PL Capital
PRABHUDAS LILLADHER

Aurobindo Pharma (ARBP IN)

Rating: ACCUMULATE | CMP: Rs1,286 | TP: Rs1,475

November 12, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**1,475**		**1,525**	
Sales (Rs. m)	3,47,054	3,74,405	3,42,491	3,68,066
% Chng.	*1.3*	*1.7*		
EBITDA (Rs. m)	74,881	81,632	75,757	81,774
% Chng.	*(1.2)*	*(0.2)*		
EPS (Rs.)	74.7	83.6	76.2	83.2
% Chng.	*(2.0)*	*0.5*		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	2,89,719	3,13,388	3,47,054	3,74,405
EBITDA (Rs. m)	58,131	65,013	74,881	81,632
Margin (%)	*20.1*	*20.7*	*21.6*	*21.8*
PAT (Rs. m)	35,227	35,211	43,385	48,532
EPS (Rs.)	60.1	60.6	74.7	83.6
Gr. (%)	*86.6*	*0.8*	*23.2*	*11.9*
DPS (Rs.)	6.0	3.0	7.1	7.1
Yield (%)	*0.5*	*0.2*	*0.5*	*0.5*
RoE (%)	*12.4*	*11.3*	*12.7*	*12.7*
RoCE (%)	*12.6*	*13.2*	*14.5*	*14.6*
EV/Sales (x)	2.6	2.4	2.1	1.9
EV/EBITDA (x)	13.0	11.6	9.9	8.8
PE (x)	21.4	21.2	17.2	15.4
P/BV (x)	2.5	2.3	2.1	1.8

Key Data

Key Data	ARBN.BO | ARBP IN
52-W High / Low	Rs.1,593 / Rs.959
Sensex / Nifty	79,496 / 24,141
Market Cap	Rs.747bn/ $ 8,850m
Shares Outstanding	581m
3M Avg. Daily Value	Rs.1858.13m

Shareholding Pattern (%)

Promoter's	51.82
Foreign	16.59
Domestic Institution	25.14
Public & Others	6.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(14.0)	14.1	31.3
Relative	(12.0)	4.3	7.2

Param Desai
paramdesai@plindia.com | 91-22-66322259

Kushal Shah
kushalshah@plindia.com | 91-22-66322490

Margins to improve

Quick Pointers:

- Ramp up of Pen-G from Q3. Operational cost stood at Rs 800Mn in Q2.
- Higher R&D spend due to ongoing clinical trials towards four biosimilar assets.

Aurobindo Pharma's (ARBP) Q2FY25 EBITDA of Rs15.6bn (down 3% QoQ) with OPM of 20.1%, was 9% below our estimate. The miss was largely because of higher PenG related operational cost and shipping disruptions. We expect margins to improve with ramp up in PenG facility, Vizag pant commercialization and launches in US. 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 FY26. Our FY26/27E EPS estimates broadly remains unchanged. At CMP, the stock is trading at 17x FY26E P/E. We value company at 20x FY26E EPS and assign a TP of Rs1,475/share. Maintain 'Accumulate' rating.

- **In-line revenue growth aided by RoW and EU markets:** Overall revenue growth of 8% YoY at Rs78bn was largely in line with our estimate. US revenues ex Puerto Rico was up 4% YoY. In CC terms US revenues declined by 1.2% QoQ at $421mn, we est $450mn due to likely lower gRevlimid sales. Revenues from US injectable sales including specialty were to tune of $81mn bs $102mn in Q1. EU sales were up 19% YoY while RoW business grew 44% YoY. ARV formulation (down 23% YoY) were impacted due to delay in shipments. API sales were down by 1% YoY.

- **EBIDTA miss on-account of higher other expenses:** Gross margins came at 58.8% (down 60bps QoQ; up 350 bps YoY). R&D spend stood at Rs 4.1bn (5.3% of revenue), up 37% YoY. Other expenses ex R&D was up 13% YoY. EBITDA margins came in at 20.1% down QoQ by 130bps. EBITDA came at Rs15.7bn (down 3% QoQ), below our estimates of Rs17.2bn. Tax rate came in higher due to higher deferred tax credit while other income was lower. This led to PAT miss- Rs8.2bn vs our estimate of Rs10.2bn

- **Key concall takeaways: US:** Revenue from oral generic products increased YoY driven by volume gain and new product launches. Revenue from the injectable and specialty business remained impacted YoY mainly due to supply chain challenges and lower gRevlimid sales. Price stability persists. Filed 10 ANDAs during the period. Launched 14 products. Received final approval for 8 ANDAs. Global specialty business likely to miss its earlier guidance of its +$600mn (reported $262mn in H1FY25) by 4-5% in FY25. **Europe:** Strong performance witnessed across all key geographies. Guided for high single digit growth with margins likely to sustain at current levels. **Margin:** Other expenses were higher due to increased R&D spend, higher logistics cost due to ongoing red sea crisis as well as on commercialization of PenG plant. Operational cost of PenG plant likely to narrow down. Mgmt also cited remediation cost has almost got over. Reiterated its 21-22% EBITDA margins in FY25. **Vizag plant:** Overall capacity is spread across 3 phases with revenues to kick in from FY26 with ramp up expected from FY27. On track to complete bDenosumab (immunology) product phase 3 clinical trial latest by Q1FY26. Guided for commercial launch in Europe markets in CY26 and Indian markets by FY26. **Peptides:** Focus remains on streamlining its portfolio with focus towards oncology and diabetes products. Pipeline includes three GLP1 products and five manufacturing lines. **Trastuzumab:** USFDA filing will happen in Q3FY25. **PenG:** Ramp up continues. Operational cost for Q2FY25 stood at Rs 800Mn. Targets to achieve breakeven by Q4FY25. Net Capex of $80mn. Targets Rs 10bn for FY25. Net Debt at $133mn vs Net Cash in Q1FY25.VCash outflow during the quarter remained higher on account of buy back of shares. **R&D costs** were higher due to higher clinical trials towards 4 biosimilars in phase 3. Non consideration of deferred tax credit led to higher tax rates in Q2FY25 with guidance of 30% for FY25.

Exhibit 1: 2QFY25 Result Overview (Rs m): In-line revenues, Margins impacted due to higher opex

Y/e March	2QFY25	2QFY24	*YoY gr. (%)*	1QFY25	*QoQ gr. (%)*	1HY25	1HY24	*YoY gr. (%)*
Net Sales	**77,960**	**72,194**	***8.0***	**75,670**	***3.0***	**153,630**	**140,699**	***9.2***
Raw Material	32,103	32,367	*(0.8)*	30,727	*4.5*	62,830	63,915	*(1.7)*
% of Net Sales	*41.2*	*44.8*		*40.6*		*40.9*	*45.4*	
Personnel Cost	11,095	9,549	*16.2*	10,720	*3.5*	21,814	19,069	*14.4*
% of Net Sales	*14.2*	*13.2*		*14.2*		*14.2*	*13.6*	
Others	19,102	16,244	*17.6*	18,028	*6.0*	37,130	32,169	*15.4*
% of Net Sales	*24.5*	*22.5*		*23.8*		*24.2*	*22.9*	
Total Expenditure	62,299	58,160	*7.1*	59,475	*4.7*	121,774	115,152	*5.8*
EBITDA	**15,661**	**14,034**	***11.6***	**16,196**	***(3.3)***	**31,856**	**25,548**	***24.7***
Margin (%)	*20.1*	*19.4*		*21.4*		*20.7*	*18.2*	
Depreciation	3,823	4,175	*(8.4)*	4,042	*(5.4)*	7,865	7,441	*5.7*
EBIT	**11,838**	**9,859**	***20.1***	**12,154**	***(2.6)***	**23,992**	**18,107**	***32.5***
Other Income	1,360	1,579	*(13.9)*	2,209	*(38.4)*	3,569	2,742	*30.2*
Forex gain / (loss)	-	298	*(100.0)*	-		-	-	
Interest	1,127	682	*65.3*	1,110	*1.5*	2,237	1,247	*79.4*
PBT	**12,071**	**10,756**	***12.2***	**13,253**	***(8.9)***	**25,324**	**19,602**	***29.2***
Extra-Ord. Inc./Exps.	-	-		-		-	698	
Total Taxes	3,905	3,237	*20.6*	4,057	*(3.7)*	7,962	5,660	*40.7*
ETR (%)	*32.4*	*30.1*		*30.6*		*31.4*	*28.9*	
Minority interest	3	9		(14)		(11)	(19)	
Reported PAT	**8,169**	**7,528**	***8.5***	**9,182**	***(11.0)***	**17,351**	**13,225**	***31.2***

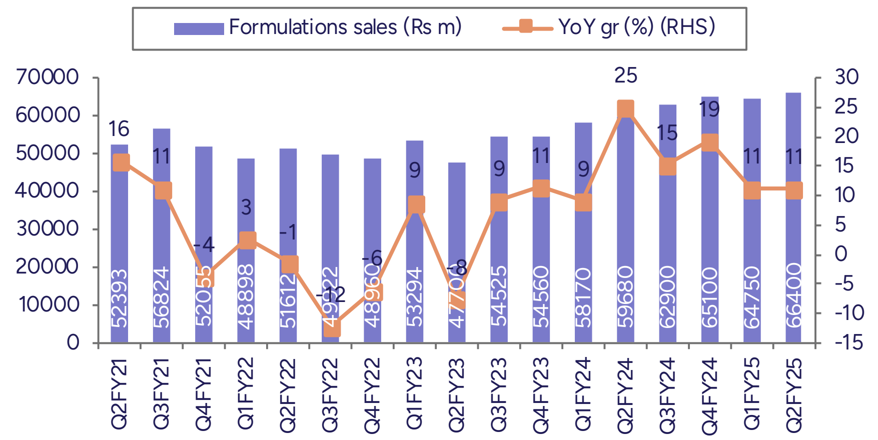
Source: Company, PL

Exhibit 2: Continued growth trajectory in RoW and EU markets

Major sources of revenues	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	1HY25	1HY24	YoY gr. (%)
Formulations	66,400	59,680	11.3	64,750	2.5	131,150	117,850	11.3
% of Net Sales	*85.2*	*83.7*		*85.6*		*85.4*	*84.3*	
USA	35,300	33,850	4.3	35,550	(0.7)	70,850	66,890	5.9
% of Net Sales	*45.3*	*47.4*		*47.0*		*46.1*	*47.8*	
Europe & Emerging Markets	29,170	23,330	25.0	26,910	8.4	56,080	46,560	20.4
% of Net Sales	*37.4*	*32.7*		*35.6*		*36.5*	*33.3*	
ARV	1,930	2,500	(22.8)	2,290	(15.7)	4,220	4,400	(4.1)
% of Net Sales	*2.5*	*3.5*		*3.0*		*2.7*	*3.1*	
API	11,560	11,660	(0.9)	10,920	5.9	22,480	21,990	2.2
% of Net Sales	*14.8*	*16.3*		*14.4*		*14.6*	*15.7*	
Betalactum	8,370	8,160	2.6	7,910	5.8	16,280	15,350	6.1
% of Net Sales	*10.7*	*11.4*		*10.5*		*10.6*	*11.0*	
Non-Betalactum	3,190	3,500	(8.9)	3,010	6.0	6,200	6,640	(6.6)
% of Net Sales	*4.1*	*4.9*		*4.0*		*4.0*	*4.7*	

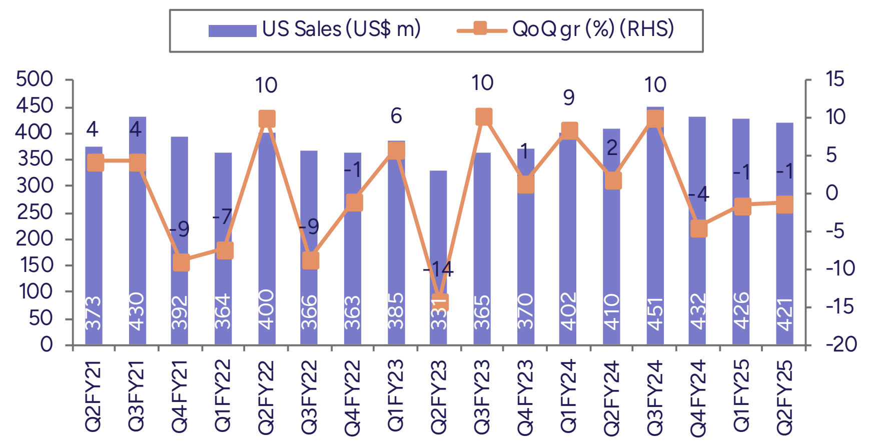
Source: Company, PL

Exhibit 3: Steady growth QoQ



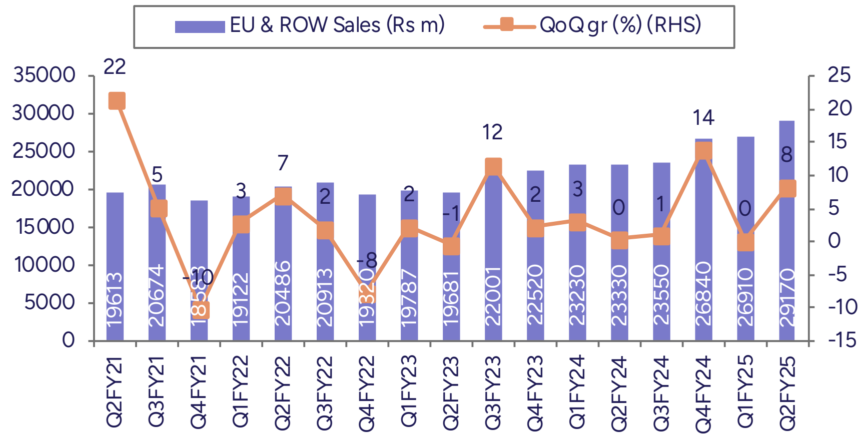
Source: Company, PL

Exhibit 4: Injectable revenues remain impacted due to lower gRevlimid



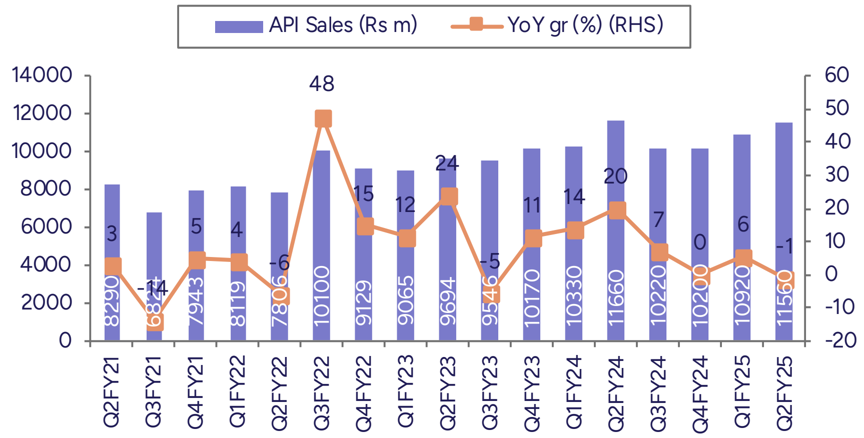
Source: Company, PL

Exhibit 5: Momentum continues YoY



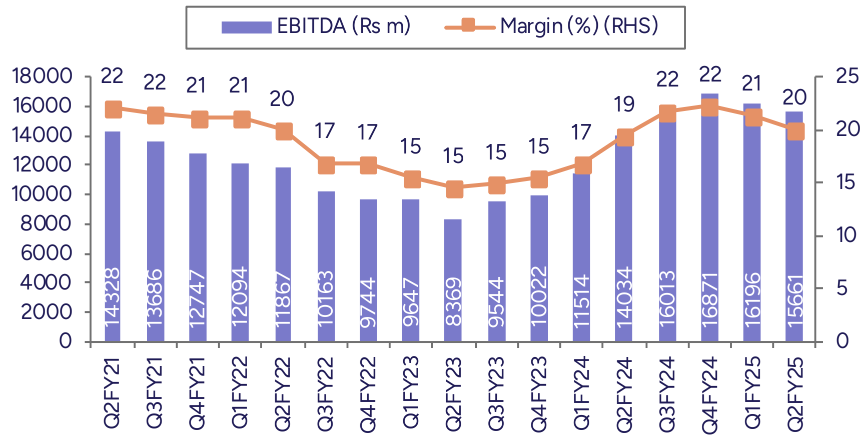
Source: Company, PL

Exhibit 6: Price erosion persists



Source: Company, PL

Exhibit 7: Higher opex towards PenG and R&D costs impacted margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**2,89,719**	**3,13,388**	**3,47,054**	**3,74,405**
YoY gr. (%)	*16.6*	*8.2*	*10.7*	*7.9*
Cost of Goods Sold	1,26,029	1,29,936	1,44,076	1,55,608
Gross Profit	1,63,690	1,83,452	2,02,978	2,18,797
Margin (%)	*56.5*	*58.5*	*58.5*	*58.4*
Employee Cost	39,229	44,722	48,299	52,163
Other Expenses	66,330	73,718	79,798	85,001
EBITDA	**58,131**	**65,013**	**74,881**	**81,632**
YoY gr. (%)	*56.3*	*11.8*	*15.2*	*9.0*
Margin (%)	*20.1*	*20.7*	*21.6*	*21.8*
Depreciation and Amortization	15,217	16,054	17,177	18,380
EBIT	**42,914**	**48,959**	**57,704**	**63,253**
Margin (%)	*14.8*	*15.6*	*16.6*	*16.9*
Net Interest	2,897	4,500	4,000	3,000
Other Income	5,574	6,200	6,900	7,500
Profit Before Tax	**45,591**	**50,659**	**60,604**	**67,753**
Margin (%)	*15.7*	*16.2*	*17.5*	*18.1*
Total Tax	12,110	15,198	16,969	18,971
Effective tax rate (%)	*26.6*	*30.0*	*28.0*	*28.0*
Profit after tax	**33,480**	**35,461**	**43,635**	**48,782**
Minority interest	172	250	250	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	**35,227**	**35,211**	**43,385**	**48,532**
YoY gr. (%)	*86.6*	*0.0*	*23.2*	*11.9*
Margin (%)	*12.2*	*11.2*	*12.5*	*13.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**35,227**	**35,211**	**43,385**	**48,532**
YoY gr. (%)	*86.6*	*0.0*	*23.2*	*11.9*
Margin (%)	*12.2*	*11.2*	*12.5*	*13.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	35,227	35,211	43,385	48,532
Equity Shares O/s (m)	**586**	**581**	**581**	**581**
EPS (Rs)	**60.1**	**60.6**	**74.7**	**83.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**2,35,597**	**2,63,597**	**2,91,597**	**3,19,597**
Tangibles	2,35,597	2,63,597	2,91,597	3,19,597
Intangibles	-	-	-	-
Acc: Dep / Amortization	**79,376**	**95,430**	**1,12,607**	**1,30,987**
Tangibles	79,376	95,430	1,12,607	1,30,987
Intangibles	-	-	-	-
Net fixed assets	**1,56,221**	**1,68,168**	**1,78,990**	**1,88,611**
Tangibles	1,56,221	1,68,168	1,78,990	1,88,611
Intangibles	-	-	-	-
Capital Work In Progress	27,394	27,394	27,394	27,394
Goodwill	-	-	-	-
Non-Current Investments	3,722	3,722	3,722	3,722
Net Deferred tax assets	8,561	8,561	8,561	8,561
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	98,082	1,03,032	1,14,100	1,23,092
Trade receivables	48,167	55,809	61,804	66,675
Cash & Bank Balance	62,783	51,928	58,328	72,998
Other Current Assets	-	-	-	-
Total Assets	**4,34,252**	**4,51,722**	**4,90,175**	**5,32,912**
Equity				
Equity Share Capital	586	581	581	581
Other Equity	2,97,842	3,21,679	3,60,271	4,04,010
Total Networth	**2,98,428**	**3,22,260**	**3,60,852**	**4,04,591**
Non-Current Liabilities				
Long Term borrowings	41,803	36,803	31,803	26,804
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	21,349	21,349	21,349	21,349
Trade payables	44,542	42,930	47,542	51,288
Other current liabilities	36,611	36,611	36,611	36,611
Total Equity & Liabilities	**4,34,252**	**4,51,722**	**4,90,175**	**5,32,912**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	45,591	50,659	60,604	67,753
Add. Depreciation	15,217	16,054	17,177	18,380
Add. Interest	2,897	4,500	4,000	3,000
Less Financial Other Income	5,574	6,200	6,900	7,500
Add. Other	(5,242)	-	-	-
Op. profit before WC changes	58,462	71,213	81,781	89,132
Net Changes-WC	(16,751)	(17,991)	(16,618)	(14,700)
Direct tax	(17,666)	(15,198)	(16,969)	(18,971)
Net cash from Op. activities	**24,045**	**38,024**	**48,193**	**55,462**
Capital expenditures	(35,851)	(28,000)	(28,000)	(28,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(35,851)**	**(28,000)**	**(28,000)**	**(28,000)**
Issue of share cap. / premium	-	(9,302)	-	-
Debt changes	14,613	(5,000)	(5,000)	(4,999)
Dividend paid	(2,636)	(2,054)	(4,793)	(4,793)
Interest paid	302	(4,500)	(4,000)	(3,000)
Others	1,168	277	-	-
Net cash from Fin. activities	**13,447**	**(20,580)**	**(13,793)**	**(12,792)**
Net change in cash	**1,641**	**(10,556)**	**6,401**	**14,670**
Free Cash Flow	(11,570)	10,024	20,193	27,462

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	60.1	60.6	74.7	83.6
CEPS	86.1	88.3	104.3	115.2
BVPS	509.3	554.9	621.3	696.6
FCF	(19.7)	17.3	34.8	47.3
DPS	6.0	3.0	7.1	7.1
Return Ratio(%)				
RoCE	12.6	13.2	14.5	14.6
ROIC	11.6	12.2	13.4	13.8
RoE	12.4	11.3	12.7	12.7
Balance Sheet				
Net Debt : Equity (x)	-	0.0	0.0	(0.1)
Net Working Capital (Days)	128	135	135	135
Valuation(x)				
PER	21.4	21.2	17.2	15.4
P/B	2.5	2.3	2.1	1.8
P/CEPS	14.9	14.6	12.3	11.2
EV/EBITDA	13.0	11.6	9.9	8.8
EV/Sales	2.6	2.4	2.1	1.9
Dividend Yield (%)	0.5	0.2	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**73,518**	**75,802**	**75,670**	**77,960**
YoY gr. (%)	*14.7*	*17.1*	*10.5*	*8.0*
Raw Material Expenses	31,506	30,609	30,727	32,103
Gross Profit	42,012	45,193	44,943	45,857
Margin (%)	*57.1*	*59.6*	*59.4*	*58.8*
EBITDA	**16,013**	**16,871**	**16,196**	**15,661**
YoY gr. (%)	*67.8*	*68.3*	*40.7*	*11.6*
Margin (%)	*21.8*	*22.3*	*21.4*	*20.1*
Depreciation / Depletion	4,233	3,543	4,042	3,823
EBIT	**11,780**	**13,328**	**12,154**	**11,838**
Margin (%)	*16.0*	*17.6*	*16.1*	*15.2*
Net Interest	756	894	1,110	1,127
Other Income	1,625	1,499	2,209	1,360
Profit before Tax	**12,650**	**13,932**	**13,253**	**12,071**
Margin (%)	*17.2*	*18.4*	*17.5*	*15.5*
Total Tax	3,225	3,226	4,057	3,905
Effective tax rate (%)	*25.5*	*23.2*	*30.6*	*32.4*
Profit after Tax	**9,426**	**10,707**	**9,196**	**8,166**
Minority interest	(26)	(127)	(14)	3
Share Profit from Associates	-	-	-	-
Adjusted PAT	**9,400**	**11,516**	**9,182**	**8,169**
YoY gr. (%)	*91.0*	*122.5*	*61.2*	*8.5*
Margin (%)	*12.8*	*15.2*	*12.1*	*10.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**9,400**	**11,516**	**9,182**	**8,169**
YoY gr. (%)	*91.0*	*122.5*	*43.6*	*8.5*
Margin (%)	*12.8*	*15.2*	*12.1*	*10.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**9,400**	**11,516**	**9,182**	**8,169**
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	**16.1**	**15.9**	**15.7**	**13.9**

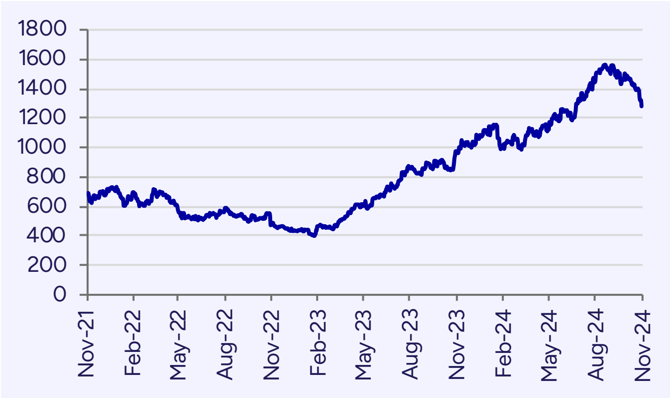
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
US Formulations	1,41,790	1,45,088	1,56,454	1,67,284
EU & ROW	96,830	1,09,474	1,20,833	1,32,548
ARV formulations	8,680	9,580	10,537	11,380
APIs	42,410	44,137	47,796	51,759

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	1,525	1,466
2	13-Aug-24	Accumulate	1,525	1,462
3	08-Jul-24	Accumulate	1,300	1,304
4	28-May-24	Accumulate	1,300	1,196
5	08-Apr-24	Accumulate	1,120	1,124
6	13-Feb-24	Accumulate	1,120	1,026
7	08-Jan-24	Accumulate	1,065	1,124

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	6,000	5,950
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	710	621
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Sunteck Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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