

# Aurobindo Pharma Ltd



# Aurobindo Pharma Ltd.

Margin outlook optimistic led by better product mix

CMP INR 1,030	Target INR 1,090	Potential Upside 6.0%	Market Cap (INR Mn) INR 6,03,399	Recommendation ACCUMULATE	Sector Pharmaceuticals
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## Result Highlights of Q2FY24:

- For Q2FY24, Aurobindo Pharma's revenue grew 25.8% YoY and 5.4% QoQ to INR 72,194 Mn driven by healthy performance across all the key geographical segments, while for H1FY24 revenue grew 17.5% YoY to INR 1,40,699 Mn.
- Adj EBITDA for the quarter increased 67.7% YoY and 21.9% QoQ to INR 14,032 Mn while for H1FY24, Adj EBITDA increased 41.8% YoY to INR 25,546 Mn, primarily led by robust sales, & Adj EBITDA margin expanded 486 bps YoY and 293 bps QoQ to 19.4% while for H1FY24 Adj EBITDA margin expanded 311 bps YoY to 18.2%, this is led by low material cost and favorable product mix.
- Adj PAT increased by 72.8% YoY and 30.6% QoQ to INR 7,870 Mn while for H1FY24 Adj PAT increased 38.4% YoY to INR 13,898 Mn. Adj PAT margin expanded 296 bps YoY and 210 bps QoQ to 10.9% while for H1FY24 PAT margin expanded 149 bps YoY to 9.9%. This is led by strong operating performance.
- During the quarter, Aurobindo Pharma FZ LLC, Saudi Arabia, step down subsidiary of the Company, has entered into an agreement to acquire certain marketing and manufacturing related authorizations for an amount of INR 3,983 Mn.

## MARKET DATA

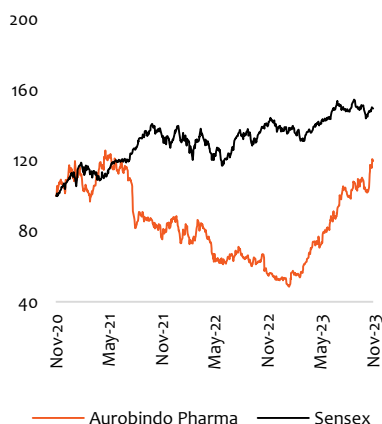
Shares outs (Mn)	586
Mkt Cap (INR Mn)	6,03,399
52 Wk H/L (INR)	1,025/397
Volume Avg (3m K)	2,037
Face Value (INR)	1
Bloomberg Code	ARBPFIS Equity

## KEY FINANCIALS

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
Revenue	2,47,746	2,34,555	2,48,554	2,83,666	3,09,913
Adj EBITDA	53,334	43,868	37,582	53,473	62,031
Adj PAT	25,203	27,761	19,275	30,032	35,545
Adj. EPS (INR)	43.0	47.4	32.9	51.3	60.7
EBITDA Margin (%)	21.5%	18.7%	15.1%	18.9%	20.0%
NPM (%)	10.2%	11.8%	7.8%	10.6%	11.5%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	65,931
NIFTY	19,783

## Strong revenue growth across all the segments:

Aurobindo reported a robust revenue growth of 25.8% YoY/ 5.4% QoQ, led by 26.9% YoY/ 4.1% growth in Formulations, while 20.3% YoY/ 12.9% QoQ growth in API (Active Pharmaceutical Ingredients). The US sales, excluding Puerto Rico sales, stood at INR 33,850 Mn, a growth of 35.7% YoY/ 7.9% QoQ. Puerto Rico sales for the quarter were 850 Mn. The US revenue increased by 30.7% YoY to USD 409 Mn on a constant currency basis. Volume gains, stable demand and new product launches mainly drove the growth. Price erosion has moderated and continues to be neutral in Q2FY24. The contribution of g-revlimid will start from Q3FY24E, which will further boost Aurobindo Pharma's US business growth. Revenue of Aurobindo Pharma USA registered a growth of 23.3% YoY to USD 212 Mn in Q2FY24. In comparison, the revenue of Eugia Pharma Specialities Ltd. in the US increased by 64.2% YoY, driven by improved volumes of existing products and new product launches. This was coupled with a stable pricing scenario in this quarter with a low single-digit price erosion. The total Eugia specialties sales in the US, including the Specialty OSD, amounted to USD 91 Mn. Europe's revenue increased by 16.7% YoY (-10.7% QoQ) to INR 17,690 Mn, comprising 24.5% of total revenue. In constant currency, Europe clocked revenue of EUR 197 Mn against EUR 189 Mn in Q2FY23. Growth markets reported a YoY revenue growth of 24.8% (+18.0% QoQ) to INR 5,640 Mn, contributing 7.8% to total revenue. The ARV business revenue for Q2FY24 stood at INR 2,500 Mn (+52.2%YoY/ 24.4%QoQ), representing 3.5% of total revenue. The API business contributed 16.2% to revenue, generating INR 11,660 Mn, with a YoY growth of 20.3% and a QoQ growth of 12.9%. API business was transferred to the new subsidiary Apitoria Pharma Private Ltd., effective October 01, 2023. The company remains firmly focused on biosimilars and peptides, significant levers for the coming years. Strategic partnerships like Merck will continue to fuel growth beyond FY25E.

**EBITDA Margins continued to see healthy improvement:** In Q2FY24, the raw material and freight costs declined, further aiding its gross contribution, which stood at INR 39,827 Mn, a growth of 25.6% YoY/ 7.8% QoQ. The gross margin for the quarter was higher at 55.2% compared to 53.9% in Q1FY24 (vs 55.3% in Q1FY23), mainly due to low material cost and favorable product mix. The R&D expenditure for the quarter stood at INR 3,000 Mn, which was 4.2% of the revenue as against 5.7% in Q1FY24. In Q1FY24, the R&D spending was high on account of clinical trial expenses for multiple projects. Capacity utilization has seen a reasonable scale-up during the quarter, driving the operating leverage. This led to EBITDA improvement by 67.7% YoY/ 21.9% QoQ to INR 14,032 Mn, reflecting a margin of 19.4% (+486 bps YoY/ 263 bps QoQ). The Company is on track to achieve the 20.0% + EBITDA margin target set internally for FY24E.

## SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-23	Jun-23	Mar-23
Promoters	51.8	51.8	51.8
FIIIs	22.5	24.1	23.0
DIIIs	18.3	15.7	15.1
Others	7.4	8.3	10.1
Total	100	100	100

11.7%

Revenue CAGR between FY23 and FY25E

35.8%

Adj. PAT CAGR between FY23 and FY25E

## Aurobindo Pharma Ltd.

### Key Concall Highlights:

- ARBP has 169 injectable ANDA filings of September 30, 2023, of which 133 have received final approval, and the remaining 36 are under review or have tentative approval.
- The Company, as of September 30, 2023, has 817 ANDAs filed with the U.S. FDA on a cumulative basis, out of which 628 have final approval and 32 have tentative approval, including 6 ANDAs which are tentatively approved under PEPFAR (U.S. President's Emergency Plan for AIDS Relief) and the remaining 157 ANDAs are under review.
- As of date, out of the 18 U.S. FDA-regulated units, 15 units have a classification of VAI, two units have received one observation each and 1 unit is under a warning letter.
- Net CAPEX for the quarter is USD 154 Mn, mainly USD 48 Mn towards acquiring marketing authorization in Indonesia and USD 42 Mn towards PLI CAPEX. Cumulative CAPEX for the Pen-G PLI project till September 30 amounts to USD 188 Mn.
- The average USD-INR exchange rate is 82.68 in Q2FY24 against 82.15 in Q1FY24. The average finance cost was 5.3%, mainly due to the availability of multiple currency loans.
- The business generated a free cash flow of USD 48 Mn during this quarter before the PLI investments and the investments in new markets.
- The China plant is fully installed and has received the EU GMP approval. Revenue generation is expected to start at the end of Q4FY24E or early Q1FY25E.
- The Pen-G (Penicillin-G) and 6-APA (Amino-Penicillanic Acid) plants are under installation and expected to be operational from Q4FY24E or Q1FY25E. Further, the Company is conducting clinical studies for its biosimilar products, and the plant is expected to be commissioned by FY25E or early FY26E.
- The CAPEX of Generics over the near to medium term, except towards the significant plants, will be more focused on debottlenecking, some additional lines, and maintenance, thereby increasing manufacturing capacity and efficiency.
- ARBP will continue to explore opportunities for any bolt-on acquisition aligned with the Company strategy, especially the acquisition of ANDAs and market authorization based on market opportunities, thereby reducing the gestation period. Indonesia opportunity among them.
- The biologics contract manufacturing industry is growing immensely and is poised to grow to about USD 30 to 40 Bn by 2030.
- R&D expenses will range from INR 3,500 Mn to INR 4,000 Mn in Q3FY24E.
- The Company's structural strength through the significant volumes and pricing underpins the U.S. generic growth.

### Valuation and view:

Aurobindo Pharma Ltd reported strong numbers on the back of healthy performance from the core geographical segments. The Company remained focused on its new product pipeline, which is expected to improve the operating leverage in the coming quarters. The increase in the contribution from gRevlimid, the launch of the biosimilars pipeline, and the commercialization of Pen- G product are the crucial triggers for the growth and margin trajectory going ahead. ARBP will continue to invest in niche segments like injectables, inhalers, and transdermal patches. The Company has a strong pipeline of 40 new products to be launched in the next 12 months, supported by new opportunities in existing as well as new businesses. We expect Aurobindo's revenue and adj. PAT to grow at 11.7% and 35.8% CAGR, respectively, over FY23-FY25E. **The stock is currently trading at 20.6x/17.0x of our estimated FY24E/FY25E EPS. We assign a P/E multiple of 18.0x on FY25E EPS of INR 60.7 to arrive at a TP of INR 1,090 (earlier TP INR 907) and maintain the recommendation of 'ACCUMULATE' on Aurobindo Pharma Ltd, implying an upside of 6.0% from its CMP of INR 1,030.**

Segments Result (INR Mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Formulation</b>	<b>47,700</b>	<b>54,525</b>	<b>54,560</b>	<b>58,170</b>	<b>60,530</b>
USA	26,376	30,012	30,450	33,040	34,700
Europe	15,162	17,012	16,600	18,370	17,690
Growth Markets	4,519	4,989	5,920	4,750	5,640
Anti-retrovirals	1,643	2,512	1,590	2,010	2,500
<b>API</b>	<b>9,694</b>	<b>9,546</b>	<b>10,180</b>	<b>10,330</b>	<b>11,660</b>
Betalactum	6,358	6,231	6,380	7,190	8,160
Non-Betalactum	3,336	3,315	3,800	3,140	3,500
Dossier Income	0	0	0	0	0
<b>Revenue from Operations</b>	<b>57,394</b>	<b>64,071</b>	<b>64,740</b>	<b>68,500</b>	<b>72,190</b>

Segments Result (% YoY)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Formulation</b>	<b>-7.6%</b>	<b>9.2%</b>	<b>11.4%</b>	<b>9.1%</b>	<b>26.9%</b>
USA	-11.1%	9.3%	11.6%	11.2%	31.6%
Europe	-8.8%	0.4%	7.7%	18.7%	16.7%
Growth Markets	17.0%	25.7%	51.3%	10.3%	24.8%
Anti-retrovirals	13.3%	61.3%	-32.6%	-47.0%	52.2%
<b>API</b>	<b>24.2%</b>	<b>-5.5%</b>	<b>11.5%</b>	<b>14.0%</b>	<b>20.3%</b>
Betalactum	51.1%	-8.9%	7.4%	30.4%	28.3%
Non-Betalactum	-7.3%	1.6%	19.2%	-11.6%	4.9%
Dossier Income	NA	NA	NA	NA	NA
<b>Revenue from Operations</b>	<b>-3.4%</b>	<b>6.7%</b>	<b>11.4%</b>	<b>9.8%</b>	<b>25.8%</b>

Revenue Mix (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Formulation</b>	<b>83%</b>	<b>85%</b>	<b>84%</b>	<b>85%</b>	<b>84%</b>
USA	46%	47%	47%	48%	48%
Europe	26%	27%	26%	27%	25%
Growth Markets	8%	8%	9%	7%	8%
Anti-retrovirals	3%	4%	2%	3%	3%
<b>API</b>	<b>17%</b>	<b>15%</b>	<b>16%</b>	<b>15%</b>	<b>16%</b>
Betalactum	11%	10%	10%	10%	11%
Non-Betalactum	6%	5%	6%	5%	5%
Dossier Income	0%	0%	0%	0%	0%
<b>Revenue from Operations</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company, KRChoksey Research

## Aurobindo Pharma Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
<b>Revenues</b>	<b>2,47,746</b>	<b>2,34,555</b>	<b>2,48,554</b>	<b>2,83,666</b>	<b>3,09,913</b>
COGS	99,025	1,01,403	1,12,933	1,27,535	1,34,812
<b>Gross profit</b>	<b>1,48,721</b>	<b>1,33,152</b>	<b>1,35,621</b>	<b>1,56,131</b>	<b>1,75,101</b>
Employee cost	83,173	73,718	96,525	1,08,270	1,13,118
Other expenses	60,037	54,775	62,817	64,288	69,682
<b>EBITDA</b>	<b>53,334</b>	<b>43,868</b>	<b>37,582</b>	<b>53,473</b>	<b>62,031</b>
<b>EBITDA Margin</b>	<b>21.5%</b>	<b>18.7%</b>	<b>15.1%</b>	<b>18.9%</b>	<b>20.0%</b>
Depreciation & amortization	10,554	11,265	12,446	15,304	17,045
<b>EBIT</b>	<b>42,780</b>	<b>32,603</b>	<b>25,136</b>	<b>38,169</b>	<b>44,986</b>
Interest expense	745	486	1,405	2,467	2,653
Other income	3,808	3,204	2,906	5,230	4,649
<b>PBT</b>	<b>73,990</b>	<b>34,040</b>	<b>26,242</b>	<b>40,235</b>	<b>46,981</b>
Tax	20,098	7,256	6,849	10,801	11,276
Minority interest	-10	-10	2	50	61
<b>PAT</b>	<b>53,348</b>	<b>26,482</b>	<b>19,275</b>	<b>29,335</b>	<b>35,545</b>
<b>Adj. PAT</b>	<b>25,203</b>	<b>27,761</b>	<b>19,275</b>	<b>30,032</b>	<b>35,545</b>
<b>EPS (INR)</b>	<b>91.0</b>	<b>45.2</b>	<b>32.9</b>	<b>50.1</b>	<b>60.7</b>
<b>Adj. EPS</b>	<b>43.0</b>	<b>47.4</b>	<b>32.9</b>	<b>51.3</b>	<b>60.7</b>

Source: Company, KRChoksey Research

#### Exhibit 2: Cash Flow Statement

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
Net Cash Generated From Operations	33,291	50,165	23,868	41,514	44,033
Net Cash Flow from/(used in) Investing Activities	5,987	(32,116)	(39,778)	(46,675)	(24,435)
Net Cash Flow from Financing Activities	(13,649)	(29,693)	18,144	7,910	(1,282)
Net Inc/Dec in cash equivalents	25,628	(11,644)	2,234	2,749	18,316
Opening Balance	27,637	53,299	41,625	43,923	46,671
Adjustments	469	(31)	104	0	0
Closing Balance Cash and Cash Equivalents	53,735	41,625	43,963	46,671	64,987

Source: Company, KRChoksey Research

Key Ratio	FY 21	FY 22	FY 23	FY 24E	FY 25E
EBITDA Margin (%)	21.5%	18.7%	15.1%	18.9%	20.0%
Tax rate (%)	27.2%	21.3%	26.1%	26.8%	24.0%
Net Profit Margin (%)	10.2%	11.8%	7.8%	10.6%	11.5%
RoE (%)	11.5%	11.3%	7.2%	24.3%	21.1%
RoCE (%)	17.3%	13.3%	8.7%	22.6%	20.6%
EPS (INR)	91.0	45.2	32.9	50.1	60.7

Source: Company, KRChoksey Research



## Aurobindo Pharma Ltd.

### Exhibit 4: Balance Sheet

INR Millions	FY 21	FY 22	FY 23	FY 24E	FY 25E
<b>Non-current assets</b>					
Property, plant and equipment	68,866	72,204	75,434	80,944	88,204
Capital work-in-progress	24,289	29,376	44,964	57,984	57,984
Goodwill (Net)	4,289	4,754	5,961	5,961	5,961
Other intangible assets	20,581	23,282	28,843	26,999	24,984
Intangible assets under development	6,326	8,096	8,936	10,270	10,270
Financial assets					
Investments	4,312	5,390	3,017	7,092	7,748
Loans	73	63	56	64	69
Other financial assets	1,433	1,289	1,504	1,716	1,875
Deferred tax assets (Net)	4,527	2,886	6,775	9,928	10,847
Non-current tax assets (Net)	1,283	3,190	2,885	3,293	3,597
Other non-current assets	4,327	7,460	5,069	10,556	10,556
<b>Total non-current assets</b>	<b>1,40,305</b>	<b>1,57,990</b>	<b>1,83,443</b>	<b>2,14,805</b>	<b>2,22,095</b>
<b>Current assets</b>					
Inventories	90,266	75,539	85,112	91,355	99,808
Financial assets					
Trade receivables	35,033	40,123	44,664	48,523	53,013
Cash and cash equivalents	53,735	41,625	43,963	46,671	64,987
Bank balances other than (iii) above	1,008	275	16,879	16,879	16,879
Loans	143	127	124	124	124
Other financial assets	15,617	16,341	2,904	13,654	14,917
Other current assets	836	3,409	20,301	20,191	22,059
<b>Total current assets</b>	<b>1,98,235</b>	<b>1,81,227</b>	<b>2,15,457</b>	<b>2,38,908</b>	<b>2,73,298</b>
<b>TOTAL ASSETS</b>	<b>3,38,540</b>	<b>3,39,217</b>	<b>3,98,900</b>	<b>4,53,713</b>	<b>4,95,393</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	586	586	586	586	586
Other equity	2,18,713	2,45,174	2,67,813	2,93,627	3,24,907
Equity attributable to the equity shareholders	2,19,299	2,45,760	2,68,399	2,94,213	3,25,493
Non-controlling interests	-9	-19	120	170	231
<b>Total equity</b>	<b>2,19,290</b>	<b>2,45,741</b>	<b>2,68,519</b>	<b>2,94,383</b>	<b>3,25,724</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	1,684	2,492	6,190	15,000	15,000
Lease obligations	2,662	3,186	3,215	3,215	3,215
Provisions	1,571	1,718	1,727	1,986	2,284
Deferred tax liabilities (Net)	5,746	4,110	3,896	4,481	5,153
Other non-current liabilities	936	411	415	415	415
<b>Total non-current liabilities</b>	<b>12,599</b>	<b>11,917</b>	<b>15,444</b>	<b>25,097</b>	<b>26,068</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	48,027	21,236	42,426	46,668	51,335
Lease obligations	0	1,599	1,032	1,032	1,032
Trade payables	27,947	27,031	38,713	45,423	48,015
Other financial liabilities	21,293	17,747	17,214	22,320	23,593
Other current liabilities	5,562	11,662	11,433	14,668	15,505
Provisions	1,719	1,706	2,005	2,005	2,005
Current tax liabilities (Net)	2,104	580	2,116	2,116	2,116
<b>Total current liabilities</b>	<b>1,06,651</b>	<b>81,560</b>	<b>1,14,938</b>	<b>1,34,232</b>	<b>1,43,602</b>
<b>Total liabilities</b>	<b>1,19,250</b>	<b>93,477</b>	<b>1,30,381</b>	<b>1,59,330</b>	<b>1,69,669</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,38,540</b>	<b>3,39,217</b>	<b>3,98,900</b>	<b>4,53,713</b>	<b>4,95,393</b>

Source: Company, KRChoksey Research

## Aurobindo Pharma Ltd.

Aurobindo Pharma Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
22-Nov-23	1030	1,090	ACCUMULATE
24-Aug-23	836	907	ACCUMULATE
31-May-23	657	665	Hold
18-Aug-22	580	626	ACCUMULATE
02-Jun-22	533	605	ACCUMULATE
10-Feb-22	684	756	ACCUMULATE
09-Nov-21	677	756	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

### ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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