

India

**ADD** (no change)

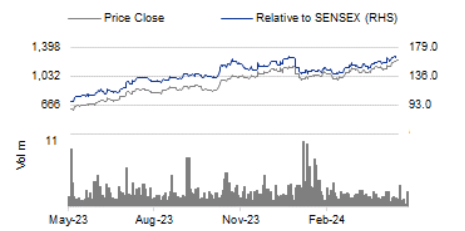
Consensus ratings\*: Buy 22 Hold 5 Sell 3

Current price:	Rs1,196
Target price:	Rs1,340 ▲
Previous target:	Rs1,178
Up/downside:	12.0%
InCred Research / Consensus:	7.4%
Reuters:	
Bloomberg:	ARBP IN
Market cap:	US\$8,432m Rs700,988m
Average daily turnover:	US\$23.3m Rs1933.6m
Current shares o/s:	585.9m
Free float:	4,817.0%

\*Source: Bloomberg

**Key changes in this note**

- Increase EPS estimates by 2%/4% for FY25F/26F.
- Raise our target price to Rs1,340 from Rs1,178.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.8	16.3	94.6
Relative (%)	3.4	11.6	61.3

Major shareholders	% held
Promoters	51.8
LIC	5.4
HDFC MF	3.7

**Research Analyst(s)**



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# Aurobindo Pharma

## Strong end to FY24

- Overall strong 4Q results. Margin guidance of 21-22% for FY25F validates our thesis of an upside risk to margin based on consensus estimate (note).
- Eugia-III plant classified as OAI (on expected lines) and should impact its approval. Despite this, EBITDA should post an 18% CAGR over FY24-26F.
- Our FY25F/26F EPS estimates stand revised upwards by 2%/4%, respectively. We retain our ADD rating on the stock with a higher target price of Rs1,340.

### Strong end to the financial year

Aurobindo Pharma (ARBP) closed FY24 on a strong note, with 4QFY24 margin at 22.3% and an EBITDA growth of 68% YoY (9% above estimate). The margin beat was largely on account of strong gross margin (at 59.6%, +250bp QoQ), led by a better mix and lower input costs. Revenue was largely in line, with the US market revenue at US\$432m (-US\$20m QoQ, as guided earlier, due to plant shutdown) and strong growth in RoW/ ARV segments (40%+ growth in both). However, the EU market growth was relatively muted.

### Margin guidance of 21-22% is higher than consensus expectation

We had highlighted in our earlier report regarding the upside risk to consensus margin expectation. ARBP's FY25F margin guidance of 21-22% validates our thesis. Margins should benefit from higher gRevlimid sales, lower input costs, a stable US pricing environment and the PLI scheme. Post OAI, at Eugia-III plant, management expects a relatively moderate growth (double-digit growth but unlike the supernormal growth in FY24) although FY26F is likely to be better with the commercialization of oncology products and some settled launches. ARBP believes that around 20 of the 29 pending filings from Eugia III will be impacted in the near term due to OAI. Nevertheless, the company is in the process of derisking future product filings from the Eugia-III plant, with dual filings from the Vizag plant. Meanwhile, ARBP does not intend to transfer any of its existing product filings to the Vizag plant, which underpins the management's confidence of getting the plant's problems resolved in the near term. EU business will see EUR200m+ quarterly base in FY25F.

### Other highlights

a) The MSD deal is on track to close the definitive pact by 31 May 2024. b) Authorization received for biosimilar Trastuzumab's marketing in India and the company has applied for a manufacturing licence. It is planning to launch the product in 2HFY25F in the domestic market; product filing done in EU and the process with the US FDA may be completed in the next three months. c) Capex of US\$200m going ahead comprises largely maintenance capex. d) Expects the Eugia US plant's run-rate at US\$150m/quarter in FY25F.

### Retain ADD rating on the stock with a higher target price of Rs1,340

There is a marginal revision of 2%/4% to our FY25/26 EPS estimates, respectively. Retain our ADD rating on it with a higher target price of Rs1,340 (Rs1,178 earlier). Downside risk: Any substantial deterioration in the US pricing environment.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	234,555	248,554	290,019	318,025	347,914
Operating EBITDA (Rsm)	43,867	37,582	58,430	69,793	81,529
Net Profit (Rsm)	26,481	19,275	31,716	39,983	49,081
Core EPS (Rs)	47.4	32.9	57.4	68.2	83.8
Core EPS Growth	(14.2%)	(30.6%)	74.5%	18.9%	22.8%
FD Core P/E (x)	26.07	37.54	21.52	18.10	14.74
DPS (Rs)	9.0	7.5	6.0	7.0	8.0
Dividend Yield	0.73%	0.61%	0.49%	0.57%	0.65%
EV/EBITDA (x)	15.96	18.79	12.33	9.88	8.37
P/FCFE (x)	16.04	(549.95)	76.11	1,159.28	42.61
Net Gearing	(7.0%)	(5.2%)	(0.1%)	(9.4%)	(10.2%)
P/BV (x)	2.94	2.70	2.42	2.16	1.91
ROE	11.9%	7.5%	11.9%	12.6%	13.7%
% Change In Core EPS Estimates				1.63%	3.80%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	58,094	62,359	57,394	64,071	64,730	68,505	72,194	73,518	75,802	17%	3%
Consumption of raw materials	25,242	28,867	25,680	29,076	29,310	31,547	32,367	31,506	30,609	4%	-3%
as % of sales	43.5%	46.3%	44.7%	45.4%	45.3%	46.1%	44.8%	42.9%	40.4%		
Employee costs	8,532	8,802	8,685	9,217	8,519	9,520	9,550	9,897	10,263	20%	4%
as % of sales	14.7%	14.1%	15.1%	14.4%	13.2%	13.9%	13.2%	13.5%	13.5%		
R&D costs	4,310	3,100	2,760	4,152	4,107	3,876	3,000	3,980	3,920	-5%	-2%
as % of sales	7.4%	5.0%	4.8%	6.5%	6.3%	5.7%	4.2%	5.4%	5.2%		
Other expenditure	10265	11943	11900	12082	12772	12049	13245	12122	14139	11%	17%
as % of sales	17.7%	19.2%	20.7%	18.9%	19.7%	17.6%	18.3%	16.5%	18.7%		
EBITDA	9,744	9,647	8,369	9,544	10,022	11,514	14,032	16,013	16,871	68%	5%
Margins (%)	16.8%	15.5%	14.6%	14.9%	15.5%	16.8%	19.4%	21.8%	22.3%		
Depreciation	2,536	2,795	2,981	3,214	3,456	3,266	4,175	4,233	3,543		
Other income	489	124	111	927	1,349	1,163	1,572	1,625	1,213		
Interest	92	146	253	450	556	566	682	756	894		
PBT	7,605	6,830	5,246	6,807	7,359	8,846	10,747	12,650	13,647	85%	8%
Total tax	175	1,586	1,130	1,891	2,242	2,423	3,237	3,225	3,226		
Tax rate (%)	2.3%	23.2%	21.5%	27.8%	30.5%	27.4%	30.1%	25.5%	23.6%		
PAT before MI	7,430	5,244	4,116	4,916	5,118	6,423	7,510	9,426	10,421	104%	11%
Minority interest (MI)	-38	-38	-22	-3	-55	-18	61	-63	-127		
Adj. PAT before extraordinary items	7,392	5,205	4,095	4,913	5,063	6,405	7,572	9,363	10,295	103%	10%
Extraordinary expenses	-1,628	0	0	0	0	-698	0	0	-1,221		
Reported PAT	5,765	5,205	4,095	4,913	5,063	5,707	7,572	9,363	9,074	79%	-3%
No. of shares	585.9	585.9	585.9	585.9	585.9	585.9	585.9	585.9	585.9		
EPS	12.6	8.9	7.0	8.4	8.6	10.9	12.9	16.0	17.6		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Gross	57%	54%	55%	55%	55%	54%	55%	57%	60%	490	247
EBITDA	17%	15%	15%	15%	15%	17%	19%	22%	22%	677	48
Adj. PAT	13%	8%	7%	8%	8%	9%	10%	13%	14%	576	85
Effective tax rate	2%	23%	22%	28%	30%	27%	30%	25%	24%	-682	-185

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
North America INR	27,281	29,711	26,376	30,012	30,450	33,040	33,850	37,560	35,880	18%	-4%
% total revenue	47.0%	47.6%	46.0%	46.8%	47.0%	48.2%	46.9%	51.4%	47.3%		
ARV	2,359	3,796	1,643	2,512	1,590	1,900	2,500	1,790	2,380	50%	33%
% total revenue	4.1%	6.1%	2.9%	3.9%	2.5%	2.8%	3.5%	2.4%	3.1%		
Europe	15,407	15,481	15,162	17,012	16,600	18,370	17,690	17,280	18,320	10%	6%
% total revenue	26.5%	24.8%	26.4%	26.6%	25.6%	26.8%	24.5%	23.6%	24.2%		
RoW	3,913	4,306	4,519	4,989	5,920	4,860	6,490	6,270	8,520	44%	36%
% total revenue	6.7%	6.9%	7.9%	7.8%	9.1%	7.1%	9.0%	8.6%	11.2%		
API	9,130	9,065	9,694	9,546	10,170	10,330	11,660	10,220	10,190	0%	0%
% total revenue	15.7%	14.5%	16.9%	14.9%	15.7%	15.1%	16.2%	14.0%	13.4%		
Total Revenue	58,094	62,359	57,394	64,071	64,730	68,505	72,194	73,130	75,800	17%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actual	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	75,802	73,278	3.4	73,171	3.6
EBITDA (Rsm)	16,871	15,463	9.1	15,172	11.2
Margin (%)	22.3	21.1		20.7	
PAT (Rsm)	10,295	8,585	19.9	8,391	22.7

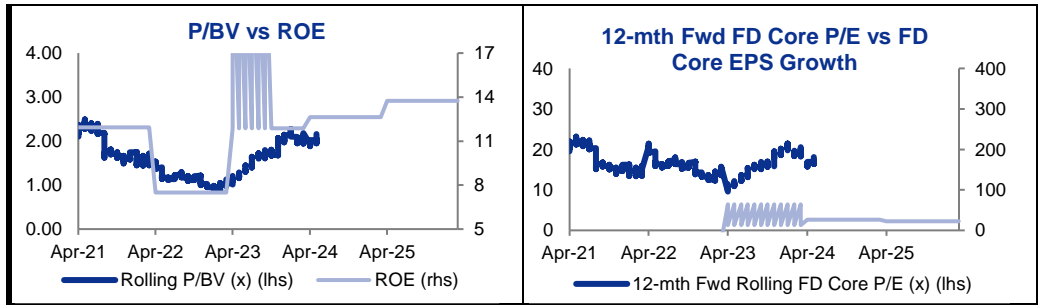
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	314,716	3,18,025	1%	341,834	3,47,914	2%
EBITDA (Rsm)	68,903	69,793	1%	79,036	81,529	3%
Margin (%)	21.9	21.9		23.1	23.4	
PAT (Rsm)	39,342	39,983	2%	47,286	49,081	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	234,555	248,554	290,019	318,025	347,914
<b>Gross Profit</b>	133,152	135,621	163,990	183,797	201,804
<b>Operating EBITDA</b>	43,867	37,582	58,430	69,793	81,529
Depreciation And Amortisation	(11,265)	(12,446)	(15,217)	(16,500)	(17,500)
<b>Operating EBIT</b>	32,602	25,136	43,213	53,293	64,029
Financial Income/(Expense)	(486)	(1,405)	(2,897)	(2,400)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,204	2,510	5,574	5,000	6,000
<b>Profit Before Tax (pre-EI)</b>	35,319	26,242	45,890	55,893	68,529
Exceptional Items					
<b>Pre-tax Profit</b>	35,319	26,242	45,890	55,893	68,529
Taxation	(7,256)	(6,849)	(12,110)	(15,650)	(19,188)
Exceptional Income - post-tax	(1,280)		(1,919)		
<b>Profit After Tax</b>	26,783	19,393	31,861	40,243	49,341
Minority Interests	(302)	(118)	(146)	(260)	(260)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	26,481	19,275	31,716	39,983	49,081
Recurring Net Profit	27,761	19,275	33,634	39,983	49,081
<b>Fully Diluted Recurring Net Profit</b>	27,761	19,275	33,634	39,983	49,081

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	43,867	37,582	58,430	69,793	81,529
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,578	(10,950)	(16,751)	(6,906)	(39,888)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,612	(7,305)	(9,225)	(9,712)	(9,712)
Net Interest (Paid)/Received	(486)	(1,405)	(2,897)	(2,400)	(1,500)
Tax Paid	(10,406)	(17,921)	(18,510)	(23,948)	(15,175)
<b>Cashflow From Operations</b>	50,165	2	11,048	26,827	15,255
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					
<b>Cash Flow From Investing</b>	20,680	(25,894)	(16,153)	11,827	255
Debt Raised/(repaid)	(25,724)	24,576	14,613	(38,029)	1,474
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)	2,600	4,500
<b>Cash Flow From Financing</b>	(29,607)	18,690	3,796	(38,945)	1,872
Total Cash Generated	(8,927)	(7,204)	(12,357)	(27,118)	2,127
<b>Free Cashflow To Equity</b>	45,121	(1,316)	9,508	624	16,983
<b>Free Cashflow To Firm</b>	71,332	(24,487)	(2,208)	41,053	17,010

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	45,816	62,476	63,417	56,449	65,515
Total Debtors	40,123	44,664	48,167	54,064	59,145
Inventories	75,539	85,112	98,082	114,489	125,249
Total Other Current Assets	19,750	23,204	32,389	22,262	24,354
<b>Total Current Assets</b>	<b>181,227</b>	<b>215,457</b>	<b>242,056</b>	<b>247,264</b>	<b>274,264</b>
Fixed Assets	106,660	124,918	142,849	141,349	138,849
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
<b>Total Non-current Assets</b>	<b>157,990</b>	<b>183,443</b>	<b>208,659</b>	<b>207,159</b>	<b>204,659</b>
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	47,477	30,728
Other Current Liabilities	31,695	33,799	35,647	37,981	32,776
<b>Total Current Liabilities</b>	<b>81,560</b>	<b>114,938</b>	<b>121,991</b>	<b>127,261</b>	<b>105,307</b>
Total Long-term Debt	5,678	6,190	21,349	(16,680)	(15,206)
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,239	9,254	8,867	8,867	8,867
<b>Total Non-current Liabilities</b>	<b>11,917</b>	<b>15,444</b>	<b>30,216</b>	<b>(7,813)</b>	<b>(6,340)</b>
Total Provisions					
<b>Total Liabilities</b>	<b>93,477</b>	<b>130,381</b>	<b>152,207</b>	<b>119,448</b>	<b>98,968</b>
Shareholders Equity	245,760	268,399	298,428	334,635	379,355
Minority Interests	(19)	120	80	340	600
<b>Total Equity</b>	<b>245,741</b>	<b>268,519</b>	<b>298,508</b>	<b>334,975</b>	<b>379,955</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	(5.3%)	6.0%	16.7%	9.7%	9.4%
Operating EBITDA Growth	(17.8%)	(14.3%)	55.5%	19.4%	16.8%
Operating EBITDA Margin	18.7%	15.1%	20.1%	21.9%	23.4%
Net Cash Per Share (Rs)	29.53	23.66	0.45	53.46	66.42
BVPS (Rs)	419.43	458.07	509.32	571.11	647.43
Gross Interest Cover	67.03	17.89	14.92	22.21	42.69
Effective Tax Rate	20.5%	26.1%	26.4%	28.0%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	58.48	62.25	58.42	58.67	59.38
Inventory Days	298.41	259.61	265.28	289.02	299.45
Accounts Payables Days	98.94	106.24	120.56	125.11	97.68
ROIC (%)	10.7%	7.2%	10.6%	12.9%	13.8%
ROCE (%)	12.0%	8.5%	12.7%	14.8%	16.7%
Return On Average Assets	8.4%	5.5%	8.5%	9.3%	10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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