Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Aurobindo Pharma Ltd

Slight Dip in Profitability Due to Temporary Activities; Core Performance Strong

Pharmaceuticals	Sharekhan code: AUROPHARMA
Reco/View: Buy ↑	CMP: Rs. 1,289
	Price Target: Rs. 1,532 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 61,497 cr
52-week high/low:	Rs. 1,593/942
NSE volume: (No of shares)	32.50 lakh
BSE code:	524804
NSE code:	AUROPHARMA
Free float: (No of shares)	28.1 cr

Shareholding (%)

Promoters	51.8
FII	16.6
DII	25.1
Others	6.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	2.8	28.5	53.4
Relative to Sensex	1.4	1.6	18.4	30.0

Sharekhan Research, Bloomberg

Summary

- Quarterly revenue reached Rs. 7,796 crore, up 8% y-o-y and 3% q-o-q, exceeding our estimates by 1%, while PAT was Rs. 817 crore, showing a 9% y-o-y increase but an 11% q-o-q decrease, falling 19% below our estimates.
- EBITDA stood at Rs. 1,566 crore, reflecting a 14% y-o-y increase and a 3% q-o-q decline, missing our estimates by 12%, while margins stood at 20%, up 106 basis points y-o-y but down 131 basis points q-o-q.
- Company anticipates lower performance for the special product in Q2 and Q3 due to UGR3 supply issues.
- We believe that the Eugia WL will not affect injectable sales and that the lack of pricing pressure in oral solids will drive US growth. A breakeven for penicillin is expected by Q4 FY26, with profitability anticipated in FY26. Therefore, we are upgrading our recommendation to Buy. At the current market price, the stock is trading at premium valuations of around 19x/15x its FY2026E/FY2027E EPS, with a price target of Rs. 1532.

Quarterly revenue reached Rs. 7,796 crore, reflecting an 8% y-o-y and 3% q-o-q increase, exceeding our estimates by 1%, while PAT was Rs. 817 crore, rising 9% y-o-y growth but an 11% q-o-q decline, falling 19% below our estimates. EBITDA for the quarter was Rs. 1,566 crore, reflecting a 14% y-o-y increase and a 3% q-o-q decline, missing our estimates by 12%, with margins standing at 20%, up 106 basis points y-o-y but down 131 basis points q-o-q. U.S. formulations (excluding Puerto Rico) revenue grew by 4.3% y-o-y to Rs. 3,530 crore ($421 million), Europe formulations revenue increased by 19.0% y-o-y to INR 2,105 crore (EUR 229 million), and Growth Markets revenue rose by 44.0% y-o-y to INR 812 crore ($97 million). However, ARV revenue decreased by 22.8% y-o-y to INR 193 crore ($23 million), and API revenue remained flat y-o-y at INR 1,156 crore ($138 million). EBITDA before R&D stood at Rs. 1,954 crore with a margin of 25.1%, while EBITDA before Forex and Other Income was Rs. 1,566 crore, with an EBITDA margin of 20.1%. Research and Development (R&D) expenses, including depreciation, amounted to Rs 410 crore, or 5.3% of revenue. The company received final approval for 8 ANDAs, including from the USFDA.

Key positives

- Secured approval for 8 ANDAs .
- The company launched 14 products this quarter.
- Two submissions are scheduled for 2025.

Key negatives

- US sales experienced a sequential decline.
- Supply chain challenges were cited as the main reason for the 11% y-o-y decrease in revenue from the injectable and specialty business in the US
- Price erosion remains in the low single digits.

Management Commentary

- The CMO business is projected to maintain a margin of at least 50%.
- The company currently has four biosimilar products in Phase 3 clinical trials.
- The rising R&D costs are largely due to Phase 3 clinical trial expenses for these products.
- The company has received USFDA and European approvals for all terminally sterilized lines.

Revision in estimates: The company has indicated no pricing pressure in oral solids, with Eugia sales expected to resume quickly. A breakeven for Penicillin is anticipated by Q4 FY26, with profitability expected in FY26. Consequently, we have revised our estimates and introduced projections for FY27.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 1,532: Aurobindo reported in-line results for Q2FY25, primarily impacted by lower U.S. sales, which offset growth in the European and Growth markets. The company faced challenges during the quarter due to reduced supplies from the Eugia plant, resulting in lower U.S. sales. We expect the company to achieve an EBITDA margin of 21% by FY25E, driven by double-digit growth outside the U.S., the commissioning of the Pen-G plant, and favorable raw material costs. However, Eugia's Unit-3 plant is likely to lead to lower injectable and specialty sales. Key triggers to watch include: 1) a pick-up in Pen G sales, 2) growth in Eugia injectable sales, 3) commercialization of the Chinese unit, 4) the commissioning of Pen G sales, and 5) the signing of an LOI with MSD for CMO. As a result, we have raised our EPS estimates by 7% and 15% for FY25E and FY26E, respectively. The company's Unit 3, which was under OAI, has received a WL. Over 20 ANDAs expected from this unit can now be shifted to the USFDA-approved plant in Vizag. Since the WL poses no significant risk to the company, we are upgrading our recommendation to Buy. At the current market price, the stock is trading at a PE of 19x and 15x its FY26E and FY27E EPS, with a target price of Rs. 1532.

Key Risks

Delay in the resolution of USFDA issues and product approvals; change in the regulatory landscape; and negative outcome of key facility inspection by the USFDA can affect earnings prospects.

Valuation (Consolidated) Rs cr

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Total Income	24855	29002	30963	34059	38146
Operating profits	21137	23159	24461	26566	29373
OPM (%)	15%	20%	21%	22%	23%
Adj. PAT	1,928	3,378	3,420	4,046	4,987
EPS (Rs)	32.90	54.16	58.38	69.05	85.12
PER (x)	39x	24x	22x	19x	15x
EV/Ebidta (x)	20x	13x	12x	10x	8x
P/BV (x)	3x	3x	2x	2x	2x
ROCE (%)	9%	13%	13%	15%	16%
RONW (%)	7%	11%	10%	11%	13%

Source: Company; Sharekhan estimates

Q2FY2025 Conference Call Highlights

- The company expects to achieve break-even in the penicillin G product facility by Q4FY25 and anticipates positive contributions starting from FY26 onwards.
- The company is on track to meet its internal target of 21% to 22% for the full year, with the second half expected to outperform the first half.
- Company anticipates lower performance for the special product in Q2 and Q3 due to UGR3 supply issues.
- The company expects the current pattern of spending to persist for at least four quarters, driven by clinical trial recruitment and milestone payments.
- The company forecasts Q3 and Q4 to show stronger performance in the generic injectable segment, with Q4 expected to be the best quarter.
- The company reaffirmed its capital expenditure guidance of Rs. 1,000 crore for the TheraNym Biologics or CMO arm.
- The oncology product, a biosimilar to Avastin, is nearing its recruitment milestone, with only 70 subjects remaining out of 650.
- The company has completed recruitment for the denosumab Phase 3 clinical study in women with post-menopausal osteoporosis, with 436 patients enrolled and an expected completion by May or June 2025.
- The ophthalmic product is also in Phase 3 clinical trials across India, Europe, and CIS countries.
- The company has received approval for all terminally sterilised lines from the USFDA and Europe.
- The company plans to file its first product, a Trastuzumab biosimilar, in the US this quarter, with potential commercial impact in late 2025 or 2026.
- Product launches have contributed to volume growth in the US business.
- Delays are expected in Q2 and Q3 for a special product, partly due to UGR3 supply issues.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	QoQ (%)
Revenue	**7,796**	**7,219**	**8%**	**7,567**	**3%**
Total Expenditure	6,230	5,846	7%	5,947	5%
Operating profit	**1566**	**1373**	**14%**	**1620**	**-3%**
Other Income	136	187	-27%	221	-38%
Interest	113	68	65%	111	1%
Depreciation	382	418	-8%	404	36%
PBT	**1,207**	**1,074**	**12%**	**1,326**	**-9%**
Tax	391	324	21%	406	-4%
Adjusted PAT	**805**	**751**	**7%**	**920**	**-12%**
EPS (Rs.)	14.00	12.83		15.69	
Margins (%)			**BPS**		**BPS**
OPM	20%	19%	107bps	21%	-132bps
NPM	10%	10%	-7bps	12%	-183bps
Tax rate	32%	30%	222bps	31%	175bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Sector View – Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global peers. A confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing an easing of input costs – of raw material, freight, and power, which should aid the sector in expanding margins. The sector is also witnessing an easing of price erosion, followed by increasing contributions from new product launches. We believe the sector is in a sweet spot where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of the companies. The sector is primarily a low-debt sector with increasing operational profit and the benefit of a low tax rate due to its operations in the SEZ sector, so we remain optimistic about the sector overall.

■ Company outlook - Uncertainties likely to stay in the near term

Over the long term, a healthy growth outlook exists for the U.S. business, driven by improving traction from the generic injectables space (with comparatively low competition), a sturdy product pipeline, and expected traction in the recently launched products. However, headwinds for the U.S. business are in the form of price erosion and inventory buildup across channels in the industry, which management believes would ease out gradually in the subsequent quarters. While the strong product pipeline planned for the U.S. could partly enable mitigation of price erosion, higher channel stocks are likely to pressurise topline growth until the stocks normalise. The European business has a healthy growth outlook, backed by product portfolio expansion and expanding geographic reach. However, some moderation in growth is expected and FY2024 is expected to post strong growth, backed by product portfolio expansion and tapping new geographies. However, Aurobindo is awaiting USFDA clearance for its plants and a successful resolution of USFDA observations would be a key monitorable and trigger for an earnings upgrade. Over the long term, Aurobindo is looking to build its presence in the specialty segment, which includes areas of injectables, biosimilars, oncology inhalers, and transdermal patches among others, which is likely to support growth. Moreover, a possible demerger of the injectables business could provide a value-unlocking opportunity. However, in the medium term, challenges in the form of price erosion and cost pressures are likely to stay and could overweigh margin performance.

■ Valuation - Upgrade to Buy with a revised PT of Rs. 1,532

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About company

Hyderabad-based Aurobindo was incorporated in 1986 and manufactures generic formulations and APIs. Aurobindo generates 90% of its sales from international markets. The company currently holds a strong position in the U.S., where it is the fifth largest generic pharmaceutical company as per the IMS National Prescription Audit, measured by total prescriptions dispensed for 12 months ending June 2018. The company also holds a strong position in many European countries, including France and Italy, where it ranks among the largest generic companies. Aurobindo is a vertically integrated company, meeting around 70% of its API requirements in-house. Aurobindo has 26 manufacturing facilities for its API and formulations businesses, which have requisite approvals from various regulatory authorities, including the USFDA, U.K. MHRA, Japan PMDA, WHO, Health Canada, MCC South Africa, and ANVISA Brazil. Recently, Aurobindo entered Poland and the Czech Republic with the acquisition of Apotex's commercial operations. The company also strengthened its U.S. presence with the acquisition of dermatology and oral solid businesses from Sandoz.

Investment theme

Aurobindo is one of the largest pharma players with a large share of revenue from the U.S. having one of the highest ANDA filings. However, the company is grappling with the pricing pressure in its OSD segment, wherein it has a stronghold. Nevertheless, it is seeing an uptick in its complex and specialty injectables revenue share in the U.S. With an increased share of the injectables and biosimilar products revenue, it should be able to stabilise its margins over the medium term. However, currently, it is experiencing margin pressures due to increased expenses and uneven sales growth.

Key Risks

Delay in product approvals, change in regulatory landscape, and negative outcome of key facility inspections by the USFDA can affect earnings prospects.

Additional Data

Key management personnel

K. Ragunathan	Chairperson
K. Nithyananda Reddy	Managing Director
P.V. Ramaprasad Reddy	Non-Executive Director, Promoter
Santhanam Subramanian	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIFE INSURANCE CORPORATION OF INDIA	5.57
2	HDFC TRUSTEE COMPANY LTD.	2.94
3	MIRAE ASSET EMERGING BLUECHIP FUND	1.69
4	BNP PARIBAS ARBITRAGE	1.22
5	INVESCO PACIFIC FUND (U.K.)	1.05

Source: BSE

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.