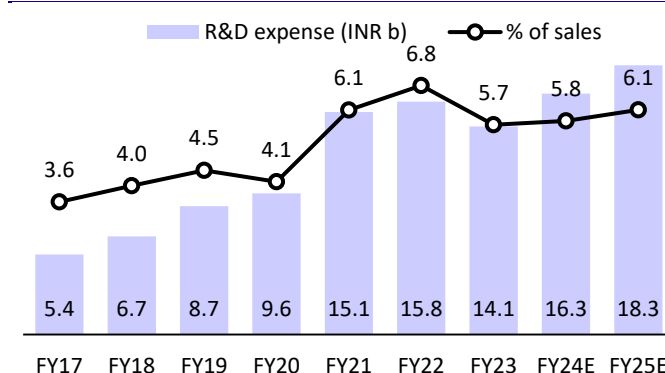
Source: Company, MOFSL

Exhibit 12: EBITDA to clock an 18% CAGR over FY23-25



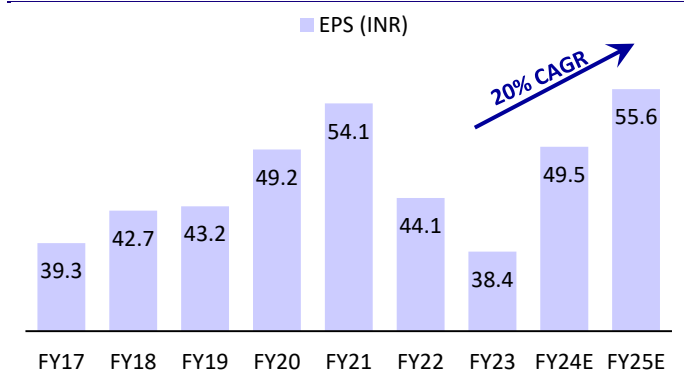
Source: Company, MOFSL

Exhibit 13: R&D expense to increase over FY23-25



Source: Company, MOFSL

Exhibit 14: Expect EPS CAGR of 20% over FY23-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	150.9	165.0	195.6	231.0	247.7	234.6	248.6	281.8	299.5
Change (%)	8.1	9.3	18.6	18.1	7.3	-5.3	6.0	13.4	6.3
Total Expenditure	116.6	127.1	155.4	182.3	193.8	190.7	208.2	230.5	242.9
EBITDA	34.3	37.9	40.2	48.6	53.9	43.9	40.3	51.3	56.6
Margin (%)	22.8	23.0	20.6	21.1	21.8	18.7	16.2	18.2	18.9
Depreciation	4.3	5.6	6.7	9.7	10.6	11.3	12.4	13.9	14.6
EBIT	30.1	32.3	33.5	39.0	43.4	32.6	27.9	37.4	42.0
Int. and Finance Charges	0.7	0.8	1.6	1.6	0.7	0.5	1.4	1.8	1.4
Other Income	0.5	1.0	1.2	0.9	2.4	2.5	2.9	3.3	3.5
PBT bef. EO Exp.	29.9	32.5	33.1	38.2	45.0	34.6	29.4	38.9	44.1
EO Items	0.6	-0.2	-2.2	-0.7	29.0	-0.6	-1.0	1.1	0.0
PBT after EO Exp.	30.6	32.4	30.9	37.6	74.0	34.0	28.4	40.0	44.1
Current Tax	7.6	8.2	7.3	9.1	20.1	7.3	6.8	10.6	11.5
Tax Rate (%)	24.9	25.3	23.5	24.3	27.2	21.3	24.1	26.5	26.0
Less: Minority Interest	-0.1	0.0	0.0	0.1	0.6	0.3	-0.1	0.1	0.1
Reported PAT	23.0	24.2	23.6	28.3	53.3	26.5	21.4	29.2	32.5
Adjusted PAT	23.0	25.0	25.3	28.8	31.7	25.8	22.5	29.0	32.5
Change (%)	13.6	8.7	1.1	13.9	9.9	-18.5	-12.8	28.8	12.3
Margin (%)	15.3	15.2	12.9	12.5	12.8	11.0	9.0	10.3	10.9

Consolidated - Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Reserves	93.1	116.2	138.3	167.5	218.7	245.2	267.8	294.1	323.2
Net Worth	93.7	116.8	138.9	168.1	219.3	245.8	268.4	294.7	323.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Deferred Liabilities	-1.2	0.8	1.0	1.4	1.2	1.2	-2.9	-2.9	-3.0
Total Loans	30.8	44.8	67.5	54.2	49.7	23.7	48.6	38.6	30.6
Capital Employed	123.4	162.4	207.4	223.7	270.2	270.7	314.3	330.5	351.5
Gross Block	53.6	70.7	98.0	116.4	134.3	158.4	175.4	195.9	208.9
Less: Accum. Deprn.	7.2	11.8	18.3	28.0	38.5	49.8	62.2	76.2	90.7
Net Fixed Assets	46.5	58.9	79.7	88.4	95.8	108.7	113.2	119.8	118.2
Goodwill on Consolidation	4.1	8.2	8.3	9.2	4.3	4.8	6.0	6.0	6.0
Capital WIP	12.4	14.0	13.4	16.2	24.3	29.4	45.0	45.0	45.0
Total Investments	2.5	3.1	3.6	5.5	5.9	10.0	5.4	5.4	5.4
Curr. Assets, Loans&Adv.	95.4	125.3	157.7	168.3	203.8	183.6	222.6	220.0	245.0
Inventory	43.3	58.6	72.5	77.0	90.3	75.5	85.1	104.6	110.5
Account Receivables	35.0	38.7	34.1	43.2	35.0	40.1	44.7	52.5	56.6
Cash and Bank Balance	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1	51.1
Loans and Advances	12.0	15.4	31.5	19.7	23.7	26.0	31.9	26.8	26.8
Curr. Liability & Prov.	37.4	47.1	55.3	63.9	63.8	65.6	77.9	65.7	68.1
Account Payables	24.9	26.3	25.5	25.4	27.9	27.0	38.7	35.0	37.5
Other Current Liabilities	11.4	18.2	26.1	33.5	32.6	35.2	35.4	30.0	30.0
Provisions	1.1	2.6	3.6	4.9	3.3	3.4	3.7	0.6	0.6
Net Current Assets	58.0	78.3	102.4	104.3	140.0	117.9	144.7	154.3	176.9
Deferred Tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6
Appl. of Funds	123.4	162.4	207.4	223.7	270.2	270.7	314.3	294.1	323.2

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	39.3	42.7	43.2	49.2	54.1	44.1	38.4	49.5	55.6
Cash EPS	46.6	52.2	54.6	65.7	72.0	63.3	59.7	73.3	80.5
BV/Share	160.0	199.4	237.1	286.9	374.3	419.5	458.4	503.4	552.9
DPS	1.9	3.7	2.5	2.5	2.5	3.5	4.0	5.0	6.0
Payout (%)	6.0	10.9	6.8	5.2	2.7	7.7	10.9	10.0	10.8
Valuation (x)									
P/E	15.5	14.3	14.1	12.4	11.3	13.8	15.9	14.7	13.0
Cash P/E	13.1	11.7	11.2	9.3	8.5	9.6	10.2	9.9	9.0
P/BV	3.8	3.1	2.6	2.1	1.6	1.5	1.3	1.4	1.3
EV/Sales	2.5	2.4	2.1	1.7	1.4	1.4	1.4	1.5	1.4
EV/EBITDA	11.2	10.3	10.1	7.9	6.5	7.7	8.6	8.3	7.1
Dividend Yield (%)	0.3	0.6	0.4	0.4	0.4	0.6	0.7	0.7	0.8
FCF per share	27.0	7.2	1.6	50.4	12.5	35.7	-13.5	-22.4	41.9
Return Ratios (%)									
RoE	27.6	23.8	19.8	18.8	16.3	11.1	8.7	10.3	10.5
RoCE	19.0	17.4	14.4	14.1	13.6	10.3	8.0	9.2	9.8
RoIC	22.5	20.4	16.9	17.1	17.6	13.7	10.8	12.3	12.6
Working Capital Ratios									
Fixed Asset Turnover (x)	2.8	2.3	2.0	2.0	1.8	1.5	1.4	1.4	1.4
Inventory (Days)	238	275	277	280	308	298	266	273	294
Debtor (Days)	98	82	68	61	58	58	62	63	66
Creditor (Days)	140	138	109	96	98	99	109	106	99
Working Cap. (Days)	196	219	235	246	267	258	219	230	261
Leverage Ratio (x)									
Current Ratio	2.6	2.7	2.9	2.6	3.2	2.8	2.9	3.4	3.6
Interest Cover Ratio	45	42	21	24	58	67	20	21	30
Net Debt/Equity	0.3	0.3	0.3	0.2	0.0	-0.1	0.0	0.0	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)									
OP/(Loss) before Tax	30.6	32.4	30.9	37.4	45.0	34.6	29.4	38.9	44.1
Depreciation	4.3	5.6	6.7	9.7	10.6	11.3	12.4	13.9	14.6
Interest / Dividend received	0.4	0.5	1.4	1.2	-1.6	-2.0	-1.5	-1.5	-2.1
Direct Taxes Paid	-7.7	-7.0	-7.7	-7.3	-20.1	-7.3	-6.8	-10.6	-11.5
(Inc)/Dec in WC	5.3	-10.4	-14.8	2.8	-9.3	9.2	-7.8	-34.4	-7.6
CF from Operations	32.9	21.2	16.4	43.8	24.5	45.8	25.7	6.3	37.5
Others	-0.1	-1.6	0.1	0.0	8.7	4.4	-1.0	1.1	0.0
CF from Operating incl EO	32.8	19.5	16.5	43.8	33.3	50.2	24.7	7.4	37.5
(inc)/dec in FA	-16.9	-15.3	-15.6	-14.3	-26.0	-29.2	-32.6	-20.5	-13.0
Free Cash Flow	15.8	4.2	0.9	29.5	7.3	20.9	-7.9	-13.1	24.5
(Pur)/Sale of Investments	-0.9	-4.0	-13.4	-1.4	0.4	4.1	-4.5	0.0	0.0
CF from Investments	-17.9	-19.3	-29.0	-15.7	6.0	-32.1	-39.8	-20.5	-13.0
Inc/(Dec) in Debt	-17.3	2.9	26.2	-13.1	-4.5	-26.0	25.0	-10.0	-7.9
Interest Paid	-0.6	-0.7	-1.5	-1.3	-0.7	-0.5	-1.4	-1.8	-1.4
Dividend Paid	-1.4	-2.6	-1.6	-1.9	-1.5	-2.1	-2.3	-2.9	-3.5
Others	1.5	7.7	-3.4	-2.8	-6.9	-1.2	12.8	3.1	3.3
CF from Fin. Activity	-17.7	7.2	19.8	-19.1	-13.6	-29.7	34.0	-11.6	-9.5
Inc/Dec of Cash	-2.8	7.5	7.3	9.1	25.6	-11.6	18.9	-24.7	15.0
Opening Balance	7.9	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1
Others incl. impact of fx	0.0	0.0	-0.3	-0.2	0.7	-1.2	0.0	0.0	0.0
Closing Balance	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1	51.1

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NEUTRAL	< - 10 % to 15%
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