

February 13, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,120		1,065	
Sales (Rs. m)	3,13,191	3,39,324	3,05,506	3,27,099
% Chng.	2.5	3.7		
EBITDA (Rs. m)	66,595	74,186	61,483	66,670
% Chng.	8.3	11.3		
EPS (Rs.)	64.2	73.7	59.4	65.9
% Chng.	8.1	11.8		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	2,48,551	2,86,764	3,13,191	3,39,324
EBITDA (Rs. m)	37,580	56,165	66,595	74,186
Margin (%)	15.1	19.6	21.3	21.9
PAT (Rs. m)	19,273	30,586	37,634	43,195
EPS (Rs.)	32.9	52.2	64.2	73.7
Gr. (%)	(27.2)	58.7	23.0	14.8
DPS (Rs.)	5.0	6.0	7.0	7.0
Yield (%)	0.5	0.6	0.7	0.7
RoE (%)	7.5	10.8	12.1	12.4
RoCE (%)	8.6	12.3	14.1	14.7
EV/Sales (x)	2.4	2.1	1.9	1.7
EV/EBITDA (x)	15.7	10.6	8.8	7.7
PE (x)	31.2	19.7	16.0	13.9
P/BV (x)	2.2	2.0	1.8	1.6

Key Data

ARBN.BO | ARBP IN

52-W High / Low	Rs.1,177 / Rs.443
Sensex / Nifty	71,555 / 21,743
Market Cap	Rs.601bn/ \$ 7,245m
Shares Outstanding	586m
3M Avg. Daily Value	Rs.3019.37m

Shareholding Pattern (%)

Promoter's	51.84
Foreign	20.72
Domestic Institution	20.60
Public & Others	6.84
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.3)	18.9	117.2
Relative	(4.9)	8.6	83.4

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Strong quarter aided by gRevlimid

Quick Pointers:

- PLI plant to get commercialize from Q1FY25.
- Expects to maintain a global quarterly sales run rate of \$150 mn for Eugia

Our FY25/26E EPS est. stands increased by ~8-12% as we now built in revenues from PLI. Aurobindo Pharma's (ARBP) Q3FY24 EBITDA of Rs16bn (up 14% QoQ) with OPM of 21.8% (up 240 bps QoQ) was 7% above our estimate. We expect margins to sustain. 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 16x FY25E P/E. We value company at 15x FY26E EPS and assign a TP of Rs1,120/share (Rs1065 earlier). Maintain 'Accumulate' rating. Any adverse effect to recent FDA inspection to Eugia 3 facility will be key risk to our call

- In line revenues aided by US segment:** Formulations business witnessed growth of 15% YoY and 2% QoQ at Rs73.5bn. US revenues ex Puerto Rico was up 25% YoY. In CC terms US revenues increased by 10% QoQ at \$451mn, we est \$435mn. Revenues from global injectable sales were to tune of \$150mn aided by gRevlimid. EU sales was up by mere 1.6% YoY at Rs17.3bn. RoW business grew 26% YoY. ARV formulations declined by 29% YoY to Rs 1.8bn, below our est. API sales were up by 7% YoY.
- EBITDA margins at 21.8%:** Gross margins came in higher at 57.1% (up 190bps QoQ) mainly on account of higher US sales. R&D spend stood at Rs 3.9bn (5.4% of revenue), up 9% YoY and down 23% QoQ. EBITDA margins came in at 21.8% (we est 20.2%). EBITDA came at Rs16bn (up 14% QoQ), vs our estimates of Rs15bn. We believe company has booked \$35-40mn sales from gRevlimid. There was forex gain to the tune of Rs452mn. PAT was higher at Rs9.4bn, up 25% QoQ vs our est of Rs8bn.
- Key concall takeaways: US:** Oral generic came in \$287 mn for Q3FY24 aided by new launches and higher volumes. **Eugia Unit III** – FDA inspected facility with nine observations. Currently Eugia 3 contributes 40% to total injectable sales and have 27 pending ANDAs. In order to resolve issues, company has decided to temporarily shut down facility which will see \$20mn sales impact in Q4. Overall, the entire manufacturing operations to be streamlined by the end of FY24. Generic injectable sales came in \$101mn vs \$80mn in Q3. **Vizag Injectable plant-** commercial operations to start from H1FY25 and should provide back up for Eugia facility. So far filed 2 products. **Biosimilars** - Currently company have seven biosimilars in its pipeline with three assets being in the filing stages and 4 assets in phase III trials. Plant likely to get commissioned by end FY25/H1FY26. **PLI** - Cumulative capex for Pen-G project was \$230mn till Q3FY24. Likely to commercialize by Q1FY25 with 15k ton capacity of which 50% will be utilized for captive purpose. **EU markets-** Muted growth was primarily attributable to a one-time claw back tax of euro13.5m. **ARV** business was impacted due to deferment of sales in compliance with IndAS.

Exhibit 1: 3QFY24 Result Overview (Rs m): Performance aided by US sales, scale up in margins

Y/e March	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	73,518	64,071	14.7	72,194	1.8	2,14,217	1,83,824	16.5
Raw Material	31,506	29,076	8.4	32,367	(2.7)	95,420	83,623	14.1
<i>% of Net Sales</i>	<i>42.9</i>	<i>45.4</i>		<i>44.8</i>		<i>44.5</i>	<i>45.5</i>	
Personnel Cost	9,897	9,217	7.4	9,549	3.6	28,966	26,704	8.5
<i>% of Net Sales</i>	<i>13.5</i>	<i>14.4</i>		<i>13.2</i>		<i>13.5</i>	<i>14.5</i>	
Others	16,102	16,234	(0.8)	16,244	(0.9)	48,271	45,937	5.1
<i>% of Net Sales</i>	<i>21.9</i>	<i>25.3</i>		<i>22.5</i>		<i>22.5</i>	<i>25.0</i>	
Total Expenditure	57,505	54,527	5.5	58,160	(1.1)	1,72,657	1,56,264	10.5
EBITDA	16,013	9,544	67.8	14,034	14.1	41,561	27,560	50.8
<i>Margin (%)</i>	<i>21.8</i>	<i>14.9</i>		<i>19.4</i>		<i>19.4</i>	<i>15.0</i>	
Depreciation	4,233	3,214	31.7	4,175	1.4	11,673	8,990	29.8
EBIT	11,780	6,330	86.1	9,859	19.5	29,887	18,570	60.9
Other Income	1,625	927	75.4	1,579	2.9	3,241	1,783	81.7
Forex gain / (loss)	452	121	272.4	298		1,127	(622)	
Interest	756	450	68.0	682	10.8	2,003	849	136.0
PBT	12,650	6,807	85.8	10,756	17.6	32,252	18,883	70.8
Extra-Ord. Inc./Exps.	-	-		-		698	-	
Total Taxes	3,225	1,891	70.5	3,237	(0.4)	8,885	4,607	92.9
<i>ETR (%)</i>	<i>25.5</i>	<i>27.8</i>		<i>30.1</i>		<i>27.5</i>	<i>24.4</i>	
Minority interest	(26)	6		9		(45)	58	
Reported PAT	9,452	4,910	92.5	7,510	25.9	22,625	14,218	59.1

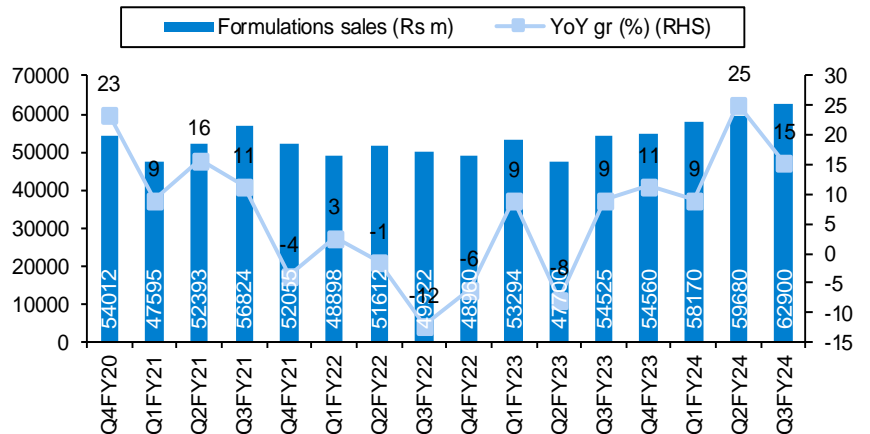
Source: Company, PL

Exhibit 2: Growth across US and RoW markets

Major sources of revenues	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Formulations	62,900	54,525	15.4	59,680	5.4	1,80,750	1,55,519	16.2
<i>% of Net Sales</i>	<i>86.0</i>	<i>85.1</i>		<i>83.7</i>		<i>84.9</i>	<i>84.6</i>	
USA	37,560	30,012	25.1	33,850	11.0	1,04,450	86,099	21.3
<i>% of Net Sales</i>	<i>51.4</i>	<i>46.8</i>		<i>47.4</i>		<i>49.0</i>	<i>46.8</i>	
Europe & Emerging Markets	23,550	22,001	7.0	23,330	0.9	70,110	61,469	14.1
<i>% of Net Sales</i>	<i>32.2</i>	<i>34.3</i>		<i>32.7</i>		<i>32.9</i>	<i>33.4</i>	
ARV	1,790	2,512	(28.7)	2,500	(28.4)	6,190	7,951	(22.1)
<i>% of Net Sales</i>	<i>2.4</i>	<i>3.9</i>		<i>3.5</i>		<i>2.9</i>	<i>4.3</i>	
API	10,220	9,546	7.1	11,660	(12.3)	32,210	28,305	13.8
<i>% of Net Sales</i>	<i>14.0</i>	<i>14.9</i>		<i>16.3</i>		<i>15.1</i>	<i>15.4</i>	
Betalactam	7,370	6,231	18.3	8,160	(9.7)	22,720	18,103	25.5
<i>% of Net Sales</i>	<i>10.1</i>	<i>9.7</i>		<i>11.4</i>		<i>10.7</i>	<i>9.8</i>	
Non-Betalactam	2,850	3,315	(14.0)	3,500	(18.6)	9,490	10,202	(7.0)
<i>% of Net Sales</i>	<i>3.9</i>	<i>5.2</i>		<i>4.9</i>		<i>4.5</i>	<i>5.5</i>	

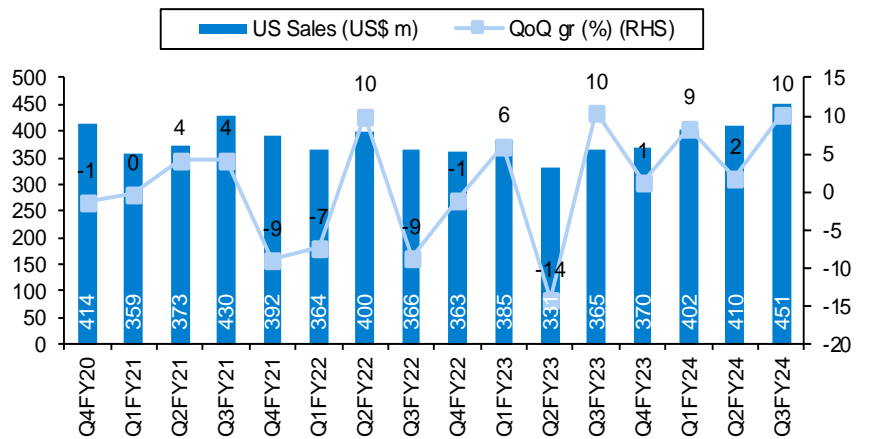
Source: Company, PL

Exhibit 3: Performance buoyed by US markets while EU growth was muted



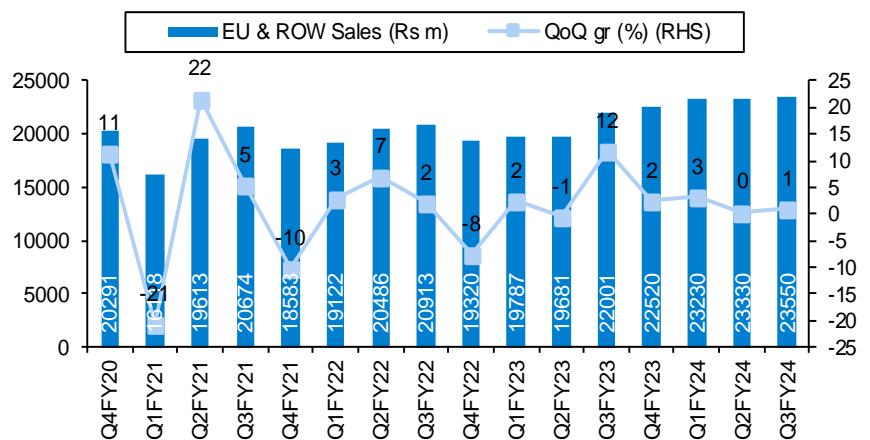
Source: Company, PL

Exhibit 4: Volume gains and sales from gRevlimid supported



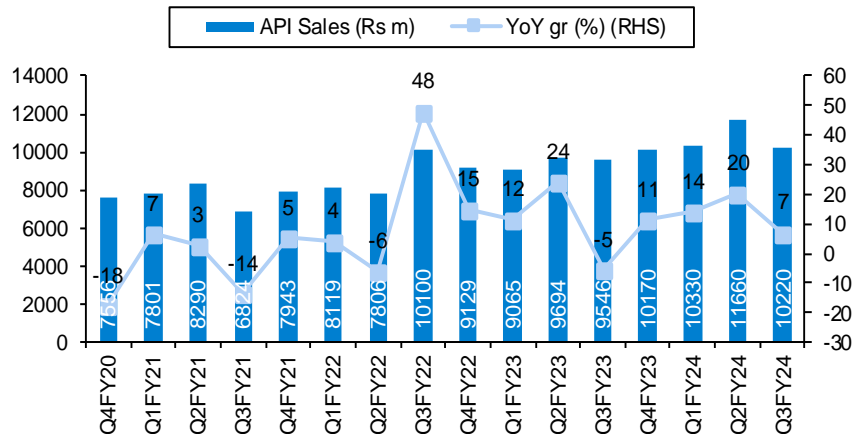
Source: Company, PL

Exhibit 5: RoW markets grew healthy



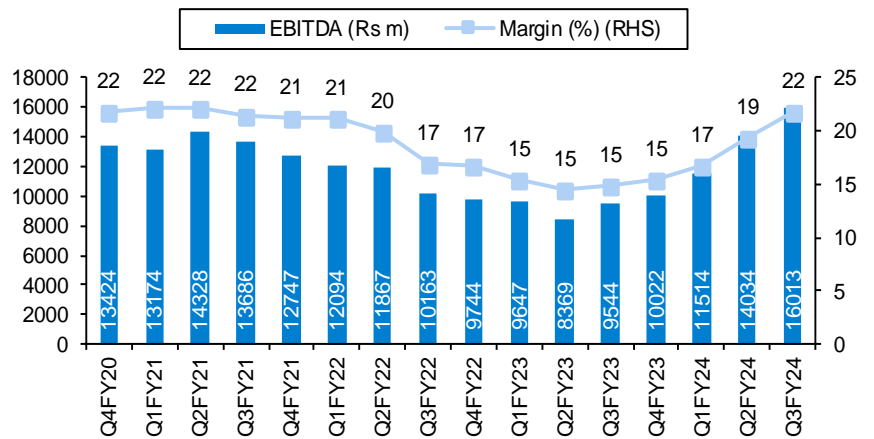
Source: Company, PL

Exhibit 6: API delivered single digit growth YoY



Source: Company, PL

Exhibit 7: Better product mix aided margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,48,551	2,86,764	3,13,191	3,39,324
YoY gr. (%)	6.0	15.4	9.2	8.3
Cost of Goods Sold	1,12,933	1,26,673	1,35,277	1,44,523
Gross Profit	1,35,619	1,60,091	1,77,914	1,94,800
Margin (%)	54.6	55.8	56.8	57.4
Employee Cost	35,223	38,745	41,457	44,773
Other Expenses	62,817	65,181	69,863	75,841
EBITDA	37,580	56,165	66,595	74,186
YoY gr. (%)	(14.3)	49.5	18.6	11.4
Margin (%)	15.1	19.6	21.3	21.9
Depreciation and Amortization	12,446	15,800	16,748	17,753
EBIT	25,134	40,365	49,847	56,433
Margin (%)	10.1	14.1	15.9	16.6
Net Interest	1,405	2,700	2,450	1,920
Other Income	2,510	5,327	4,500	5,000
Profit Before Tax	26,239	42,992	51,897	59,514
Margin (%)	10.6	15.0	16.6	17.5
Total Tax	6,849	11,608	14,012	16,069
Effective tax rate (%)	26.1	27.0	27.0	27.0
Profit after tax	19,391	31,384	37,884	43,445
Minority interest	118	100	250	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,273	30,586	37,634	43,195
YoY gr. (%)	(27.2)	58.7	23.0	14.8
Margin (%)	7.8	10.7	12.0	12.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,273	30,586	37,634	43,195
YoY gr. (%)	(27.2)	58.7	23.0	14.8
Margin (%)	7.8	10.7	12.0	12.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,273	30,586	37,634	43,195
Equity Shares O/s (m)	586	586	586	586
EPS (Rs)	32.9	52.2	64.2	73.7

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	79,960	96,708	1,14,460
Tangibles	64,160	79,960	96,708	1,14,460
Intangibles	-	-	-	-
Net fixed assets	1,19,173	1,31,373	1,42,625	1,52,872
Tangibles	1,19,173	1,31,373	1,42,625	1,52,872
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	94,279	1,02,967	1,11,558
Trade receivables	44,664	51,068	55,774	60,427
Cash & Bank Balance	60,842	50,452	53,881	63,644
Other Current Assets	-	-	-	-
Total Assets	3,91,267	4,11,756	4,43,251	4,80,268
Equity				
Equity Share Capital	586	586	586	586
Other Equity	2,67,813	2,94,989	3,27,831	3,66,233
Total Networkth	2,68,399	2,95,575	3,28,417	3,66,819
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	36,926	40,329	43,694
Other current liabilities	38,299	38,299	38,299	38,299
Total Equity & Liabilities	3,91,267	4,11,756	4,43,251	4,80,268

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	26,239	42,992	51,897	59,514
Add. Depreciation	12,446	15,800	16,748	17,753
Add. Interest	1,405	2,700	2,450	1,920
Less Financial Other Income	2,510	5,327	4,500	5,000
Add. Other	(5,154)	-	-	-
Op. profit before WC changes	34,936	61,492	71,095	79,186
Net Changes-WC	3,178	(20,466)	(13,411)	(13,641)
Direct tax	(7,172)	(11,608)	(14,012)	(16,069)
Net cash from Op. activities	30,942	29,418	43,672	49,476
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)	(2,700)	(2,450)	(1,920)
Others	5,966	-	-	-
Net cash from Fin. activities	20,920	(11,808)	(12,243)	(11,713)
Net change in cash	18,941	(10,390)	3,429	9,764
Free Cash Flow	3,738	1,418	15,672	21,476

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	64,730	68,505	72,194	73,518
YoY gr. (%)	11.4	9.9	25.8	14.7
Raw Material Expenses	29,310	31,547	32,367	31,506
Gross Profit	35,420	36,958	39,827	42,012
Margin (%)	54.7	53.9	55.2	57.1
EBITDA	10,022	11,514	14,034	16,013
YoY gr. (%)	2.9	19.3	67.7	67.8
Margin (%)	15.5	16.8	19.4	21.8
Depreciation / Depletion	3,456	3,266	4,175	4,233
EBIT	6,566	8,248	9,859	11,780
Margin (%)	10.1	12.0	13.7	16.0
Net Interest	556	566	682	756
Other Income	1,349	1,163	1,579	1,625
Profit before Tax	7,359	8,846	10,756	12,650
Margin (%)	11.4	12.9	14.9	17.2
Total Tax	2,242	2,423	3,237	3,225
Effective tax rate (%)	30.5	27.4	30.1	25.5
Profit after Tax	5,118	6,423	7,519	9,426
Minority interest	59	(28)	9	(26)
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,176	5,697	7,528	9,400
YoY gr. (%)	(11.4)	7.8	82.4	91.0
Margin (%)	8.0	8.3	10.4	12.8
Extra Ord. Income / (Exp)	-	698	-	-
Reported PAT	5,176	6,395	7,528	9,400
YoY gr. (%)	(11.4)	21.0	82.4	91.0
Margin (%)	8.0	9.3	10.4	12.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,176	6,395	7,528	9,400
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	8.6	9.8	12.8	16.1

Source: Company Data, PL Research

Key Financial Metrics

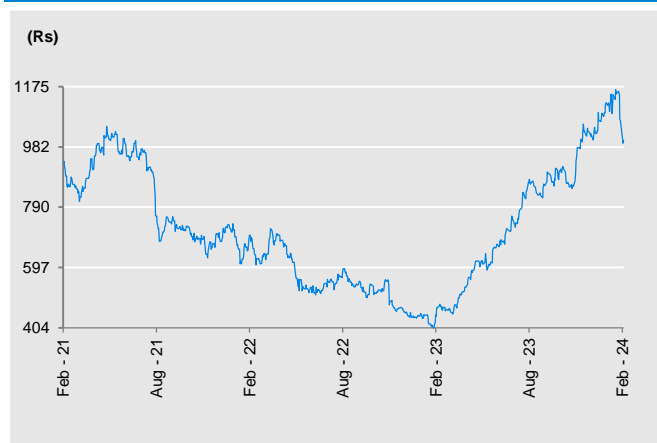
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	32.9	52.2	64.2	73.7
CEPS	54.1	79.2	92.8	104.0
BVPS	458.1	504.5	560.5	626.1
FCF	6.4	2.4	26.7	36.7
DPS	5.0	6.0	7.0	7.0
Return Ratio(%)				
RoCE	8.6	12.3	14.1	14.7
ROIC	7.6	11.2	12.8	13.5
RoE	7.5	10.8	12.1	12.4
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	134	138	138	138
Valuation(x)				
PER	31.2	19.7	16.0	13.9
P/B	2.2	2.0	1.8	1.6
P/CEPS	19.0	13.0	11.1	9.9
EV/EBITDA	15.7	10.6	8.8	7.7
EV/Sales	2.4	2.1	1.9	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	1,39,781	1,47,038	1,55,986
EU & ROW	83,990	94,471	1,01,729	1,09,834
ARV formulations	9,540	8,705	9,735	10,514
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	08-Jan-24	Accumulate	1,065	1,124
2	11-Nov-23	Accumulate	1,065	980
3	07-Oct-23	Accumulate	900	901
4	14-Aug-23	Accumulate	900	871
5	06-Jul-23	BUY	660	761
6	29-May-23	BUY	660	611
7	06-Apr-23	BUY	565	522

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,434
2	Aster DM Healthcare	BUY	430	417
3	Aurobindo Pharma	Accumulate	1,065	1,124
4	Cipla	Accumulate	1,400	1,375
5	Divi's Laboratories	Reduce	3,150	3,652
6	Dr. Reddy's Laboratories	Reduce	5,650	5,841
7	Eris Lifesciences	BUY	1,050	928
8	Fortis Healthcare	BUY	780	444
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	371
11	Indoco Remedies	Accumulate	380	369
12	Ipca Laboratories	Hold	1,060	1,119
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,800
14	Jupiter Life Line Hospitals	BUY	1,310	1,138
15	Krishna Institute of Medical Sciences	BUY	2,200	2,078
16	Lupin	Hold	1,600	1,606
17	Max Healthcare Institute	BUY	925	799
18	Narayana Hrudayalaya	BUY	1,250	1,212
19	Sun Pharmaceutical Industries	BUY	1,640	1,415
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,526
22	Zydus Lifesciences	Accumulate	855	804

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



ANALYST CERTIFICATION

(Indian Clients)

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