ADD (Downgrade from BUY)

CMP: **INR 1,450** Target Price: **INR 1,620 (INR 1,440)** ▲ 12%

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13 August 2024

India | Equity Research | Q1FY25 results review

Aurobindo Pharma

Pharma

Margins on course for gradual improvement

Aurobindo Pharma's (Aurobindo) Q1FY25 result came in short of our expectations amid lower US sales and a surge in costs. US sales dipped 1.4% QoQ as supplies from Eugia unit 3 were lower (USD 15–20mn impact) due to OAI at plant; OTC biz saw a seasonal dip. The company incurred a cost of ~INR 1bn from plant remediation (USD 9mn) and overheads of new plants (INR 250mn); adjusting for it, EBITDA margin was at 22.7%. Remediation cost should ease to ~USD 2mn in Q2FY25 while operational overheads are likely absorbed gradually. Development of biosimilars is on track. Its India foray is envisaged in H2FY25 and Europe/US in FY26/27. Aurobindo may soon re-initiate the listing of Eugia. FY25 EBITDA guidance of 21–22% may be revised post Q2FY25. We downgrade to **ADD** and raise the TP to INR 1,620, based on 18x FY26E EPS.

Growth markets boost growth; one-off dents margins QoQ

Revenue grew 10.5% YoY (-0.2% QoQ) to INR 75.7bn (I-Sec: INR 77.5bn) driven by ARV and growth markets in Q1FY25. Gross margins expanded 490bps YoY (-23bps QoQ) to 59.4%. EBITDA grew a robust 40.7% YoY (-4% QoQ) to INR 16.2bn (I-Sec: INR 16.9bn). Margins expanded by ~460bps YoY (-85bps QoQ) to 21.4%, adjusting for a one-off cost of INR 1bn, margins were at 22.7%. Adj. PAT stood at INR 9.2bn up 43.4% YoY (I-Sec INR 10.6bn).

US trajectory to improve; Eugia listing process to take off

US sales were at USD 426mn, down 1.4% QoQ. Sequential growth was impacted due to lower OTC and supply constraints from Eugia plant 3. Sales of gRevlimid were flat QoQ. We expect 10.3% CAGR for US over FY24–26E supported by better volumes and new product launches. Europe sales grew 7.9% YoY (8.2% QoQ) to INR 19.8bn. Growth markets surged 45.9% YoY (-16.8% QoQ) to INR 7.1bn and included sales of INR 610mn from domestic formulations. ARV revenue grew by 20.5% YoY to INR 2.3bn. API sales grew 5.7% (7.2% QoQ) at INR 10.9bn.

PLI plant operational; ramp up from Q3FY25

Pen-G/6-APA project under the PLI scheme was operational in Q1FY25. Over the next two months, management expects a gradual ramp up in production and in Q3FY25, it aims to achieve 80% of planned production. Operating cost of the Pen-G plant is expected to reduce significantly as production increases.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,48,554	2,90,019	3,25,804	3,77,049
EBITDA	37,582	58,430	70,826	83,474
EBITDA Margin (%)	15.1	20.1	21.7	22.1
Net Profit	19,567	33,118	42,198	52,501
EPS (INR)	33.4	56.5	72.0	89.6
EPS % Chg YoY	(28.8)	69.3	27.4	24.4
P/E (x)	44.1	26.8	20.1	16.2
EV/EBITDA (x)	22.1	14.5	11.5	9.4
RoCE (%)	7.1	10.6	12.3	14.0
RoE (%)	7.6	11.7	13.4	14.9

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Market Data	
Market Cap (INR)	849bn
Market Cap (USD)	10,117mn
Bloomberg Code	ARBP IN
Reuters Code	ARBN.BO
52-week Range (INR)	1,498 /815
Free Float (%)	48.0
ADTV-3M (mn) (USD)	24.0

Price Performance (%)	3m	6m	12m
Absolute	30.0	44.5	64.9
Relative to Sensex	19.9	33.2	44.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.3	0.2
EBITDA	2.7	1.1
EPS	1.5	0.9

Previous Reports

28-05-2024: Q4FY24 results review

12-02-2024: Q3FY24 results review

Biosimilar filings on track; EU approval anticipated in FY25

Application for biosimilar pegfilgrastim, and trastuzumab is likely to be approved by the European regulators in FY25; these would likely be launched in FY26. In FY26, it further aims to file biosimilar applications for bevacizumab, omalizumab. One more oncology product, Trastuzumab, is slated to be filed in the US market by Q2FY25.

Products manufactured at its Vizag site are likely to be commercialized in FY26 and product filings from the China plant for China and US markets should begin in the near term. Besides, Aurobindo has signed a definitive agreement with Merck Sharpe and Dohme (MSD Singapore) for the contract manufacturing of innovative biologics – commercial supplies to begin in FY28.

Valuation and risks

Aurobindo's US sales moderated sequentially on account of seasonality in its OTC portfolio; besides, the supplies from Eugia unit 3 were benign and sales of gRevlimid were also flat sequentially. In Q2FY25, management expects a full ramp-up from Eugia Unit 3 (USD 15–20mn of additional sales) and has planned to launch three new products in US. In Q1FY25, it started the much-anticipated PLI project; and in the next two quarters, commercial sales are expected to see a meaningful uptick; altogether, along with the incentives, Aurobindo should be able to absorb the plants overheads. New launches in EU have improved prospects. Management aims for revenue of EUR 880–900mn in FY25; further, the launch of biosimilars in FY26 will likely improve its sales run-rate and scale up its margins, which are in mid-teen currently.

EBITDA margins in Q1FY25 were at 21.4% and had a 130bps impacts of remediation and plant overhead cost. In Q2FY25, remediation cost will be reduced from USD 9mn to USD 2mn, which can potentially improve EBITDA margin run-rate by 80bps. Further, overhead cost shall be absorbed gradually. Aurobindo has a prudent balance sheet with net cash balance of USD 101mn, at end-Q1FY25, which may be deployed for buybacks and M&A in our view.

Management may revisit its EBITDA margin guidance of 21–22% for FY25, once the Q2FY25 prints come in. We maintain our revenue estimates for FY25/26 while nudging up our EBITDA and EPS projections by ~1–3% and 1–2%, respectively, to factor in the improvement in margins of Aurobindo's base business. The stock currently trades at 20.1x FY25E and 16.2x FY26E earnings, and EV/EBITDA multiples of 11.6 FY25E and 9.4x FY26E.

We lower our rating to **ADD** (from *Buy*) on the stock with a revised target price of INR 1,620 (INR 1,440 earlier), based on 18x FY26E EPS (earlier 16x FY26E EPS).

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

Q1FY25 conference call: Highlights

US

- Price erosion in the US biz was in low single-digit (ex-gRevlimid) and the sequential dip was mainly due to seasonality.
- The company has lined up three new launches for Q2FY25.
- Revenue in gRevlimid was flat QoQ and the run-rate will likely be maintained ahead. Pricing in the product is stable and the management does not anticipate a decline in quarters ahead.
- Aurobindo continues to the only company in gEmflaza (tablets).
- The company has settled gLifitegrast with innovator, the product may not be launched in next 12–18months.
- Final hearing for litigation of Mirabegron is in Oct'24. The company has settled the product with the innovator and it may not launch the product in the near term.
- The company aims to launch 58–60 products in FY25.
- Getting products from China JV commercialisation shall happen in upcoming quarters.
- OTC biz dipped in Q1FY25 on a sequential-basis due to seasonality. Management expects a steady ramp-up in this business from Q2FY25.

Eugia

- Remediation at Eugia unit 3 impacted US sales (USD 15–20mn). Regular supplies from the plant are expected to resume in Q2FY25.
- The company is working with USFDA for the Bhiwadi plant. The plant does not require major remediation and management anticipates to resolve the issues in the next month or two.
- Aurobindo has lost negligible market share in injectable biz due to issues at plant. The revenue run-rate has slowed a bit due to restrictions in supplies. The company is confident of regaining market share as it resolves the regulatory issues.
- The company may re-initiate the process of listing Eugia in the near term.
- Global sales of Eugia are likely to be over USD 600mn in FY25.

EU

- Constant currency sales in Europe stood at EUR 221mn in Q1FY25.
- Oral solid products are the major contributor to sales in EU. Launch of biosimilars in FY26 will further aid growth and improve margins.
- Driven by new launches, management aims for revenue of Euro 880-900mn from Europe in FY25.
- Revenue and margins of its European biz have gradually improved in the last couple of years. Its EBITDA margins in this biz are in mid-teens now.

Biologic CDMO

- Aurobindo has signed a definitive agreement with MSD. Work on one product is ongoing. Discussion on key markets for supplies are ongoing (EU likely to be included).

- Civil work at the TheraNym/CuraTeQ plant will be completed in 2026 post which it will manufacture validation batches will be manufactured. Aurobindo is on track to start commercial manufacturing from 2027.
- In phase one, the plant will house two 15kl bioreactors and a vial filling line integrated with an isolator.

Biosimilar

- Aurobindo's biosimilar pipeline is now extended; it includes products with potential launches up till 2032.
- The company may file biosimilar bevacizumab in EU in Q2FY26.
- It is conducting large phase-3 trials on 600 subjects in EU for Omalizumab. The product will be filed in Q3FY26 in Europe and US.
- Phase-3 studies for two more products are ongoing. Trail for ophthalmic product has slowed slightly and shall see completion in FY26. Oncology product trial is going as per schedule and will likely be filed in EU next year.
- The company has filed two products in EU, which may be approved in the next couple of quarters.
- Trastuzumab may be filed in the next 1–1.5 months with USFDA.
- It has completed phase-3 trial of Tocilizumab in India. It will likely file this product in the next 3–4 months in India and other emerging markets.

Other business

- Vizag plant was audited by EU regulators. Filing from this plant for EU may start in Q2FY25, as the company is yet to receive the GMP certificate. It will also file 3–4 products in US in FY25 from this plant. Its Vizag plant should start contributing to revenues from FY26.
- Aurobindo has started the manufacturing of small batches from the China plant for the JV biz. Further, scale up in manufacturing volumes will likely happen in FY25. The company is yet to file products for the China and US markets.

PLI projects

- The company has incurred 95% of the planned capex for the PLI project. Further spending will depend on requirements of the business.
- Over the next two months, management expects a gradual ramp up in production; in Q3FY25, it aims to achieve 80% of the planned production.
- Operating cost of the Pen-G plant is expected to reduce significantly, as production ramps up.
- Pen-G prices have been stable in US currently.

Q1 Financial performance

- Growth in the API biz, in Q1, was mainly driven by better volumes.
- Shutdown of supplies from its Puerto Rico plant impacted overall growth by 2%.
- RM cost and operating leverage offset the impact of operating cost of the Pen-G plant and remediation cost.
- In Q1FY25, remediation and operating cost of new plant stood at INR 1bn, which management believes will decline gradually in the next couple of quarters.

- It incurred capex of USD 74mn and generated USD 89mn of cash in Q1FY25.
- Net cash on books stood at INR 8.4bn at end-Q1FY25.

Guidance

- Management may revisit its 21–22% EBITDA margins guidance post Q2FY25 results.
- The company has spent USD 9mn on remediation of Eugia unit 3 in Q1FY25, which is likely to drop to USD 2mn in Q2FY25.
- Effective tax rate for the company was higher in Q1FY25, as the company is not taking benefit of the deferred tax credit of new plants. Effective tax rate will remain between 27–28% for FY25.

Exhibit 1: Quarter review

Y/E Mar (INR mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	FY24	FY23	YoY(%)
Net Sales	75,670	68,505	10.5	75,802	-0.2	2,90,019	2,48,554	16.7
Gross Profit	44,943	36,958	21.6	45,193	-0.6	1,63,990	1,35,621	20.9
Gross Margins (%)	59.4	53.9	544bps	59.6	-23bps	56.5	54.6	198.0
Employee cost	10,720	9,520	12.6	10,263	4.4	39,229	35,223	11.4
Other expenses	14,638	12,045	21.5	14,139	3.5	51,550	48,702	5.8
R&D	3,390	3,880	-12.6	3,920	-13.5	14,780	14,115	4.7
EBITDA	16,196	11,514	40.7	16,871	-4.0	58,430	37,582	55.5
EBITDA Margins (%)	21.4	16.8	460bps	22.3	-85bps	20.1	15.1	502.7
Other Income	2,199	1,163	89.1	1,356	62.2	5,574	2,906	91.8
Interest	1,110	566	96.4	894	24.2	2,897	1,405	106.2
Depreciation	4,042	3,266	23.8	3,543	14.1	15,217	12,446	22.3
PBT	13,243	8,846	49.7	13,790	-4.0	45,890	26,638	72.3
Tax	4,057	2,423	67.4	3,226	25.8	12,110	6,849	76.8
Tax Rate (%)	30.6	27.4	-	23.4	-	26.4	25.7	-
Reported PAT	9,192	5,708	61.1	9,088	1.2	31,730	19,275	64.6
Exceptional Items	10	-698	-	-1,364	-	-1,919	-396	-
Adjusted PAT	9,185	6,405	43.4	10,094	-9.0	33,118	19,567	69.3
NPM (%)	12.1	9.3	-	13.3	-	11.4	7.9	-

Source: Company data, I-Sec research

Exhibit 2: Business mix

INR mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% YoY	% QoQ
Formulations	**49,922**	**48,960**	**53,294**	**47,700**	**54,525**	**53,620**	**58,170**	**60,530**	**62,900**	**65,100**	**64,750**	**11.3**	**(0.5)**
US	27,452	27,281	29,711	26,376	30,012	29,510	33,040	34,700	37,560	35,880	35,550	7.6	(0.9)
EU	16,943	15,407	15,481	15,162	17,012	16,600	18,370	17,690	17,280	18,320	19,820	7.9	8.2
ARV	1,557	2,359	3,796	1,643	2,512	1,810	1,900	2,500	1,790	2,380	2,290	20.5	(3.8)
RoW	3,970	3,913	4,306	4,519	4,989	5,700	4,860	5,640	6,270	8,520	7,090	45.9	(16.8)
Active Ingredients	**10,100**	**9,130**	**9,065**	**9,694**	**9,546**	**10,170**	**10,330**	**11,660**	**10,220**	**10,190**	**10,920**	**5.7**	**7.2**
Total	**60,022**	**58,090**	**62,359**	**57,394**	**64,071**	**63,790**	**68,500**	**72,190**	**73,120**	**75,290**	**75,670**	**10.5**	**0.5**
US (USD mn)	367	363	386	331	355	359	382	409	451	432	426	11.5	(1.4)

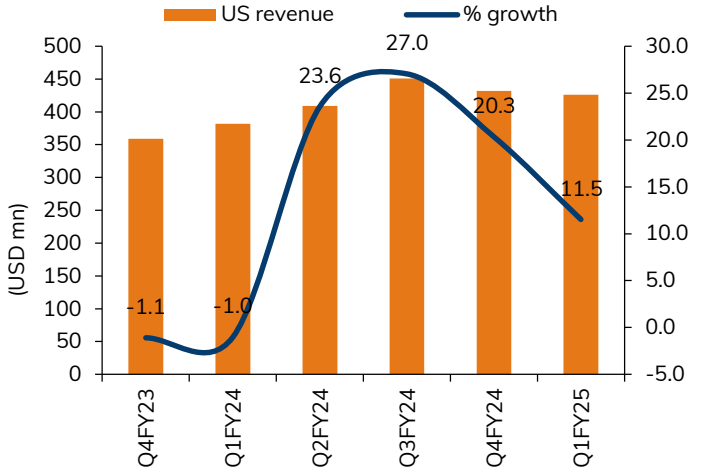
Source: Company data, I-Sec research

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 in progress.
BP02 (5.2 bn)	Oncology	MA received in India and applied for Manufacturing License. Product filed with EMA. Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met the clinical end points successfully.
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. Filing in India in Q2 FY2024-25.
BP16 (5.7 bn)	Immunology/Oncology	Phase 3 clinical study ongoing in Europe region.
BP11 (4.0 bn)	Respiratory	Phase 3 clinical study ongoing in Europe in chronic spontaneous urticaria patient and Phase 3 clinical study in respiratory asthma patients 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.

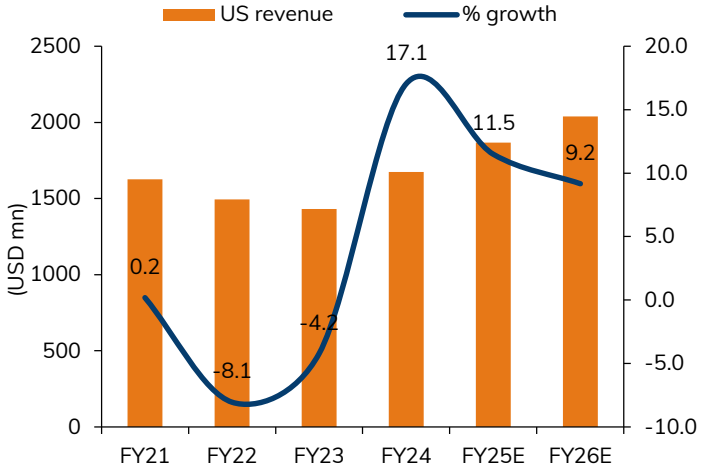
Source: I-Sec research, Company data

Exhibit 4: Growth driven by gRevlimid and volume traction in existing portfolio



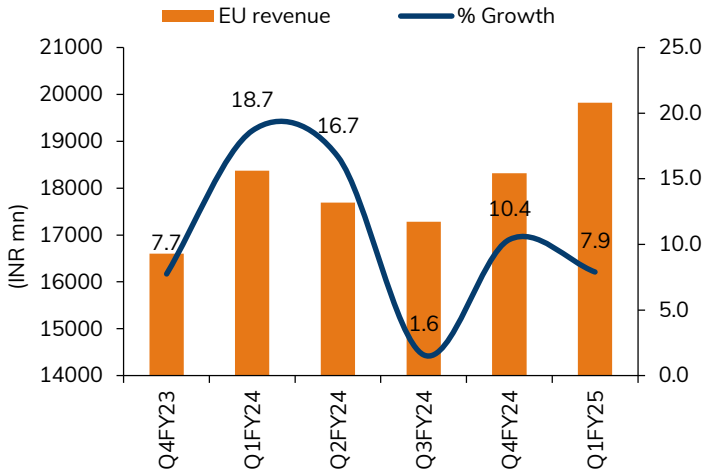
Source: I-Sec research, Company data

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



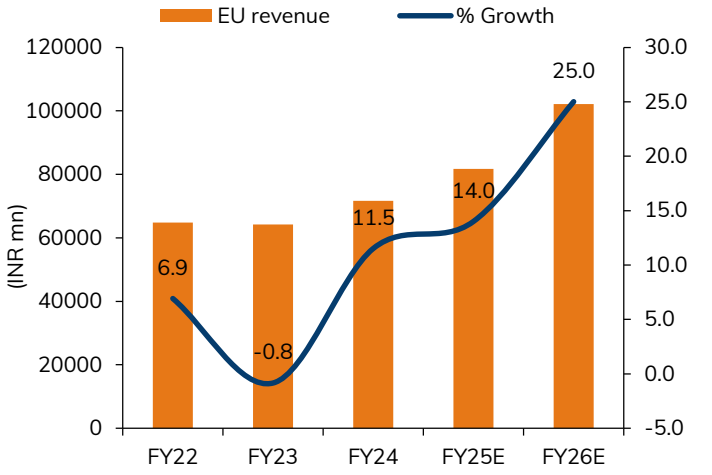
Source: I-Sec research, Company data

Exhibit 6: EU accounted for 26.2% of total revenue in Q1FY25



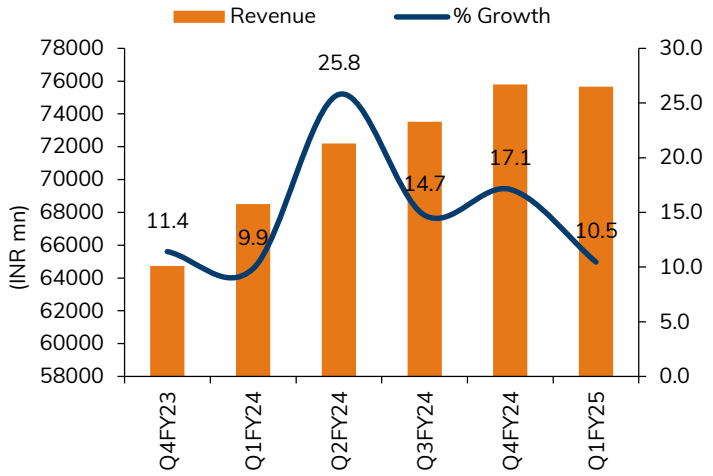
Source: I-Sec research, Company data

Exhibit 7: EU to grow at CAGR of ~19% over FY24–26E



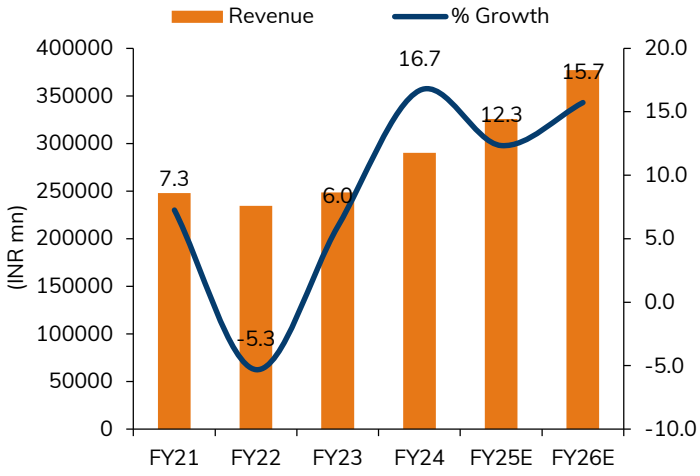
Source: I-Sec research, Company data

Exhibit 8: Growth driven by traction in ARV and growth markets



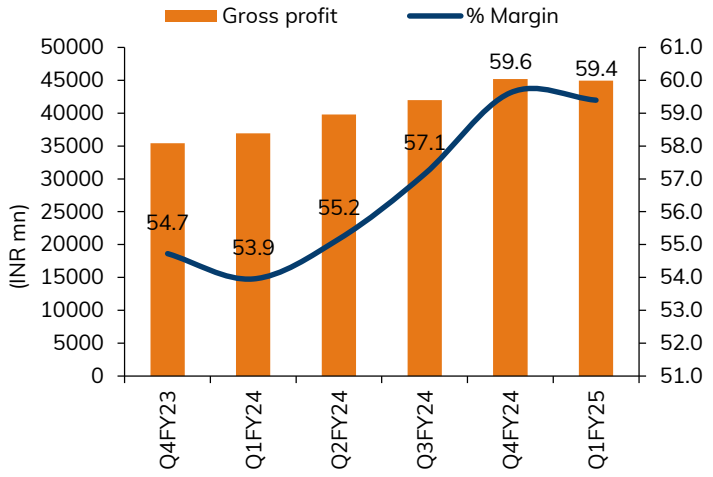
Source: I-Sec research, Company data

Exhibit 9: Total revenue to register 14% CAGR over FY24–26E



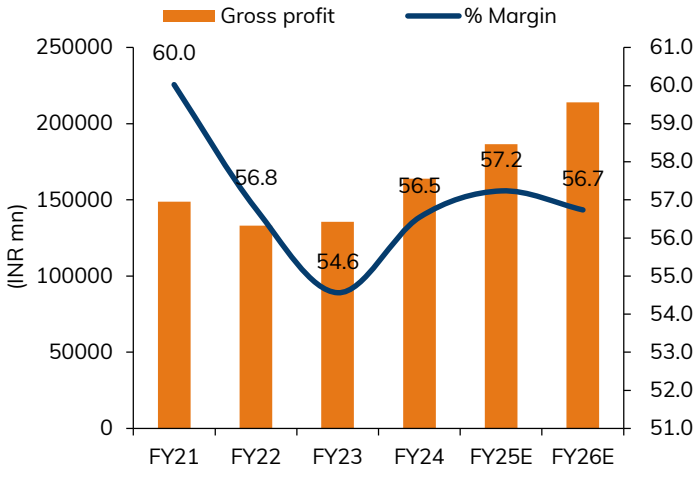
Source: I-Sec research, Company data

Exhibit 10: Gross margin expansion driven by lower RM cost and product mix



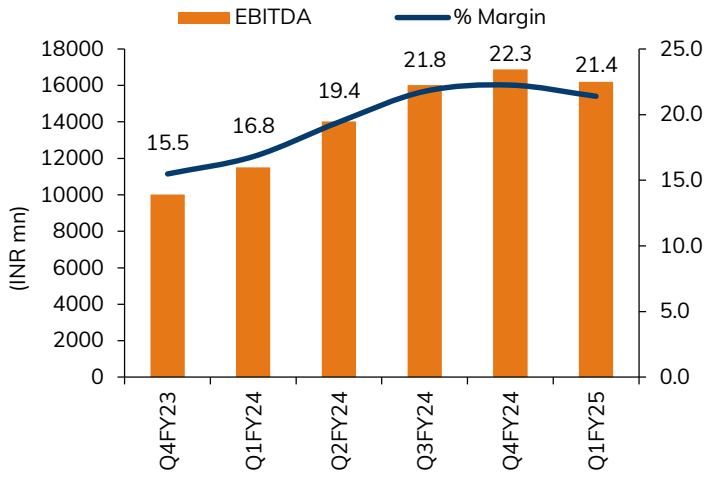
Source: I-Sec research, Company data

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



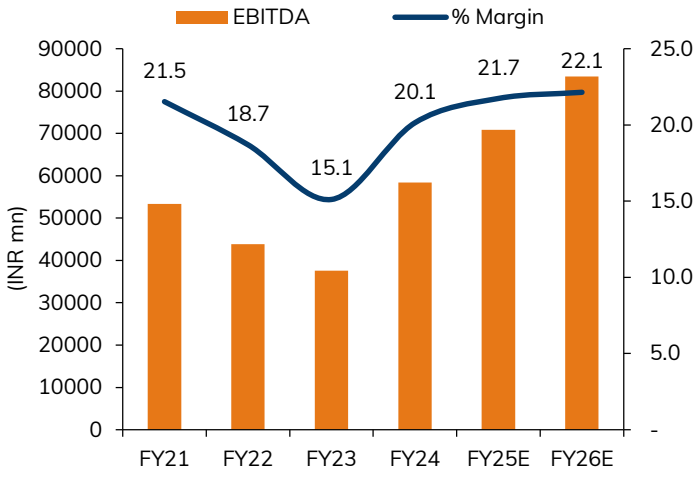
Source: I-Sec research, Company data

Exhibit 12: Margin expansion due to operating leverage



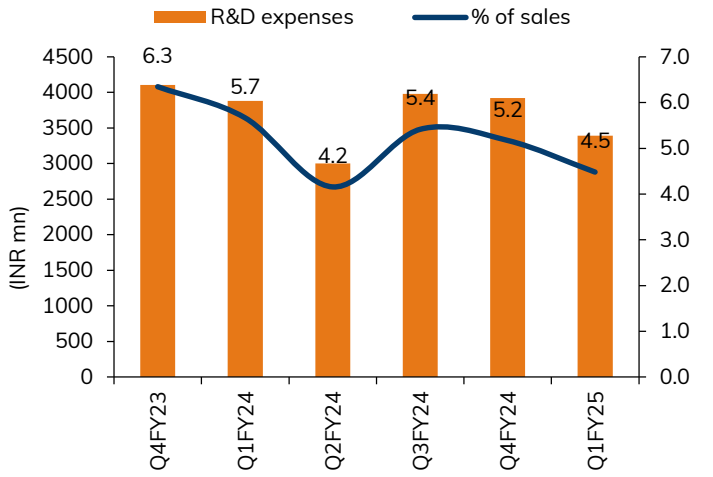
Source: I-Sec research, Company data

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



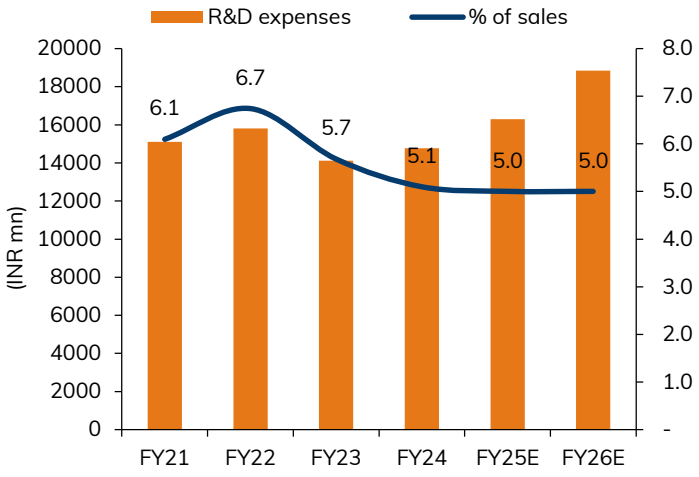
Source: I-Sec research, Company data

Exhibit 14: R&D expenses declined 13% YoY



Source: I-Sec research, Company data

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



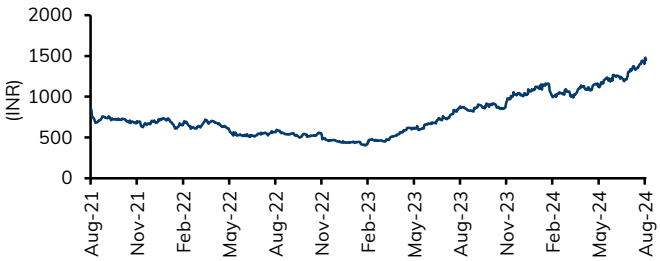
Source: I-Sec research, Company data

Exhibit 16: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.8	51.8	51.8
Institutional investors	41.3	41.3	41.5
MFs and others	14.7	17.8	19.3
FIs/Banks	0.0	0.0	0.0
Insurance	5.5	5.0	5.2
FIIs	21.1	18.4	17.0
Others	6.9	6.9	6.7

Source: Bloomberg

Exhibit 17: Price chart



Source: Bloomberg

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	**2,48,554**	**2,90,019**	**3,25,804**	**3,77,049**
Operating Expenses	98,039	1,05,560	1,15,660	1,30,459
EBITDA	**37,582**	**58,430**	**70,826**	**83,474**
EBITDA Margin (%)	15.1	20.1	21.7	22.1
Depreciation & Amortization	12,446	15,217	16,873	17,490
EBIT	25,136	43,213	53,953	65,984
Interest expenditure	1,405	2,897	3,931	3,441
Other Non-operating Income	2,906	5,574	7,916	8,558
Recurring PBT	**26,242**	**43,972**	**57,939**	**71,101**
Profit / (Loss) from Associates	**(117)**	**(172)**	**(189)**	**(208)**
Less: Taxes	6,849	12,110	15,593	18,432
PAT	19,393	31,861	42,346	52,669
Less: Minority Interest	2	(40)	(40)	(40)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**19,277**	**31,690**	**42,158**	**52,461**
Net Income (Adjusted)	**19,567**	**33,118**	**42,198**	**52,501**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,13,947	2,41,551	2,84,172	3,38,132
of which cash & cash eqv.	60,842	62,783	86,158	1,09,664
Total Current Liabilities & Provisions	72,512	80,188	90,749	1,04,227
Net Current Assets	**1,41,435**	**1,61,362**	**1,93,423**	**2,33,905**
Investments	5,427	3,722	3,722	3,722
Net Fixed Assets	75,434	1,12,608	1,33,703	1,30,880
ROU Assets	4,520	2,847	7,632	7,504
Capital Work-in-Progress	53,900	38,687	(1,313)	(1,313)
Total Intangible Assets	30,283	29,473	36,720	32,181
Other assets	8,558	9,643	10,359	11,386
Deferred Tax Assets	6,775	12,126	12,126	12,126
Total Assets	**3,26,388**	**3,70,527**	**3,96,439**	**4,30,468**
Liabilities				
Borrowings	**48,615**	**63,152**	**56,152**	**49,152**
Deferred Tax Liability	**3,896**	**3,566**	**3,566**	**3,566**
provisions	1,727	2,257	2,257	2,257
other Liabilities	3,631	3,044	3,420	3,958
Equity Share Capital	586	586	586	586
Reserves & Surplus	2,67,813	2,97,842	3,30,419	3,70,950
Total Net Worth	**2,68,399**	**2,98,428**	**3,31,004**	**3,71,536**
Minority Interest	120	80	40	-
Total Liabilities	**3,26,388**	**3,70,527**	**3,96,439**	**4,30,468**

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**18,534**	**19,434**	**46,011**	**47,359**
Working Capital Changes	(9,200)	7,821	19,131	9,034
Capital Commitments	33,790	34,695	10,000	10,000
Free Cashflow	**(15,256)**	**(15,261)**	**36,011**	**37,359**
Other investing cashflow	**(4,544)**	**(1,705)**	**-**	**-**
Cashflow from Investing Activities	(29,246)	(32,990)	(10,000)	(10,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	24,888	14,537	(7,000)	(7,000)
Dividend paid	(4,395)	(7,171)	(9,621)	(11,970)
Others	9,162	8,131	3,985	5,118
Cash flow from Financing Activities	29,654	15,497	(12,636)	(13,853)
Chg. in Cash & Bank balance	**18,942**	**1,941**	**23,375**	**23,506**
Closing cash & balance	60,842	62,783	86,158	1,09,664

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.9	54.1	72.0	89.5
Adjusted EPS (Diluted)	33.4	56.5	72.0	89.6
Cash EPS	54.6	82.5	100.8	119.5
Dividend per share (DPS)	7.5	12.2	16.4	20.4
Book Value per share (BV)	458.1	509.3	565.0	634.1
Dividend Payout (%)	22.8	22.6	22.8	22.8
Growth (%)				
Net Sales	6.0	16.7	12.3	15.7
EBITDA	(14.3)	55.5	21.2	17.9
EPS (INR)	(28.8)	69.3	27.4	24.4
Valuation Ratios (x)				
P/E	44.1	26.8	20.1	16.2
P/CEPS	26.5	17.6	14.4	12.1
P/BV	3.2	2.8	2.6	2.3
EV / EBITDA	22.1	14.5	11.5	9.4
P / Sales	3.4	2.9	2.6	2.3
Dividend Yield (%)	0.5	0.8	1.1	1.4
Operating Ratios				
Gross Profit Margins (%)	54.6	56.5	57.2	56.7
EBITDA Margins (%)	15.1	20.1	21.7	22.1
Effective Tax Rate (%)	26.1	27.5	26.9	25.9
Net Profit Margins (%)	7.9	11.4	13.0	13.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.5)	(0.1)	(0.5)	(0.8)
Profitability Ratios				
RoCE (%)	7.1	10.6	12.3	14.0
RoE (%)	7.6	11.7	13.4	14.9
RoIC (%)	10.9	16.1	21.1	24.6
Fixed Asset Turnover (x)	3.4	3.1	2.6	2.9
Inventory Turnover Days	129	133	131	132
Receivables Days	67	65	68	69
Payables Days	58	60	58	59

Source Company data, I-Sec research

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