

November 11, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,065		900	
Sales (Rs.m)	2,83,388	3,05,506	2,79,308	2,99,933
% Chng.	1.5	1.9		
EBITDA (Rs.m)	53,864	61,483	51,428	57,457
% Chng.	4.7	7.0		
EPS (Rs.)	49.8	59.4	48.3	56.4
% Chng.	3.2	5.3		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	2,48,551	2,83,388	3,05,506	3,27,099
EBITDA (Rs. m)	37,580	53,864	61,483	66,670
Margin (%)	15.1	19.0	20.1	20.4
PAT (Rs. m)	19,273	29,184	34,819	38,624
EPS (Rs.)	32.9	49.8	59.4	65.9
Gr. (%)	(27.2)	51.4	19.3	10.9
DPS (Rs.)	5.0	6.0	7.0	7.0
Yield (%)	0.5	0.6	0.7	0.7
RoE (%)	7.5	10.4	11.3	11.3
RoCE (%)	8.6	12.0	13.2	13.4
EV/Sales (x)	2.3	2.0	1.8	1.7
EV/EBITDA (x)	14.9	10.6	9.2	8.3
PE (x)	29.8	19.7	16.5	14.9
P/BV (x)	2.1	2.0	1.8	1.6

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.984 / Rs.397
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.574bn / \$ 6,888m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.1784.81m

Shareholding Pattern (%)

Promoter's	51.84
Foreign	22.45
Domestic Institution	18.29
Public & Others	7.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.7	58.3	105.0
Relative	10.7	51.1	91.5

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Strong quarter; US to further scale up

Quick Pointers:

- Launched gRevlimid in US in Oct-23.
- Guided for \$90mn run-rate for generic injectables in the US.

Our FY24/25E EPS est. stands increased by ~5% to factor in higher margins and US sales. Aurobindo Pharma's (ARBP) Q2FY24 EBITDA of Rs14bn (up 22% QoQ) with OPM of 19.4% (up 250 bps QoQ) was 14% above our estimate. We expect margin trajectory to further improve. Pick up in US sales hinge on timely niche approvals along with stabilization of pricing pressure in the base business. We believe ARBP has multiple growth drivers in place with investments in vaccines, injectables, biosimilars and PLI which are expected to be reflected from FY25. At CMP, the stock is trading at 16.5x FY25E P/E. We value company at 16x Sept 2025E EPS and assign a TP of Rs1,065/share (Rs900 earlier). Maintain 'Accumulate' rating.

- Strong revenue across segments:** Formulations business witnessed growth of 26% YoY and 5% QoQ at Rs72bn. US revenues ex Puerto Rico was up ~36% YoY. In CC terms US revenues increased by 5% QoQ at \$409mn, we est \$400mn. Revenues from Eugia Pharma contributed \$91mn in Q2. EU sales were up 17% YoY at Rs18bn (in line with our estimates). RoW business grew 25% YoY. ARV formulations increased by 52% YoY. API sales were up by 20% YoY on the back of improved asset utilization and debottlenecking.
- EBITDA beat est at 19.4%:** Gross margins came in higher at 55.2% (up 130bps QoQ) mainly on account of moderation of price erosion and better product mix. R&D spend stood at Rs 3bn (4.2% of revenue), up 9% YoY and down 23% QoQ. EBITDA margins came in at 19.4% (we est 17.8%), up 260bps QoQ aided by better operating leverage. EBITDA came at Rs14bn (up 22% QoQ), vs our estimates of Rs12.3bn. There was forex gain to the tune of Rs298mn. PAT was higher at Rs7.5bn, up 83% YoY vs our est of Rs6.8bn.
- Key concall takeaways:** Global revenues from Eugia Pharma stood at \$127mn and guided for \$560mn sales in FY24. Price erosion in US was neutral in Q2. Filed 10 ANDAs and launched 19 more including 5 injectables with USFDA in Q2FY24. Launched gRevlimid in Oct'23. Guided for +40 new launches in US over next 12 months. Expect generic injectable to go up from current qtrly level of \$81mn to \$90mn. R&D cost to inch up to Rs3.5-4bn as clinical trials for next phase starts. Mgmt highlighted that it intends to file its 3 biosimilars Pegfilgrastim, filgrastim & Trastuzumab (breast cancer drug) before Jan'24. Targeted \$150mn capex for biosimilars in coming years. Focus on EU business to be more profitable and grow margins in double digit. Guided margins to scale up to 20% in H2FY24 post factoring in gRevlimid launch and higher R&D cost. Total PLI capex spend up \$188mn as of Q2FY24 end. Expect Biologics CDMO to get commissioned in FY26. Net cash stands at Rs8.3bn vs Rs16bn as of Q1FY24 end.

Exhibit 1: 2QFY24 Result Overview (Rs m): Healthy API and US sales, improved margins

Y/e March	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Net Sales	72,194	57,394	25.8	68,505	5.4	1,40,699	1,19,753	17.5
Raw Material	32,367	25,680	26.0	31,547	2.6	63,915	54,547	17.2
<i>% of Net Sales</i>	<i>44.8</i>	<i>44.7</i>		<i>46.1</i>		<i>45.4</i>	<i>45.5</i>	
Personnel Cost	9,549	8,685	10.0	9,520	0.3	19,069	17,486	9.0
<i>% of Net Sales</i>	<i>13.2</i>	<i>15.1</i>		<i>13.9</i>		<i>13.6</i>	<i>14.6</i>	
Others	16,244	14,660	10.8	15,925	2.0	32,169	29,703	8.3
<i>% of Net Sales</i>	<i>22.5</i>	<i>25.5</i>		<i>23.2</i>		<i>22.9</i>	<i>24.8</i>	
Total Expenditure	58,160	49,025	18.6	56,992	2.1	1,15,152	1,01,737	13.2
EBITDA	14,034	8,369	67.7	11,514	21.9	25,548	18,016	41.8
<i>Margin (%)</i>	<i>19.4</i>	<i>14.6</i>		<i>16.8</i>		<i>18.2</i>	<i>15.0</i>	
Depreciation	4,175	2,981	40.1	3,266	27.8	7,441	5,776	28.8
EBIT	9,859	5,388	83.0	8,248	19.5	18,107	12,240	47.9
Other Income	1,579	111	1,323.8	1,163	35.7	2,742	235	1,069.4
Forex gain / (loss)	298	(461)	(164.6)	377		675	(744)	
Interest	682	253	169.6	566	20.6	1,247	399	212.4
PBT	10,756	5,246	105.0	8,846	21.6	19,602	12,076	62.3
Extra-Ord. Inc./Exps.	-	-		698		698	-	
Total Taxes	3,237	1,130	186.5	2,423	33.6	5,660	2,716	108.4
<i>ETR (%)</i>	<i>30.1</i>	<i>21.5</i>		<i>27.4</i>		<i>28.9</i>	<i>22.5</i>	
Minority interest	9	12		(28)		(19)	52	
Reported PAT	7,510	4,104	83.0	7,148	5.1	14,658	9,307	57.5

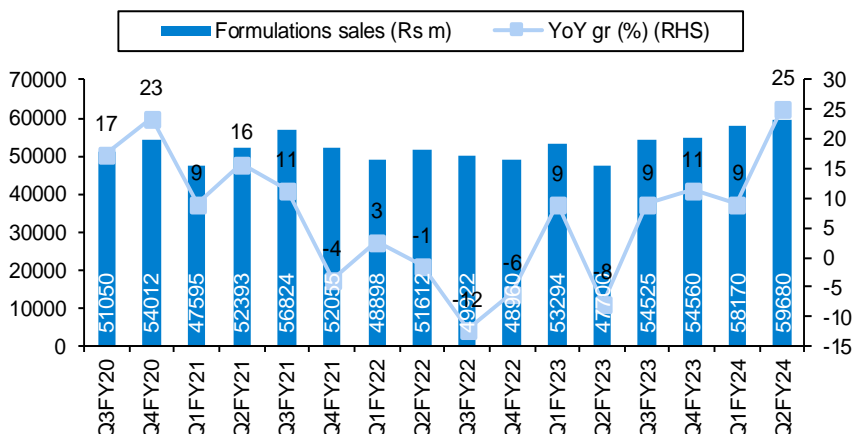
Source: Company, PL

Exhibit 2: Growth across segments

Major sources of revenues	2QFY24	2QFY23	YoY gr. (%)	1QFY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Formulations	59,680	47,700	25.1	58,170	2.6	1,17,850	1,00,994	16.7
<i>% of Net Sales</i>	<i>83.7</i>	<i>83.1</i>		<i>84.9</i>		<i>84.3</i>	<i>84.3</i>	
USA	33,850	26,376	28.3	33,040	2.5	66,890	56,087	19.3
<i>% of Net Sales</i>	<i>47.4</i>	<i>46.0</i>		<i>48.2</i>		<i>47.8</i>	<i>46.8</i>	
Europe & Emerging Markets	23,330	19,681	18.5	23,230	0.4	46,560	39,468	18.0
<i>% of Net Sales</i>	<i>32.7</i>	<i>34.3</i>		<i>33.9</i>		<i>33.3</i>	<i>33.0</i>	
ARV	2,500	1,643	52.2	1,900	31.6	4,400	5,439	(19.1)
<i>% of Net Sales</i>	<i>3.5</i>	<i>2.9</i>		<i>2.8</i>		<i>3.1</i>	<i>4.5</i>	
API	11,660	9,694	20.3	10,330	12.9	21,990	18,759	17.2
<i>% of Net Sales</i>	<i>16.3</i>	<i>16.9</i>		<i>15.1</i>		<i>15.7</i>	<i>15.7</i>	
Betalactam	8,160	6,358	28.3	7,190	13.5	15,350	11,872	29.3
<i>% of Net Sales</i>	<i>11.4</i>	<i>11.1</i>		<i>10.5</i>		<i>11.0</i>	<i>9.9</i>	
Non-Betalactam	3,500	3,336	4.9	3,140	11.5	6,640	6,887	(3.6)
<i>% of Net Sales</i>	<i>4.9</i>	<i>5.8</i>		<i>4.6</i>		<i>4.7</i>	<i>5.8</i>	

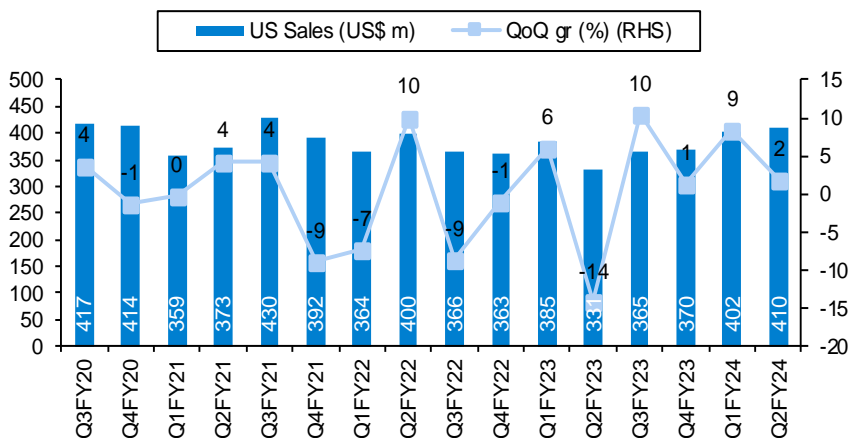
Source: Company, PL

Exhibit 3: Performance supported by US and EU markets



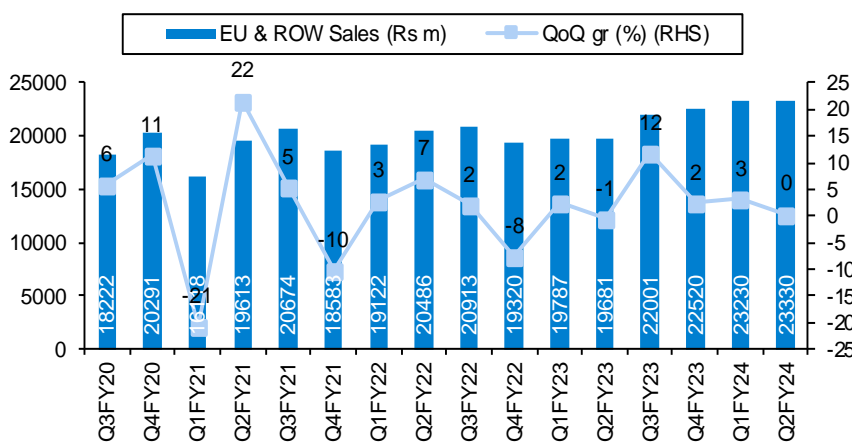
Source: Company, PL

Exhibit 4: Higher volumes and stable pricing aided US sales



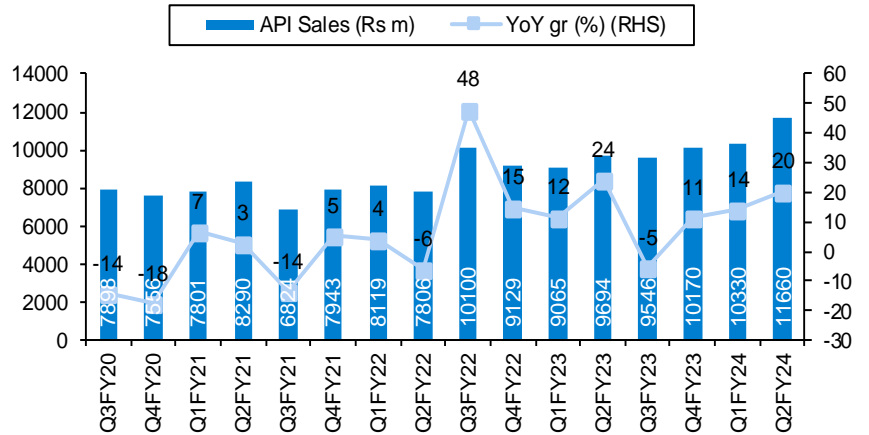
Source: Company, PL

Exhibit 5: Flattish growth QoQ from EU & ROW markets



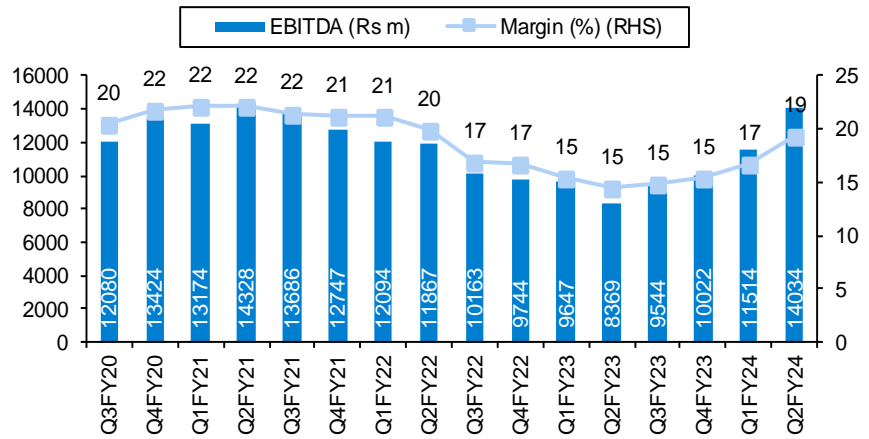
Source: Company, PL

Exhibit 6: Debottlenecking supported growth YoY



Source: Company, PL

Exhibit 7: Improved utilization levels aided operating leverage



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,48,551	2,83,388	3,05,506	3,27,099
YoY gr. (%)	6.0	14.0	7.8	7.1
Cost of Goods Sold	1,12,933	1,24,898	1,32,159	1,39,504
Gross Profit	1,35,619	1,58,490	1,73,348	1,87,594
Margin (%)	54.6	55.9	56.7	57.4
Employee Cost	35,223	38,040	40,703	43,959
Other Expenses	62,817	66,585	71,162	76,965
EBITDA	37,580	53,864	61,483	66,670
YoY gr. (%)	(14.3)	43.3	14.1	8.4
Margin (%)	15.1	19.0	20.1	20.4
Depreciation and Amortization	12,446	14,500	15,370	16,292
EBIT	25,134	39,364	46,113	50,377
Margin (%)	10.1	13.9	15.1	15.4
Net Interest	1,405	2,400	2,000	1,646
Other Income	2,510	4,175	3,600	3,800
Profit Before Tax	26,239	41,139	47,713	52,532
Margin (%)	10.6	14.5	15.6	16.1
Total Tax	6,849	11,108	12,644	13,658
Effective tax rate (%)	26.1	27.0	26.5	26.0
Profit after tax	19,391	30,032	35,069	38,874
Minority interest	118	150	250	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,273	29,184	34,819	38,624
YoY gr. (%)	(27.2)	51.4	19.3	10.9
Margin (%)	7.8	10.3	11.4	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,273	29,184	34,819	38,624
YoY gr. (%)	(27.2)	51.4	19.3	10.9
Margin (%)	7.8	10.3	11.4	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,273	29,184	34,819	38,624
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	32.9	49.8	59.4	65.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,83,333	2,11,333	2,39,333	2,67,333
Tangibles	1,83,333	2,11,333	2,39,333	2,67,333
Intangibles	-	-	-	-
Acc: Dep / Amortization	64,160	78,660	94,030	1,10,322
Tangibles	64,160	78,660	94,030	1,10,322
Intangibles	-	-	-	-
Net fixed assets	1,19,173	1,32,673	1,45,303	1,57,011
Tangibles	1,19,173	1,32,673	1,45,303	1,57,011
Intangibles	-	-	-	-
Capital Work In Progress	44,964	44,964	44,964	44,964
Goodwill	-	-	-	-
Non-Current Investments	5,427	5,427	5,427	5,427
Net Deferred tax assets	2,879	2,879	2,879	2,879
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	85,112	93,169	1,00,440	1,07,539
Trade receivables	44,664	50,466	54,405	58,250
Cash & Bank Balance	60,842	49,076	49,940	55,388
Other Current Assets	-	-	-	-
Total Assets	3,91,267	4,09,968	4,38,093	4,69,954
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,67,813	2,93,586	3,23,612	3,57,443
Total Networkth	2,68,399	2,94,172	3,24,198	3,58,029
Non-Current Liabilities				
Long Term borrowings	42,426	37,426	32,426	27,426
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	6,190	6,190	6,190	6,190
Trade payables	38,713	36,491	39,339	42,120
Other current liabilities	38,299	38,299	38,299	38,299
Total Equity & Liabilities	3,91,267	4,09,969	4,38,093	4,69,954

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	26,239	41,139	47,713	52,532
Add. Depreciation	12,446	14,500	15,370	16,292
Add. Interest	1,405	2,400	2,000	1,646
Less Financial Other Income	2,510	4,175	3,600	3,800
Add. Other	(5,154)	-	-	-
Op. profit before WC changes	34,936	58,039	65,083	70,470
Net Changes-WC	3,178	(19,190)	(11,782)	(11,925)
Direct tax	(7,172)	(11,108)	(12,644)	(13,658)
Net cash from Op. activities	30,942	27,742	40,657	44,886
Capital expenditures	(32,920)	(28,000)	(28,000)	(28,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(32,920)	(28,000)	(28,000)	(28,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	20,753	(5,000)	(5,000)	(5,000)
Dividend paid	(4,395)	(4,108)	(4,793)	(4,793)
Interest paid	(1,405)	(2,400)	(2,000)	(1,646)
Others	5,966	-	-	-
Net cash from Fin. activities	20,920	(11,508)	(11,793)	(11,438)
Net change in cash	18,941	(11,766)	864	5,448
Free Cash Flow	3,738	(258)	12,657	16,886

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	64,071	64,730	68,505	72,194
YoY gr. (%)	6.7	11.4	9.9	25.8
Raw Material Expenses	29,076	29,310	31,547	32,367
Gross Profit	34,996	35,420	36,958	39,827
Margin (%)	54.6	54.7	53.9	55.2
EBITDA	9,544	10,022	11,514	14,034
YoY gr. (%)	(6.1)	2.9	19.3	67.7
Margin (%)	14.9	15.5	16.8	19.4
Depreciation / Depletion	3,214	3,456	3,266	4,175
EBIT	6,330	6,566	8,248	9,859
Margin (%)	9.9	10.1	12.0	13.7
Net Interest	450	556	566	682
Other Income	927	1,349	1,163	1,579
Profit before Tax	6,807	7,359	8,846	10,756
Margin (%)	10.6	11.4	12.9	14.9
Total Tax	1,891	2,242	2,423	3,237
Effective tax rate (%)	27.8	30.5	27.4	30.1
Profit after Tax	4,916	5,118	6,423	7,519
Minority interest	6	59	(28)	9
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,922	5,176	5,697	7,528
YoY gr. (%)	(20.4)	(11.4)	7.8	82.4
Margin (%)	7.7	8.0	8.3	10.4
Extra Ord. Income / (Exp)	-	-	698	-
Reported PAT	4,922	5,176	6,395	7,528
YoY gr. (%)	(20.4)	(11.4)	21.0	82.4
Margin (%)	7.7	8.0	9.3	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,922	5,176	6,395	7,528
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	8.4	8.6	9.8	12.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	32.9	49.8	59.4	65.9
CEPS	54.1	74.6	85.7	93.7
BVPS	458.1	502.1	553.3	611.1
FCF	6.4	(0.4)	21.6	28.8
DPS	5.0	6.0	7.0	7.0
Return Ratio(%)				
RoCE	8.6	12.0	13.2	13.4
ROIC	7.6	10.9	11.9	12.2
RoE	7.5	10.4	11.3	11.3
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	134	138	138	138
Valuation(x)				
PER	29.8	19.7	16.5	14.9
P/B	2.1	2.0	1.8	1.6
P/CEPS	18.1	13.1	11.4	10.5
EV/EBITDA	14.9	10.6	9.2	8.3
EV/Sales	2.3	2.0	1.8	1.7
Dividend Yield (%)	0.5	0.6	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
US Formulations	1,16,538	1,36,674	1,44,705	1,52,887
EU & ROW	83,990	94,923	1,02,452	1,10,602
ARV formulations	9,540	9,184	11,480	12,054
APIs	38,480	42,608	46,869	51,556

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	900	901
2	14-Aug-23	Accumulate	900	871
3	06-Jul-23	BUY	660	761
4	29-May-23	BUY	660	611
5	06-Apr-23	BUY	565	522
6	11-Feb-23	BUY	565	469
7	06-Jan-23	Accumulate	550	444
8	16-Nov-22	Accumulate	550	492

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,279
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	1,050	912
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	420	374
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,675	1,462
14	Krishna Institute of Medical Sciences	BUY	2,000	1,870
15	Lupin	Hold	1,200	1,205
16	Max Healthcare Institute	BUY	675	601
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	670	599

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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