BUY (Maintain)

CMP: **INR 1,192** Target Price: **INR 1,445 (INR 1,470)** ▲ 21%

ICICI Securities

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08 February 2025

India | Equity Research | Results update

Aurobindo Pharma

Pharma

Soft quarter; growth levers intact

Aurobindo Pharma's Q3FY25 performance was below our expectation due to lower-than-anticipated sales in US while Europe (up 22.7% YoY) and growth markets (up 39.2% YoY) maintained traction. EBITDA margin was 20.4% despite lower gRevlimid sales and INR 600mn cost of Pen-G plant. We believe from Q4 higher revenue of gRevlimid, lower losses of Pen-G plant and normalisation of supplies from Eugia Unit 3 may boost growth and margins. It also plans to launch 3 biosimilars in UK and Europe by Jul'25. Timeline for CMO biologics (FY28 opportunity) and GLP-1 projects is on track. Management maintained EBITDA margin guidance of 21-22% in FY25. Reduce FY25/26E EPS by ~2-4% to factor in lower US sales. Maintain **BUY** but cut TP to INR 1,445, based on 18x FY26E EPS.

Gross margin better; surge in overheads curb EBITDA growth

Aurobindo's Q3FY25 revenue grew 8.5% YoY (2.3% QoQ) to INR 79.8bn (I-Sec: INR 80.7bn) driven by Europe, growth markets and ARV. Gross margin expanded 130bps YoY (-38bps QoQ) to 58.4% despite lower gRevlimid sales. EBITDA grew 1.7% YoY (3.9% QoQ) to INR 16.3bn (I-Sec: INR 17.4bn). Margin contracted ~138bps YoY (+31bps QoQ) to 20.4%. Adjusting for FX loss, PAT declined 2.4% YoY (+9.1% QoQ) to INR 8.8bn (I-sec INR 9.5bn).

US run-rate is set to improve; EU and growth markets on track

US sales stood at USD 435mn, up 3.3% QoQ (-3.5% YoY). Specialty and generic injectable sales declined 6.2% QoQ (-32.1% YoY) to USD 76mn due to lower gRevlimid sales and supply issues from Eugia Unit 3. Oral solid revenue grew 2.9% QoQ to USD 298mn. We expect 5.1% CAGR for US over FY24–27E supported by better volumes and new launches. Europe sales grew robust 22.7% YoY (0.8% QoQ) to INR 21.2bn. Growth markets surged 39.2% YoY (7.5% QoQ) to INR 8.7bn. ARV revenue grew 71.5% YoY (59.1% QoQ) to INR 3bn. API sales declined 1.6% YoY (-13% QoQ) to INR 10.1bn.

Pen-G plant to achieve breakeven in Mar'25

Operations at Pen-G plant (in Andhra Pradesh) were shut down for some time in Q3FY25 as the company had carried out modifications to improve yield. The plant was recommissioned in end of Jan'25. Operational cost of the plant stood at INR 600mn in Q3 vs INR 800mn in Q4 and management aims for a breakeven in Mar'25. Price of Pen-G is currently ~USD 26 per kg.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	2,90,019	3,16,889	3,71,005	4,08,084
EBITDA	58,430	67,620	81,394	89,121
EBITDA Margin (%)	20.1	21.3	21.9	21.8
Net Profit	33,118	37,255	47,668	53,689
EPS (INR)	56.5	63.6	81.4	91.6
EPS % Chg YoY	69.3	12.5	28.0	12.6
P/E (x)	22.0	18.6	14.7	13.0
EV/EBITDA (x)	11.9	9.8	7.9	6.8
RoCE (%)	10.6	11.1	12.9	13.3
RoE (%)	11.7	11.9	13.8	14.0

Abdulkader Puranwala
abdulkader.puranwala@icicisecurities.com
+91 22 6807 7339
Nisha Shetty
nisha.shetty@icicisecurities.com

Market Data

Market Cap (INR)	692bn
Market Cap (USD)	7,913mn
Bloomberg Code	ARBP IN
Reuters Code	ARBN.BO
52-week Range (INR)	1,593 /959
Free Float (%)	48.0
ADTV-3M (mn) (USD)	15.7

Price Performance (%)	3m	6m	12m
Absolute	(11.8)	(18.7)	19.9
Relative to Sensex	(9.7)	(16.6)	11.9

ESG Score	2022	2023	Change
ESG score	**51.8**	**66.0**	**14.2**
Environment	44.9	56.2	11.3
Social	24.7	50.9	26.2
Governance	77.1	81.7	4.6

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.8)	(0.5)
EBITDA	(2.6)	(1.2)
EPS	(3.8)	(1.7)

Previous Reports

12-11-2024: Q2FY25 results review

13-08-2024: Q1FY25 results review

Biosimilar filings on track; Europe and UK launch by Jul'25

Aurobindo's first set of biosimilars in Europe, including filgrastim peg-filgrastim and bevacizumab, are likely to be launched by Q2FY26. Bevqolva (bevacizumab) has been approved by UKMHRA, Zefylti (Filgrastim) received positive EU opinion in Nov'24 and DyruPeg (pegfilgrastim) received positive EU opinion in Jan'25. Denosumab phase 3 trial will complete by May'25 and Europe and US filing is expected in H2FY25. It has increased sites in India to speed up study timeline (3 months behind schedule) for Omalizumab (limited competition opportunity for FY28). Clinical study is likely to complete in CY25 and will be filed in EU in Q4FY26. Curateq is likely to become a meaningful revenue contributor in FY29–30 and turn EBITDA positive by FY28-29.

Valuation and risks

Aurobindo's US sales declined -3.5% YoY due to lower sales in its specialty (gRevlimid) and injectable (Unit 3 supply issue) segment while other segments did well (oral solid up 3% QoQ). The company has been able to sustain EBITDA margin of ~20% despite no gRevlimid revenue, unfavourable product mix, operational cost of Pen-G plant (INR 600mn, 75 bps impact) and higher R&D (up 13% YoY). Sales from gRevlimid will be recorded in Q4FY25 which will boost US revenue and margins. Supplies from Eugia Unit 3 have started improving and manufacturing operations are likely to normalise from Mar'25. The capacity utilisation at Eugia Unit 3 is currently at 50% and the management expects it to ramp up to ~70% by Q4FY25. Pen-G project faced a minor production halt as it wanted to improve process yield. The plant will be EBITDA breakeven by Mar'25. Management expects traction in Europe to sustain ahead and by Jul'25 biosimilars will also be another growth engine in this segment. At Vizag plant, the company has filled finish lines for GLP-1 products (3rd phase). It will file 3 GLP-1 products from this plant. Aurobindo has signed a definitive agreement with Merck Sharpe and Dohme (MSD Singapore) for contract manufacturing of innovative biologics, civil work on this plant is on and in FY26 it expects to commission this plant; revenue generation to start in FY28.

We lower our EBITDA by 1-3% and earnings by 2-4% for FY25-26E to factor in lower sales from Eugia. The stock currently trades at 18.6x FY25E and 14.7x FY26E earnings, and EV/EBITDA multiples of 9.8x FY25E and 7.9x FY26E.

We maintain **BUY** on the stock with lower target price of INR 1,445 (INR 1,470 earlier), based on 18x FY26E EPS (unchanged).

Key downside risks: Regulatory hurdles, currency volatility and delay in US launches.

Q3FY25 conference call: Highlights

US oral solids

- Aurobindo has 11% volume market share in US generics and sees good headroom for growth.
- Price erosion did not have any major impact on growth due to its well-diversified portfolio.
- Development pipeline consist of MDI, transdermals and other complex products.
- Growth pace in OTC segment is expected to accelerate in next couple of quarters.
- Launched 7 products in US in Q3FY25.

Eugia

- Specialty and injectables sales stood at USD 76mn due to lower gRevlimid sales. Ex-Revlmid sales run-rate is expected to improve ahead.
- In Q4FY25, gRevlimid revenue will be higher than last year.
- The company will continue to supply gRevlimid even after patent expiry in Jan'26.
- Growth was also expected due to issues at Eugia 3 which will be resolved by Mar'25 and management is hopeful for sales run-rate from this plant to improve from Q4FY25.
- The company has not lost any customer/customers due to issues at Unit 3, demand outlook continues to be robust.
- The company has recruited more employees at Unit 3 plant to adhere to CAPAs. The team is currently undergoing training and may be on plant by Mar'25.
- Current injectable units are operating at 50% utilisation levels on available capacity as against 70% prior to inspection.
- It is adding new capacities in Vizag (Andhra Pradesh) which will help in driving growth till FY30.
- Terminal sterile lines at Vizag plant have received approvals from EU and US. Aseptic lines are yet to be inspected by the USFDA.
- Eugia's sales from Europe are growing 20%.

Europe

- In constant currency, revenue grew 22.1% YoY to EUR 236mn. Better volume ramp up at plant is helping the company in gaining market share.
- Momentum is expected to continue in Europe on the back of market share gains and new launches.

Biologic CMO

- Civil works at CMO facility for mammalian cell culture products manufacturing is ongoing. The company will commission this plant in CY26 and supplies are likely to begin from CY28.
- It is setting up all the four 15KL bioreactor lines as compared to earlier plans of setting up only two 15 KL bioreactors.

Peptides

- It is working on three GLP-1's products of which it has an active DMF for 1 product, will file 1 more in CY26 and 1 is under development.
- At Vizag plant, it has cartridge filing lines and all the 3 GLP-1 products will be filed from the plant.
- It will source pen from 3rd party (BD) while API and assembly will be done captively.

Biosimilars

- Bevqolva (bevacizumab) has been approved by UKMHRA, Zefylti (Filgrastim) received positive EU opinion in Nov'24 and DyruPeg (pegfilgrastim) received positive EU opinion in Jan'25. These three products will be launched in EU in Q2FY26.
- It also plans to file two more products in EU in CY25 and will conduct global phase 3 clinical studies for four more biosimilars.
- Clinical studies for Denosumab will be completed by May'25; data will be available by Sep'25. US and Europe filing likely in H2FY25.
- It has increased sites in India to fasten study timeline for Omalizumab (now delayed by 3 months). Clinical study is likely to be completed in CY25 and will be filed in EU in Q4FY26.
- The company may file biosimilar bevacizumab in Europe in Q2FY26.
- Recruitment for ophthalmology biosimilar is slow. 50% recruitment has been completed till now and enrollment will be completed in H2FY26.
- In FY26, it will have 6-7 biosimilar products across Europe and semi-regulated markets. In Europe it will have 7 products by FY27.
- Currently, 30-35% of R&D spending (USD 60-70mn p.a) is on development of biosimilar.
- The company is open to in-license biosimilars in near future.
- It has a strong product pipeline post CY28. Most of the products going off patent post CY28 are under development.
- Curateq is likely to breakeven in FY28-29 and can self fund its operations FY30 onwards.
- The company may add salesforce in India to market biosimilars in next couple of quarters.
- It is planning to launch GLP-1 product in India.

Pen-G project

- Pen-G plant is likely to breakeven by Mar'25. Current Pen-G price stands at USD 26.
- In Q3FY25, the plant had an EBITDA loss of INR 600mn. The company had shut Pen-g plant to carry out modification to improvise yield. The process was completed and the plant was commissioned by the end of Jan'25.
- The company maintains inventory of 3-6months which acts as a hedge for some short-term volatility in prices.

China Plant

- China plant started operations in end of Nov'24; supplies to Europe will start from end of Apr'25. It is yet to receive regulatory approval for the plant from Chinese and US regulatory agencies.

Guidance

- Management has maintained its 21-22% EBITDA margin guidance for FY25.
- Gross margin will be maintained at current levels.
- Q4FY25 is expected to be strong due to higher sales of gRevlimid.
- Net debt of USD 84mn at end of Q3FY25 will reduce further in Q4FY25.

Exhibit 1: Quarter review

Y/E Mar (INR mn)	Q3FY25	Q3FY24	YoY(%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY(%)
Net Sales	79,785	73,518	8.5	77,961	2.3	2,33,416	2,14,217	9.0
Gross Profit	46,631	42,012	11.0	45,858	1.7	1,37,433	1,18,797	15.7
Gross Margins (%)	58.4	57.1	130%	58.8	(37.6)	58.9	55.5	342%
Employee cost	11,316	9,897	14.3	11,095	2.0	33,130	28,966	14.4
Other expenses	14,538	12,122	19.9	15,002	-3.1	44,178	37,412	18.1
R&D	4,500	3,980	13.1	4,100	9.8	11,990	10,860	10.4
EBITDA	16,278	16,013	1.7	15,661	3.9	48,135	41,559	15.8
EBITDA Margins (%)	20.4	21.8	-138%	20.1	31.4	20.6	19.4	122%
Other Income	1,573	1,174	34.0	1,214	29.5	4,986	4,207	18.5
Interest	1,185	756	56.8	1,127	5.1	3,422	2,003	70.9
Depreciation	4,185	4,233	-1.1	3,823	9.5	12,050	11,673	3.2
PBT	12,481	12,198	2.3	11,926	4.7	37,650	32,090	17.3
Tax	3,543	3,225	9.9	3,905	-9.3	11,505	8,885	29.5
Tax Rate (%)	28.4	26.4		32.7		30.6	27.7	
Reported PAT	8,458	9,363	-9.7	8,174	3.5	25,824	22,642	14.1
Exceptional Items	-498	452		146	-441.8	-343	-544	-37.0
Adjusted PAT	8,809	9,027	-2.4	8,075	9.1	25,587	22,252	15.0
NPM (%)	11.0	12.3		10.4		11.0	10.4	

Source: Company data, I-Sec research

Exhibit 2: Business mix

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	% YoY	% QoQ
Formulations	**53,294**	**47,700**	**54,525**	**53,620**	**58,170**	**60,530**	**62,900**	**65,100**	**64,750**	**66,400**	**69,720**	**10.8**	**5.0**
US	29,711	26,376	30,012	29,510	33,040	34,700	37,560	35,880	35,550	35,300	36,710	**(2.3)**	**4.0**
EU	15,481	15,162	17,012	16,600	18,370	17,690	17,280	18,320	19,820	21,050	21,210	**22.7**	**0.8**
ARV	3,796	1,643	2,512	1,810	1,900	2,500	1,790	2,380	2,290	1,930	3,070	**71.5**	**59.1**
RoW	4,306	4,519	4,989	5,700	4,860	5,640	6,270	8,520	7,090	8,120	8,730	**39.2**	**7.5**
Active Ingredients	**9,065**	**9,694**	**9,546**	**10,170**	**10,330**	**11,660**	**10,220**	**10,190**	**10,920**	**11,560**	**10,060**	**(1.6)**	**(13.0)**
Total	**62,359**	**57,394**	**64,071**	**63,790**	**68,500**	**72,190**	**73,120**	**75,290**	**75,670**	**77,960**	**79,780**	**9.1**	**2.3**
US (USD mn)	386	331	355	359	382	409	451	432	426	421	435	**(3.5)**	**3.3**

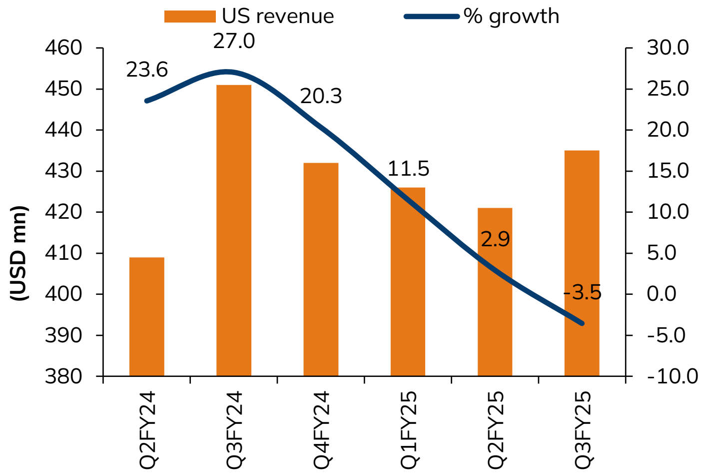
Source: Company data, I-Sec research

Exhibit 3: Aurobindo's biosimilar pipeline

Key Products (market size in USD Bn)	Therapy Segment	Current Status
BP01 (6.2 bn)	Oncology	Phase 1 PK/PD clinical study completed. Multi centre and multi country phase 3 study in NSCLC patients is in progress.
BP02 (5.2 bn)	Oncology	Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met the clinical end points successfully. Product filed with EMEA. MA received in India and applied for manufacturing license.
BP05 (4.2 bn)	Ophthalmology	Phase 3 multi-country and multi-centre trial is in progress.
BP08 (3.5 bn)	Immunology	Phase 3 clinical study completed in Apr/May 2024.
BP16 (5.7 bn)	Immunology/Oncology	Phase 3 clinical study recruitment completed in Europe and on-track for study completion by May 2025.
BP11 (4.0 bn)	Respiratory	Phase 3 clinical study is on-going in Europe in chronic spontaneous urticaria patients. Phase 3 clinical study in respiratory asthma patients is in progress in India.
BP13 (1.5 bn)	Oncology	Completed licensure trials and filed with EMEA.
BP14 (4.6 bn)	Oncology	Completed licensure trials and filed with EMEA.

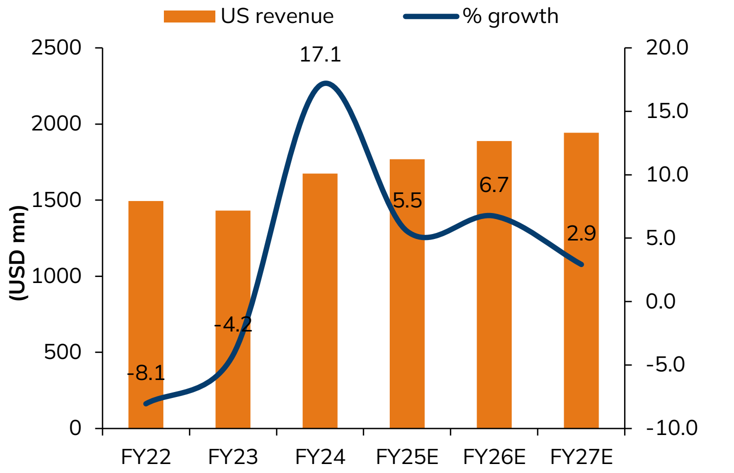
Source: I-Sec research, Company data

Exhibit 4: Sequential fall due to lower sales of gRevlimid



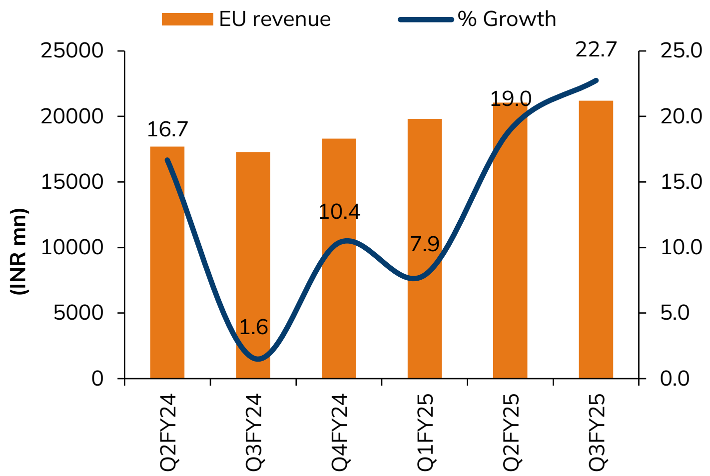
Source: I-Sec research, Company data

Exhibit 5: gRevlimid and new launches to drive growth in US revenue



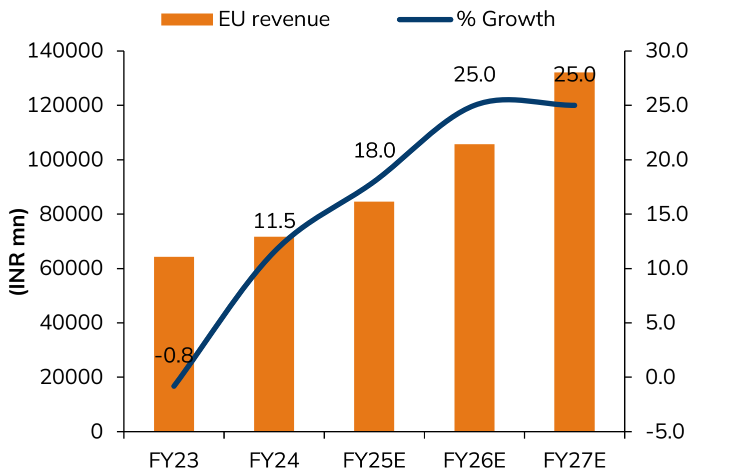
Source: I-Sec research, Company data

Exhibit 6: EU grew 22.7% YoY in Q3FY25



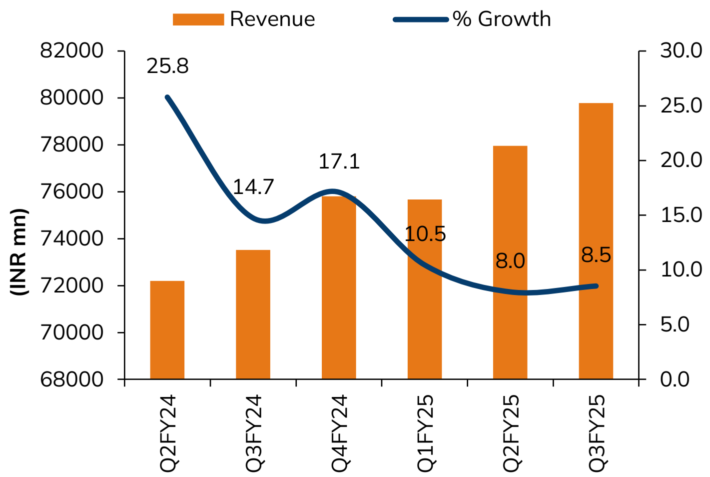
Source: I-Sec research, Company data

Exhibit 7: EU to grow at ~23% CAGR over FY24–27E



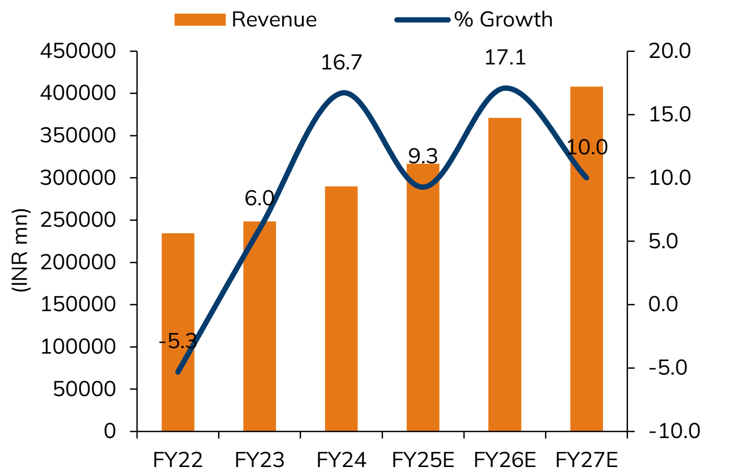
Source: I-Sec research, Company data

Exhibit 8: Growth driven by continued traction in Europe and growth markets



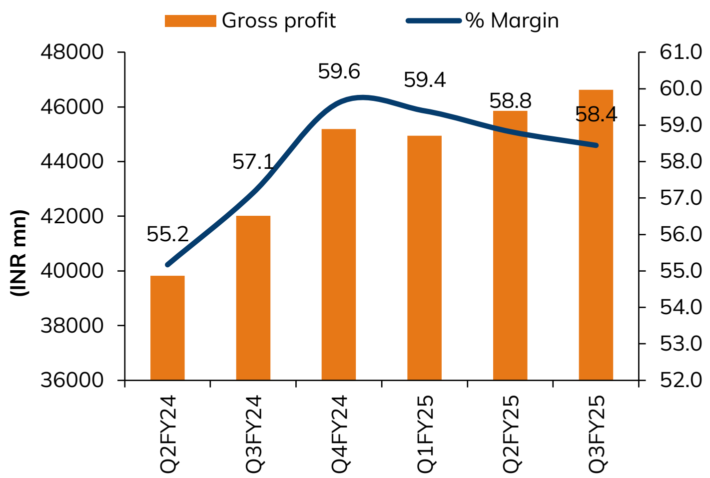
Source: I-Sec research, Company data

Exhibit 9: Total revenue to register ~12% CAGR over FY24–27E



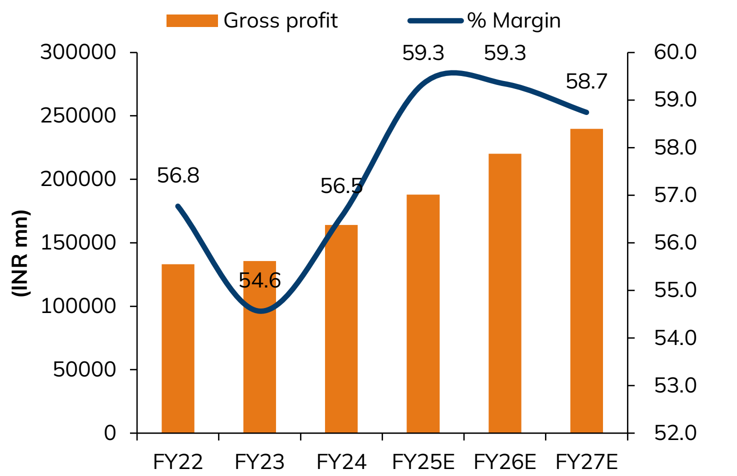
Source: I-Sec research, Company data

Exhibit 10: Gross margin expanded 130bps YoY



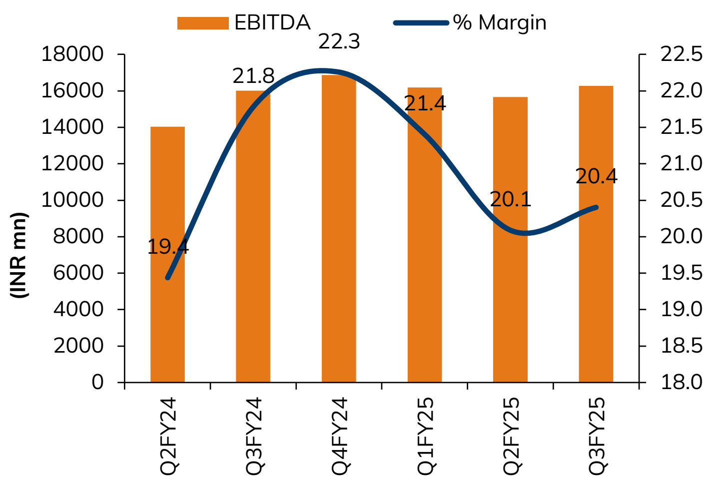
Source: I-Sec research, Company data

Exhibit 11: Easing of pricing pressures in US and cooling of RM costs to aid gross margin



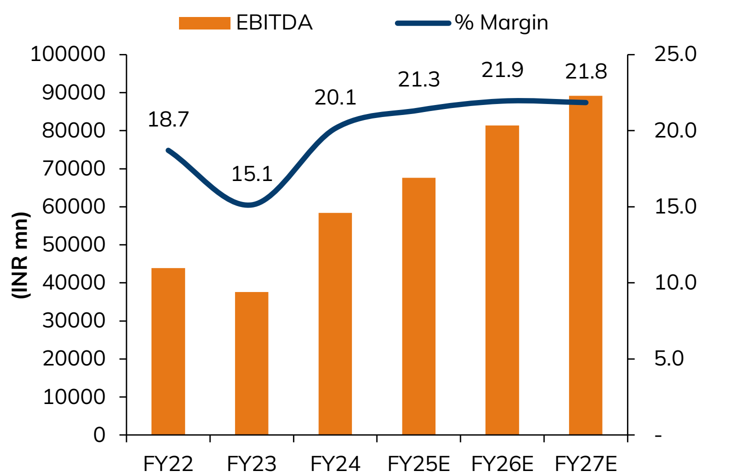
Source: I-Sec research, Company data

Exhibit 12: Surge in overheads curb EBITDA growth



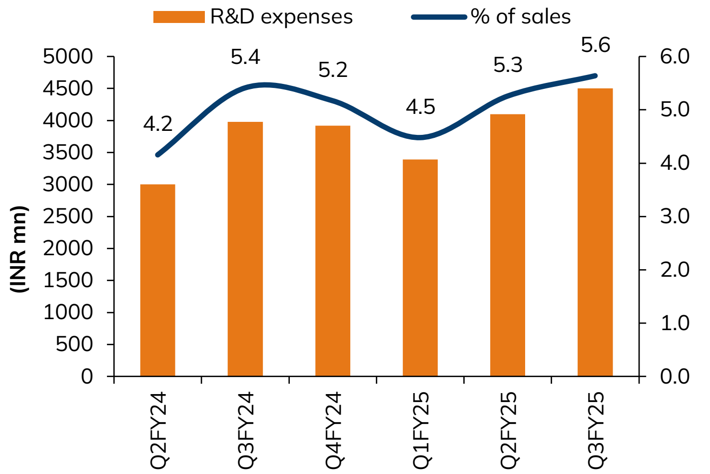
Source: I-Sec research, Company data

Exhibit 13: Expect EBITDA margin to recover driven by healthy US sales and cost curtailments



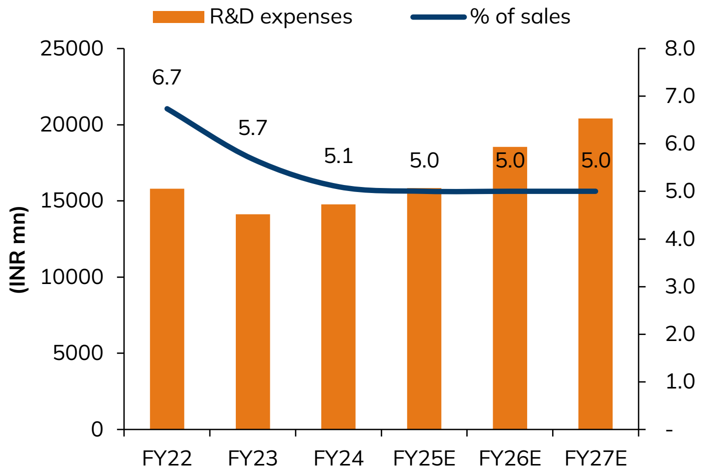
Source: I-Sec research, Company data

Exhibit 14: R&D expenses rose ~13% YoY



Source: I-Sec research, Company data

Exhibit 15: R&D expenses to be stable at~5% of sales



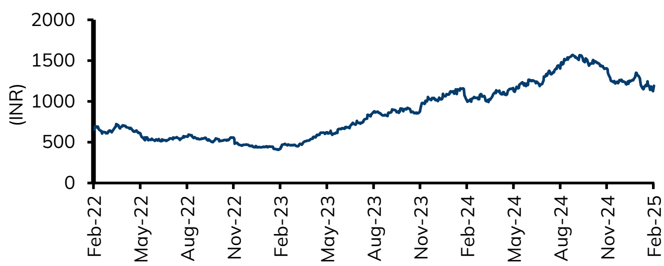
Source: I-Sec research, Company data

Exhibit 16: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	51.8	51.8	51.8
Institutional investors	41.6	42.0	41.5
MFs and others	19.2	18.5	17.8
FIs/Banks	0.2	1.9	1.9
Insurance	5.2	4.7	5.1
FIIs	17.0	16.9	16.7
Others	6.6	6.2	6.7

Source: Bloomberg

Exhibit 17: Price chart



Source: Bloomberg

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	2,90,019	3,16,889	3,71,005	4,08,084
Operating Expenses	**1,05,560**	**1,20,418**	**1,38,756**	**1,50,583**
EBITDA	58,430	67,620	81,394	89,121
EBITDA Margin (%)	**20.1**	**21.3**	**21.9**	**21.8**
Depreciation & Amortization	15,217	16,476	17,130	17,783
EBIT	43,213	51,144	64,264	71,337
Interest expenditure	2,897	4,633	4,055	3,478
Other Non-operating Income	5,574	6,642	7,817	8,765
Recurring PBT	43,972	53,495	68,026	76,625
Profit / (Loss) from Associates	**(172)**	**25**	**28**	**30**
Less: Taxes	**12,110**	**16,056**	**20,416**	**22,997**
PAT	31,861	37,439	47,610	53,628
Less: Minority Interest	(40)	(31)	(31)	(31)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	31,690	37,464	47,638	53,659
Net Income (Adjusted)	**33,118**	**37,255**	**47,668**	**53,689**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,41,551	2,77,657	3,28,263	3,79,855
of which cash & cash eqv.	62,783	84,941	1,03,387	1,32,943
Total Current Liabilities & Provisions	80,188	88,404	1,02,637	1,12,390
Net Current Assets	**1,61,362**	**1,89,253**	**2,25,625**	**2,67,465**
Investments	3,722	3,722	3,722	3,722
Net Fixed Assets	1,12,608	1,25,552	1,22,677	1,19,405
ROU Assets	2,847	3,208	3,142	3,066
Capital Work-in-Progress	38,687	18,687	18,687	18,687
Total Intangible Assets	29,473	29,691	25,502	21,067
Other assets	9,643	10,181	11,265	12,008
Deferred Tax Assets	12,126	12,126	12,126	12,126
Total Assets	**3,70,527**	**3,92,485**	**4,22,822**	**4,57,629**
Liabilities				
Borrowings	**63,152**	**56,152**	**49,152**	**42,152**
Deferred Tax Liability	**3,566**	**3,566**	**3,566**	**3,566**
provisions	2,257	2,257	2,257	2,257
other Liabilities	3,044	3,326	3,894	4,283
Equity Share Capital	586	586	586	586
Reserves & Surplus	2,97,842	3,26,548	3,63,348	4,04,797
Total Net Worth	**2,98,428**	**3,27,134**	**3,63,934**	**4,05,382**
Minority Interest	80	49	19	(12)
Total Liabilities	**3,70,527**	**3,92,485**	**4,22,822**	**4,57,629**

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**19,434**	**45,938**	**42,551**	**53,510**
Working Capital Changes	7,821	19,131	5,994	18,454
Capital Commitments	34,695	10,000	10,000	10,000
Free Cashflow	**(15,261)**	**35,938**	**32,551**	**43,510**
Other investing cashflow	**(1,705)**	**-**	**-**	**-**
Cashflow from Investing Activities	(32,990)	(10,000)	(10,000)	(10,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	14,537	(7,000)	(7,000)	(7,000)
Dividend paid	(7,171)	(8,549)	(10,868)	(12,241)
Others	8,131	1,769	3,762	5,287
Cash flow from Financing Activities	15,497	(13,780)	(14,106)	(13,954)
Chg. in Cash & Bank balance	**1,941**	**22,158**	**18,445**	**29,556**
Closing cash & balance	62,783	84,941	1,03,387	1,32,943

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	54.1	63.9	81.3	91.6
Adjusted EPS (Diluted)	56.5	63.6	81.4	91.6
Cash EPS	82.5	91.7	110.6	122.0
Dividend per share (DPS)	12.2	14.6	18.5	20.9
Book Value per share (BV)	509.3	558.3	621.2	691.9
Dividend Payout (%)	22.6	22.8	22.8	22.8
Growth (%)				
Net Sales	16.7	9.3	17.1	10.0
EBITDA	55.5	15.7	20.4	9.5
EPS (INR)	69.3	12.5	28.0	12.6
Valuation Ratios (x)				
P/E	22.0	18.6	14.7	13.0
P/CEPS	14.4	13.0	10.8	9.8
P/BV	2.3	2.1	1.9	1.7
EV / EBITDA	11.9	9.8	7.9	6.8
P / Sales	2.4	2.2	1.9	1.7
Dividend Yield (%)	1.0	1.2	1.6	1.8
Operating Ratios				
Gross Profit Margins (%)	56.5	59.3	59.3	58.7
EBITDA Margins (%)	20.1	21.3	21.9	21.8
Effective Tax Rate (%)	27.5	30.0	30.0	30.0
Net Profit Margins (%)	11.4	11.8	12.8	13.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.1)	(0.5)	(0.7)	(1.1)
Profitability Ratios				
RoCE (%)	10.6	11.1	12.9	13.3
RoE (%)	11.7	11.9	13.8	14.0
RoIC (%)	16.1	20.1	23.9	26.2
Fixed Asset Turnover (x)	3.1	2.7	3.0	3.4
Inventory Turnover Days	133	129	133	129
Receivables Days	65	67	69	67
Payables Days	60	57	59	58

Source Company data, I-Sec research

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