



## Fell Short of Expectations Amidst Mixed Market Performance

**Est. Vs. Actual for Q2FY25:** Revenue – **INLINE**; EBITDA – **MISS**; PAT – **MISS**

### Changes in Estimates post Q2FY25

**FY25E/FY26E:** Revenue: -0.3%/-0.6%; EBITDA: -0.3%/-0.6%; PAT: -0.4%/-0.7%

### Recommendation Rationale:

- Aurobindo Pharma's Q2FY25 results were below expectations, with US revenue of \$421 Mn showing minimal growth QoQ, injectable sales experienced a \$81 Mn decline, representing a -20% QoQ drop, reflecting significant price erosion despite approximately \$20-\$30 Mn in additional revenue from gRevlimid.
- Margin Impact:** Gross margins decreased by 365bps YoY while EBITDA margins increased by 106bps YoY. However, they still fell short of our expectations.
- Profitability:** The reported profit stood at Rs 817 Cr, falling short of the Rs 925 Cr expectation.

### Sector Outlook: Positive

**Company Outlook & Guidance:** Aurobindo has allocated Rs 7,000 Cr in Capex over the past two years, primarily focusing on areas such as Biosimilars and Penicillin-G (Pen-G) API. The company's future valuations are expected to be largely dependent on the return on invested capital (ROIC) generated from this substantial investment.

**Current Valuation:** PE 22x for FY26 Earnings (Earlier Valuation: PE 18x)

**Current TP:** Rs 1,460/share (Earlier TP: Rs 1,612/share)

**Recommendation:** BUY

### Financial Performance:

Aurobindo Pharma's Q2FY25 results were below expectations, with US revenue of \$421 Mn showing minimal growth QoQ. Revenue increases in the European market were offset by declines in the ARV and API segments. Gross margins decreased by -365/+57 bps YoY/QoQ, while EBITDA margins improved by 106/-131 bps YoY/QoQ. The reported profit was Rs 817 Cr, falling short of the Rs 925 Cr expectation.

The Injectable Business contributes \$300 Mn in revenues, accounting for 25% of Aurobindo's US sales, and holds the highest gross margins. However, the issuance of OAI for the injectable segments may hinder new launches, and price erosion within the injectable portfolio poses a risk to gross margins in the upcoming quarters.

On the positive side, the newly commissioned plant in Vizag could be leveraged for new injectable launches, providing a potential growth avenue. Aurobindo Pharma has allocated Rs 7,000 Cr in Capex over the last two years, with a focus on high-growth areas like Biosimilars and Pen-G (API). The company's valuations in the coming years will be strongly influenced by the return on invested capital (ROIC) generated from this significant investment.

Despite facing challenges, Aurobindo Pharma is well-positioned to capitalize on favorable industry trends and its strategic investments in emerging sectors. As a result, we project a Revenue/PAT CAGR of 7.8%/11.7% over FY24-27E.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	7,796	3.0	8.0	7,856	-0.8
EBITDA	1,566	-3.3	14.0	1,687	-7.2
EBITDA Margin	20.1%	-131	106	21.5%	
Net Profit	817	-11.0	8.6	925	-11.7
EPS (Rs)	14.0	-11.0	8.6	15.8	-11.7

Source: Company, Axis Securities Research

(CMP as of 11<sup>th</sup> November 2024)

CMP (Rs)	1,286
Upside /Downside (%)	14%
High/Low (Rs)	1,592/929
Market cap (Cr)	74,700
Avg. daily vol. (6m) Shrs.	3,00,000
No. of shares (Cr)	58.50

### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	51.8	51.8	51.8
FIIs	18.0	16.7	16.6
MFs / UTI	17.8	19.2	18.5
Others	12.3	12.3	13.1

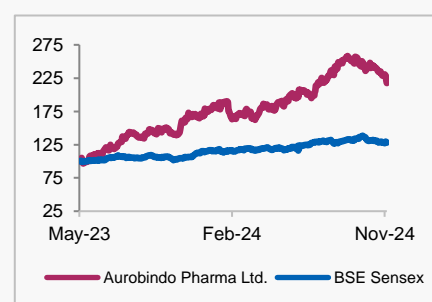
### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	29,002	31,124	34,034
EBITDA	5,843	6,381	7,113
Net Profit	3,169	3,564	4,078
EPS (Rs)	54.2	60.9	69.7
PER (x)	23.7	21.1	18.4
EV/EBITDA (x)	12.9	11.6	10.1
P/BV (x)	2.5	2.3	2.0
ROE (%)	10.6	10.7	11.0

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-0.3%	-0.6%
EBITDA	-0.3%	-0.6%
PAT	-0.4%	-0.7%

### Relative Performance



Source: Ace Equity

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## Valuations & Recommendation:

Aurobindo Pharma has promising prospects with upcoming product launches and strategic initiatives in areas such as entry into Biosimilars, peptides, and CDMO services. **We maintain our BUY recommendation on Aurobindo Pharma with a target price of Rs 1,460/share.**

## Financial Performance

- **Aurobindo Pharma's Q2FY25 results were below expectations**, with US revenue of \$421 Mn showing minimal growth QoQ. Revenue increases in the European market were offset by declines in the ARV and API segments. In the US market, injectable sales experienced a \$81 Mn decline, representing a -20% QoQ drop, reflecting significant price erosion despite approximately \$20-\$30 Mn in additional revenue from gRevlimid. Gross margins decreased by -365/+57 bps YoY/QoQ, while EBITDA margins improved by 106/-131 bps YoY/QoQ. The reported profit was Rs 817 Cr, falling short of the Rs 925 Cr expectation.
- **Eugia III unit:** This unit has recently received an Official Action Indicated (OAI) status from the USFDA. It is a significant unit, encompassing injectables and ophthalmology, and the company has already received 111 approvals from this unit, with 29 approvals currently under review. This development is expected to potentially have a negative impact on Aurobindo Pharma's upcoming launches.

## Key ConCall Highlights

- **USA Operations:** Aurobindo Pharma reported revenue of \$421 Mn from its U.S. operations, accounting for 45.3% of consolidated revenue. The growth was led by strong base product sales in the US. Price erosion on an overall basis remained neutral, driven by a well-diversified portfolio. Revenue from the injectable and specialty business decreased by 11% YoY to \$81 million, mainly due to supply chain challenges.
- **Europe Market:** The formulations business generated Rs 2,105 Cr in revenue, reflecting a 19% YoY increase. The increase was mainly driven by sales across markets and expansion into new geographies.
- **Price Erosion:** Price erosion was neutral during the quarter across all base portfolio products.
- **USFDA Approvals:** In Q2 FY25, the company launched products from 14 ANDAs and received 8 approvals during the quarter. Additionally, the company filed for 10 new product approvals.
- **R&D:** R&D expenditure for the quarter stood at Rs 410 Cr, representing 5.3% of revenue.

## Key Risks to Our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the revenue growth
- Entry of new players may increase pricing pressures in the injectable portfolio
- Delay in the launch of Biosimilars in the market

## Change in Estimates

(Rs Cr)	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	31,124	34,034	31,215	34,229	-0.3%	-0.6%
EBITDA	6,381	7,113	6,399	7,154	-0.3%	-0.6%
PAT	3,564	4,078	3,577	4,108	-0.4%	-0.7%

Source: Company, Axis Securities Research

## Results Review

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Sales	7,219	7,352	7,580	7,567	7,796	8.0	3.0
Other Operating Income	0	0	0	0	0		
<b>Net Sales</b>	<b>7,219</b>	<b>7,352</b>	<b>7,580</b>	<b>7,567</b>	<b>7,796</b>	<b>8.0</b>	<b>3.0</b>
<b>Growth (%)</b>	<b>25.8%</b>	<b>14.7%</b>	<b>17.1%</b>	<b>10.5%</b>	<b>8.0%</b>		
Total Expenditure	5,846	5,750	5,907	5,947	6,230	6.6	4.7
Raw Material Consumed	3,237	3,151	3,061	3,073	3,210	-0.8	4.5
<b>% of sales</b>	<b>44.8%</b>	<b>42.9%</b>	<b>40.4%</b>	<b>40.6%</b>	<b>41.2%</b>		
<b>Gross margins %</b>	<b>55.2%</b>	<b>57.1%</b>	<b>59.6%</b>	<b>59.4%</b>	<b>58.8%</b>	<b>365</b>	<b>-57</b>
Employee Expenses	955	990	1,026	1,072	1,109	16.2	3.5
<b>% of sales</b>	<b>13.2%</b>	<b>13.5%</b>	<b>13.5%</b>	<b>14.2%</b>	<b>14.2%</b>		
Forex	0	0	14	0	0		
Other Expenses	1,654	1,610	1,806	1,803	1,910	15.5	6.0
<b>% of sales</b>	<b>22.9%</b>	<b>21.9%</b>	<b>23.8%</b>	<b>23.8%</b>	<b>24.5%</b>		
<b>EBITDA</b>	<b>1,374</b>	<b>1,601</b>	<b>1,673</b>	<b>1,620</b>	<b>1,566</b>	<b>14.0</b>	<b>-3.3</b>
<b>EBITDAM (%)</b>	<b>19.0%</b>	<b>21.8%</b>	<b>22.1%</b>	<b>21.4%</b>	<b>20.1%</b>	<b>106</b>	<b>-131</b>
Interest	68	76	89	111	113		
Depreciation	418	423	354	404	382		
Share of JV	1	-3	-13	-1	0		
Exceptional Items	0	0	-122	0	0		
Other Income	187	163	136	221	136		
<b>PBT</b>	<b>1,076</b>	<b>1,263</b>	<b>1,230</b>	<b>1,324</b>	<b>1,208</b>	<b>12.2</b>	<b>-8.8</b>
Tax	324	322	323	406	391		
Tax (%)	30.1%	25.5%	26.2%	30.6%	32.3%		
<b>Reported PAT</b>	<b>752</b>	<b>940</b>	<b>908</b>	<b>919</b>	<b>817</b>		
<b>Adj. PAT</b>	<b>752</b>	<b>940</b>	<b>999</b>	<b>919</b>	<b>817</b>	<b>8.6</b>	<b>-11.0</b>

Source: Company, Axis Securities Research

## Geographical Breakup

Particulars (Rs Cr)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
USA	3,385	3,756	3,588	3,555	3,530	4.3	-0.7
EU	1,769	1,728	1,832	1,982	2,105	19.0	6.2
Growth markets	564	627	852	709	812	44.0	14.5
ARV	250	169	238	229	193	-22.8	-15.7
Betalactum	816	737	698	791	837	2.6	5.8
Non Betalactum	350	285	321	321	319	-8.9	-0.6

Source: Company, Axis Securities Research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>29,002</b>	<b>31,124</b>	<b>34,034</b>	<b>36,133</b>
<b>Growth (%)</b>	<b>16.7%</b>	<b>7.3%</b>	<b>9.3%</b>	<b>6.2%</b>
Total Expenditure	23,159	24,744	26,921	28,473
Raw Material Consumed	12,603	13,384	14,464	15,176
% of sales	43.5%	43.0%	42.5%	42.0%
<b>Gross margins (%)</b>	<b>56.5%</b>	<b>57.0%</b>	<b>57.5%</b>	<b>58.0%</b>
Employee Expenses	3,923	4,202	4,595	4,878
% of sales	13.5%	13.5%	13.5%	13.5%
Other Expenses	5,155	5,540	6,058	6,432
% of sales	17.8%	17.8%	17.8%	17.8%
<b>EBIDTA</b>	<b>5,843</b>	<b>6,381</b>	<b>7,113</b>	<b>7,660</b>
<b>EBITDAM (%)</b>	<b>20.1%</b>	<b>20.5%</b>	<b>20.9%</b>	<b>21.2%</b>
Depreciation	1,522	1,676	1,741	1,885
EBIT	4,321	4,704	5,373	5,776
EBITM (%)	14.9%	15.1%	15.8%	16.0%
Interest	290	277	277	277
Other Income	557	304	311	323
Exceptional Items	-192	0	0	0
Share of P/L of Associates	-17	20	30	30
<b>PBT</b>	<b>4,380</b>	<b>4,752</b>	<b>5,437</b>	<b>5,852</b>
Tax Rate (%)	27.6%	25.0%	25.0%	25.0%
Tax	1,211	1,188	1,359	1,463
<b>Reported PAT</b>	<b>3,169</b>	<b>3,564</b>	<b>4,078</b>	<b>4,389</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Share Capital	59	59	59	59
Reserves & Surplus	29,792	33,092	36,906	41,032
<b>Shareholders Fund</b>	<b>29,851</b>	<b>33,151</b>	<b>36,965</b>	<b>41,090</b>
Total Debt	6,648	6,148	6,148	6,148
- Deferred Tax (Net)	3,022	3,010	3,068	3,110
- Trade Payables	4,454	4,690	4,849	4,950
Provisions	12,199	12,288	12,805	13,165
Others	<b>45,071</b>	<b>48,448</b>	<b>52,838</b>	<b>57,365</b>
<b>Total Liabilities</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>
<b>Gross Block</b>	<b>5,239</b>	<b>1,800</b>	<b>1,800</b>	<b>1,800</b>
Depreciation	<b>18,157</b>	<b>19,957</b>	<b>21,757</b>	<b>23,557</b>
% of GB	6,896	8,572	10,313	12,197
Net Block	38.0%	43.0%	47.4%	51.8%
CWIP	11,261	11,384	11,444	11,359
<b>- Fixed Assets</b>	<b>2,739</b>	<b>2,739</b>	<b>2,739</b>	<b>2,739</b>
Investment	20,866	21,069	21,361	21,445
- Deferred Tax (Net)	51	51	51	51
Loans & Advances	9,808	10,659	11,655	12,374
Others	4,817	5,628	6,154	6,534
- Inventories	6,278	7,447	9,687	12,791
- Trade Receivables	3,239	3,581	3,916	4,158
<b>- Cash</b>	<b>24,205</b>	<b>27,379</b>	<b>31,476</b>	<b>35,920</b>
<b>Total Assets</b>	<b>45,071</b>	<b>48,448</b>	<b>52,838</b>	<b>57,365</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
PBT	4,380	4,752	5,437	5,852
Add: Depreciation	1,522	1,676	1,741	1,885
Add: Interest	290	277	277	277
Cash flow from operations	6,191	6,705	7,454	8,013
Change in working capital	1,926	1,507	1,514	1,106
Taxes	1,211	1,188	1,359	1,463
Miscellaneous expenses	0	0	0	0
Net cash from operations	3,055	4,010	4,580	5,444
Capital expenditure	-3,473	-1,800	-1,800	-1,800
Change in Investments	101	-1	0	0
Net cash from investing	-3,373	-1,801	-1,800	-1,800
Increase/Decrease in debt	1,362	-500	0	0
Dividends	-264	-264	-264	-264
Interest	-290	-277	-277	-277
Others	-296	-0	-0	0
Net cash from financing	512	-1,040	-540	-540
Net Inc./(Dec.) in Cash	194	1,169	2,240	3,104
Opening cash balance	6,084	6,278	7,447	9,687
Closing cash balance	6,278	7,447	9,687	12,791

Source: Company, Axis Securities Research

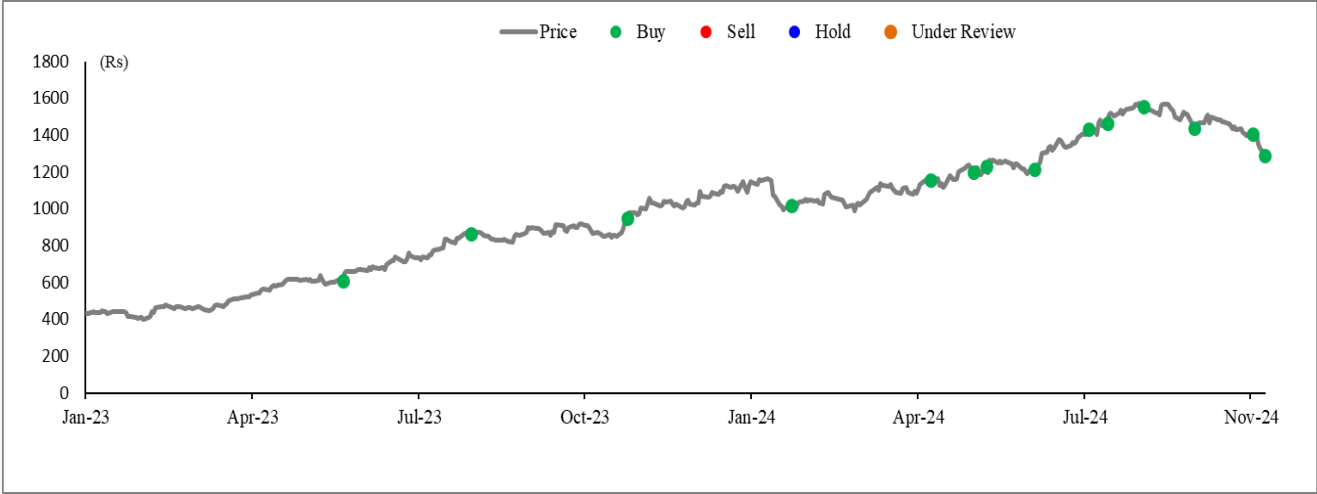
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Sales growth</b>	<b>16.7</b>	<b>7.3</b>	<b>9.3</b>	<b>6.2</b>
OPM	20.1	20.5	20.9	21.2
Oper. profit growth	57.1	9.2	11.5	7.7
COGS / Net sales	43.5	43.0	42.5	42.0
Overheads/Net sales	31.3	31.3	31.3	31.3
Depreciation / G. block	8.4	8.4	8.0	8.0
Effective interest rate	27.6	25.0	25.0	25.0
Net kg.cap / Net sales	40.4	42.5	43.3	43.8
Net sales / Gr block (x)	1.6	1.6	1.6	1.5
RoCE	15.1	15.6	17.0	17.8
Debt/equity (x)	0.2	0.2	0.2	0.1
Effective tax rate	27.6	25.0	25.0	25.0
RoE	10.6	10.7	11.0	10.7
Payout ratio (Div/NP)	4.5	4.5	4.5	4.5
EPS (Rs.)	54.2	60.9	69.7	75.0
EPS Growth	64.4	12.4	14.4	7.6
CEPS (Rs.)	80.2	89.6	99.5	107.2
DPS (Rs.)	4.5	4.5	4.5	4.5

Source: Company, Axis Securities Research

## Aurobindo Pharma Price Chart and Recommendation History



Date	Reco	TP	Research
30-May-23	BUY	700	Result Update
14-Aug-23	BUY	1,000	Result Update
10-Nov-23	BUY	1,100	Result Update
13-Feb-24	BUY	1,170	Result Update
28-May-24	BUY	1,320	Result Update
03-Jun-24	BUY	1,320	Top Picks
01-Jul-24	BUY	1,330	Top Picks
01-Aug-24	BUY	1,650	Top Picks
13-Aug-24	BUY	1,612	Result Update
12-Nov-24	BUY	1,460	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.