

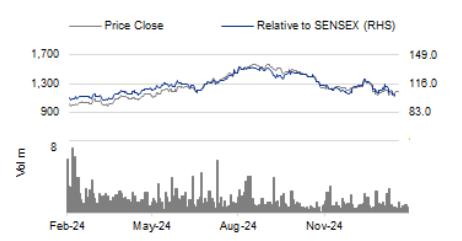
India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 4 Sell 4	
Current price:	Rs1,192
Target price:	Rs1,300
Previous target:	Rs1,368
Up/downside:	9.1%
InCred Research / Consensus:	-14.2%
Reuters:	
Bloomberg:	ARBP IN
Market cap:	US\$9,532m
	Rs692,141m
Average daily turnover:	US\$22.3m
	Rs1618.6m
Current shares o/s:	585.9m
Free float:	4,817.0%
*Source: Bloomberg	

Key changes in this note

- FY25F/26F EPS cut by 3%/2%, respectively.
- Lower the target price to Rs1,300 from Rs1,368 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.2)	(11.8)	19.9
Relative (%)	(7.8)	(9.9)	11.1

Major shareholders	% held
Promoters	51.8
LIC	5.4
HDFC MF	3.7

Research Analyst(s)



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Aurobindo Pharma

In-line 3Q performance and commentary

- In-line 3QFY25 results. Margin impacted by lower gross margin & higher R&D spending.
- The EU to sustain EUR230m/quarter run rate. Pen-G plant to break even in Mar 2025F.
- Our FY25F/26F EPS marginally revised downwards by 3%/2%, respectively. Retain our HOLD rating on the stock with a lower target price of Rs1,300.

In-line 3QFY25 performance

Aurobindo Pharma (ARBP) reported 3QFY25 revenue in line with our estimate led by volume growth, new launches and stable pricing. Margin stood at 20.4% (our estimate: 20.6%), 30bp up YoY, due to lower other expenses partially offset by the fall in gross margin (at 58.4%, down 40bp QoQ – low transient sale) and higher R&D spending (the trend to continue for the next three-to-four quarters). Operating loss at the PenG plant stood at Rs600m, with no commensurate revenue. The US market revenue at US\$435m (our estimate: US\$430m) was impacted by lower transient sales QoQ. Generic injectable sales were down at US\$77m (US\$81m in 2QFY25) offset by QoQ growth in the oral solids business (US\$298m, +3% QoQ), branded oncology (US\$33m, +23% QoQ) and the OTC portfolio (US\$28m, +17% QoQ). The EU market’s growth was strong at 22% YoY/4% QoQ and is expected to sustain the guidance of EUR230m revenue per quarter.

Expects to sustain 21-22% margin in FY25F

Aurobindo Pharma retained its FY25F margin guidance of 21-22% as 4QFY25F is expected to be stronger, driven by increased transient sales, execution of strategic initiatives & improved operational efficiency. Margin should benefit from higher gRevlimid sales, lower input costs, a stable US pricing environment, and PLI scheme benefits partly offset by higher R&D spending. The Eugia-III plant, after completion of all remedial action, is likely to achieve 60-70% utilization level (vs. 50% now). For Eugia-III, FY26F is likely to be better with the commercialization of oncology products & some settled product launches. The Pen-G plant, post upgradation, has resumed production (10 days ago) and is likely to achieve breakeven by Mar 2025F and deliver positively in FY26F.

Other highlights

a) R&D – About 30-35% of the spending goes to biosimilars, of which 70-75% is towards Phase-III efficacy studies. b) gRevlimid – 4QFY25F sales to be higher YoY and the company wants to maximize the opportunity in 4QFY25F & 1QFY26F. c) Biosimilar in Phase-3 clinical trials: Omalizumab – trials delayed by four-to-five months as ARBP has included India in its recruitment plan. Trials to be completed by the end of CY25F. d) GLP-1: Have an entire product range (Liraglutide, Semaglutide and Tirzepatide) and filing will be done from the Vizag plant. e) China plant to start supplies to the EU from Apr 2025F.

Retain HOLD rating with a lower target price of Rs1,300

We retain our HOLD rating on the stock. The faster-than-expected ramp-up in Eugia is an upside risk and vice-versa.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	234,555	248,554	290,019	313,241	342,987
Operating EBITDA (Rsm)	43,867	37,582	58,430	67,443	75,844
Net Profit (Rsm)	26,481	19,275	31,716	36,380	43,758
Core EPS (Rs)	47.4	32.9	57.4	62.1	74.7
Core EPS Growth	(14.2%)	(30.6%)	74.5%	8.2%	20.3%
FD Core P/E (x)	25.15	36.23	20.76	19.19	15.96
DPS (Rs)	9.0	7.5	6.0	7.0	8.0
Dividend Yield	0.76%	0.63%	0.50%	0.59%	0.67%
EV/EBITDA (x)	15.38	18.11	11.89	10.02	8.58
P/FCFE (x)	15.48	15.04	17.67	34.50	10.18
Net Gearing	(7.0%)	(5.2%)	(0.1%)	(5.8%)	(12.0%)
P/BV (x)	2.84	2.60	2.34	2.11	1.88
ROE	11.9%	7.5%	11.9%	11.6%	12.5%
% Change In Core EPS Estimates				(1.95%)	(1.72%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	64,071	64,730	68,505	72,194	73,518	75,802	75,670	77,961	79,785	9%	2%
Consumption of raw materials	29,076	29,310	31,547	32,367	31,506	30,609	30,727	32,103	33,154	5%	3%
as % of sales	45.4%	45.3%	46.1%	44.8%	42.9%	40.4%	40.6%	41.2%	41.6%		
Employee costs	9,217	8,519	9,520	9,550	9,897	10,263	10,720	11,095	11,316	14%	2%
as % of sales	14.4%	13.2%	13.9%	13.2%	13.5%	13.5%	14.2%	14.2%	14.2%		
R&D costs	4,152	4,107	3,876	3,000	3,980	3,920	3,390	4,100	4,500	13%	10%
as % of sales	6.5%	6.3%	5.7%	4.2%	5.4%	5.2%	4.5%	5.3%	5.6%		
Other expenditure	12082	12772	12049	13245	12122	14139	14638	15002	14538	20%	-3%
as % of sales	18.9%	19.7%	17.6%	18.3%	16.5%	18.7%	19.3%	19.2%	18.2%		
EBITDA	9,544	10,022	11,514	14,032	16,013	16,871	16,196	15,661	16,278	2%	4%
Margins (%)	14.9%	15.5%	16.8%	19.4%	21.8%	22.3%	21.4%	20.1%	20.4%		
Depreciation	3,214	3,456	3,266	4,175	4,233	3,543	4,042	3,823	4,185	-1%	9%
Other income	927	1,349	1,163	1,572	1,625	1,213	2,209	1,360	1,075	-34%	-21%
Interest	450	556	566	682	756	894	1,110	1,127	1,185		
PBT	6,807	7,359	8,846	10,747	12,650	13,647	13,253	12,072	11,983	-5%	-1%
Total tax	1,891	2,242	2,423	3,237	3,225	3,226	4,057	3,905	3,543		
Tax rate (%)	27.8%	30.5%	27.4%	30.1%	25.5%	23.6%	30.6%	32.3%	29.6%		
PAT before MI	4,916	5,118	6,423	7,510	9,426	10,421	9,196	8,166	8,440	-10%	3%
Minority interest (MI)	-3	-55	-18	61	-63	-127	-14	3	16		
Adj. PAT before extraordinary items	4,913	5,063	6,405	7,572	9,363	10,295	9,182	8,169	8,456	-10%	4%
Extraordinary expenses	0	0	-698	0	0	-1,221	0	0	0		
Reported PAT	4,913	5,063	5,707	7,572	9,363	9,074	9,182	8,169	8,456	-10%	4%
No. of shares	585.9	585.9	585.9	585.9	585.9	585.9	585.9	585.9	585.9		
EPS	8.4	8.6	10.9	12.9	16.0	17.6	15.7	13.9	14.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	55%	55%	54%	55%	57%	60%	59.4%	58.8%	58.4%	130	-38
EBITDA	15%	15%	17%	19%	22%	22%	21%	20%	20%	-138	31
Adj. PAT	8%	8%	9%	10%	13%	14%	12%	10%	11%	-214	12
Effective tax rate	28%	30%	27%	30%	25%	24%	31%	32%	30%	408	-278

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
North America INR	30,012	30,450	33,040	33,850	37,560	35,880	35,550	35,300	36,710	-2%	4%
% total revenue	46.8%	47.0%	48.2%	46.9%	51.4%	47.3%	47.0%	45.3%	46.0%		
ARV	2,512	1,590	1,900	2,500	1,790	2,380	2,290	1,930	3,070	72%	59%
% total revenue	3.9%	2.5%	2.8%	3.5%	2.4%	3.1%	3.0%	2.5%	3.8%		
Europe	17,012	16,600	18,370	17,690	17,280	18,320	19,820	21,050	21,210	23%	1%
% total revenue	26.6%	25.6%	26.8%	24.5%	23.6%	24.2%	26.2%	27.0%	26.6%		
RoW	4,989	5,920	4,860	6,490	6,270	8,520	7,090	8,120	8,730	39%	8%
% total revenue	7.8%	9.1%	7.1%	9.0%	8.6%	11.2%	9.4%	10.4%	10.9%		
API	9,546	10,170	10,330	11,660	10,220	10,190	10,920	11,560	10,060	-2%	-13%
% total revenue	14.9%	15.7%	15.1%	16.2%	14.0%	13.4%	14.4%	14.8%	12.6%		
Total revenue	64,071	64,730	68,505	72,194	73,130	75,800	75,670	77,961	79,785	9%	2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actual	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs m)	79,785	78,393	1.8	78,161	2.1
EBITDA (Rs m)	16,278	16,135	0.9	16,479	-1.2
Margin (%)	20.4	20.6		21.1	
PAT (Rs m)	8,456	8,722	-3.1	8,934	-5.4

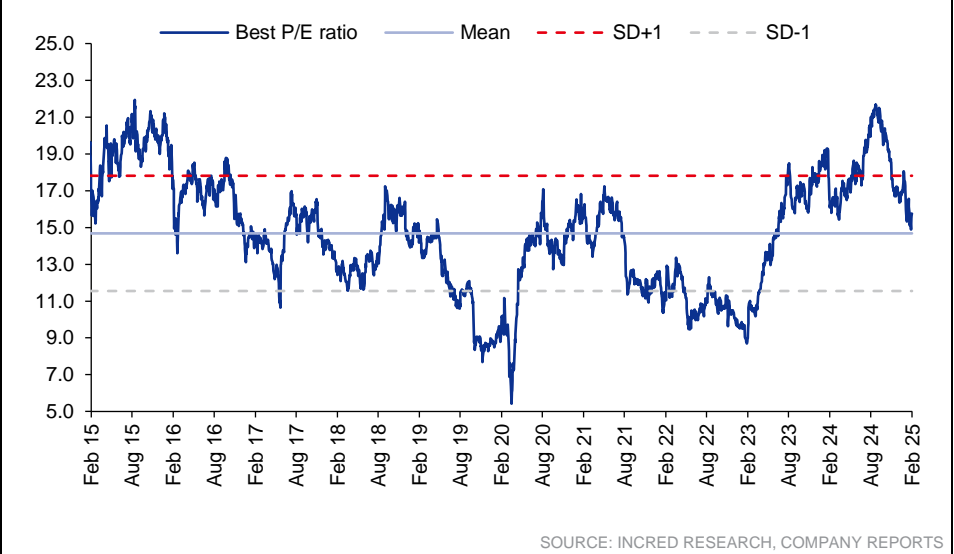
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

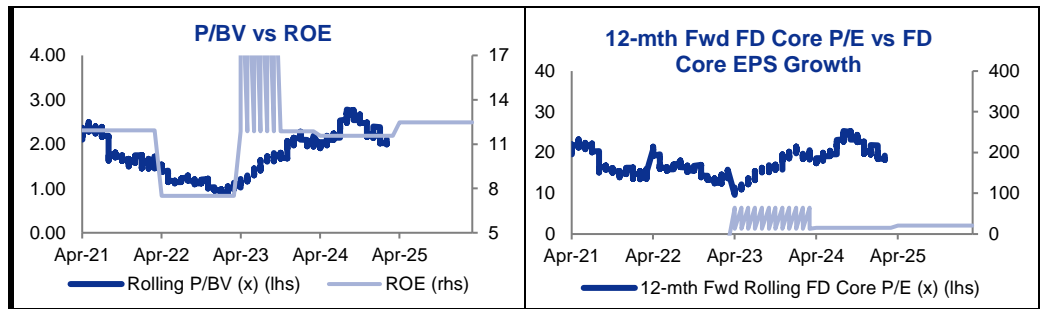
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	3,13,241	3,13,241	0%	3,42,987	3,42,987	0%
EBITDA (Rs m)	67,443	67,443	0%	75,844	75,844	0%
Margin (%)	22	21.5		22	22.1	
PAT (Rs m)	37,360	36,380	-3%	44,838	43,758	-2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: After the recent correction, Aurobindo Pharma trades at its long-term mean valuation



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	234,555	248,554	290,019	313,241	342,987
Gross Profit	133,152	135,621	163,990	185,670	202,347
Operating EBITDA	43,867	37,582	58,430	67,443	75,844
Depreciation And Amortisation	(11,265)	(12,446)	(15,217)	(16,500)	(18,000)
Operating EBIT	32,602	25,136	43,213	50,943	57,844
Financial Income/(Expense)	(486)	(1,405)	(2,897)	(4,500)	(3,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,204	2,510	5,574	5,600	6,500
Profit Before Tax (pre-EI)	35,319	26,242	45,890	52,043	60,844
Exceptional Items					
Pre-tax Profit	35,319	26,242	45,890	52,043	60,844
Taxation	(7,256)	(6,849)	(12,110)	(15,613)	(17,036)
Exceptional Income - post-tax	(1,280)	(1,919)	(1,919)		
Profit After Tax	26,783	19,393	31,861	36,430	43,808
Minority Interests	(302)	(118)	(146)	(50)	(50)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	26,481	19,275	31,716	36,380	43,758
Recurring Net Profit	27,761	19,275	33,634	36,380	43,758
Fully Diluted Recurring Net Profit	27,761	19,275	33,634	36,380	43,758

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	43,867	37,582	58,430	67,443	75,844
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,578	(10,950)	(16,751)	(15,501)	(17,113)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,612	16,561	4,035	9,413	(1,181)
Net Interest (Paid)/Received	(486)	(1,405)	(2,897)	(4,500)	(3,500)
Tax Paid	(10,406)	(17,921)	(16,763)	(20,086)	(12,815)
Cashflow From Operations	50,165	23,868	26,054	36,769	41,235
Capex	(23,237)	(23,927)	(27,201)	(15,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(6,248)	(1,970)			
Other Investing Cashflow					
Cash Flow From Investing	20,680	(2,029)	(1,146)	21,769	26,235
Debt Raised/(repaid)	(25,724)	24,576	14,613	(38,299)	1,119
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,637)	(4,395)	(2,636)	(3,516)	(4,102)
Preferred Dividends					
Other Financing Cashflow	(1,246)	(1,491)	(8,180)	1,100	3,000
Cash Flow From Financing	(29,607)	18,690	3,796	(40,715)	18
Total Cash Generated	(8,927)	16,661	2,650	(18,946)	26,253
Free Cashflow To Equity	45,121	46,415	39,521	20,238	68,589
Free Cashflow To Firm	71,332	23,244	27,805	63,038	70,970

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	45,816	62,476	63,417	43,982	70,644
Total Debtors	40,123	44,664	48,167	53,251	58,308
Inventories	75,539	85,112	98,082	112,767	123,475
Total Other Current Assets	19,750	23,204	32,389	31,324	34,299
Total Current Assets	181,227	215,457	242,056	241,324	286,726
Fixed Assets	106,660	124,918	142,849	141,349	138,349
Total Investments	6,183	3,917	3,217	3,217	3,217
Intangible Assets	36,133	39,219	40,766	40,766	40,766
Total Other Non-Current Assets	9,014	15,389	21,827	21,827	21,827
Total Non-current Assets	157,990	183,443	208,659	207,159	204,159
Short-term Debt	22,835	42,426	41,803	41,803	41,803
Current Portion of Long-Term Debt					
Total Creditors	27,031	38,713	44,542	46,328	46,557
Other Current Liabilities	31,695	33,799	35,647	37,062	38,460
Total Current Liabilities	81,560	114,938	121,991	125,194	126,821
Total Long-term Debt	5,678	6,190	21,349	(16,950)	(15,831)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,239	9,254	8,867	8,867	8,867
Total Non-current Liabilities	11,917	15,444	30,216	(8,083)	(6,964)
Total Provisions					
Total Liabilities	93,477	130,381	152,207	117,110	119,856
Shareholders Equity	245,760	268,399	298,428	331,242	370,849
Minority Interests	(19)	120	80	130	180
Total Equity	245,741	268,519	298,508	331,372	371,029

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	(5.3%)	6.0%	16.7%	8.0%	9.5%
Operating EBITDA Growth	(17.8%)	(14.3%)	55.5%	15.4%	12.5%
Operating EBITDA Margin	18.7%	15.1%	20.1%	21.5%	22.1%
Net Cash Per Share (Rs)	29.53	23.66	0.45	32.65	76.24
BVPS (Rs)	419.43	458.07	509.32	565.32	632.91
Gross Interest Cover	67.03	17.89	14.92	11.32	16.53
Effective Tax Rate	20.5%	26.1%	26.4%	30.0%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	58.48	62.25	58.42	59.09	59.36
Inventory Days	298.41	259.61	265.28	301.63	306.56
Accounts Payables Days	98.94	106.24	120.56	130.00	120.53
ROIC (%)	10.7%	7.2%	10.6%	12.0%	13.0%
ROCE (%)	12.0%	8.5%	12.7%	14.2%	15.4%
Return On Average Assets	8.4%	5.5%	8.5%	8.9%	9.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.