

CMP: ₹ 1250

Target: ₹ 1580(26%)

Target Period: 12 months

BUY

November 19, 2024

Tepid US growth but stable outlook ahead...

About the stock: Aurobindo is a leading export driven global producer of generic formulations and APIs with major presence in the US and Europe. The company's broad product portfolio, which is backed by a vertically integrated model, encompasses seven key therapeutic/product areas, including CNS, anti-retroviral, CVS, antibiotics, gastroenterological, anti-diabetics and anti-allergic. The company has forayed into complex areas of injectables, oncology OSDs and biosimilars.

- Q2FY25 Sales break-up- US formulations- 45%, Europe- 27%, APIs- 15%, RoW (Growth markets- 10% and ARV- 3%)
- Q2FY25 US Formulation revenue mix – Gx Orals- 68.7%, Specialty & Injectables- 19.3%, Branded Oncology- 6.3%, OTC – 5.7%

Investment Rationale:

- Q2FY25- Revenues growth a tad softer due to US – Revenues grew ~8% YoY to ₹ 7567 crore driven by formulations growth in Europe and Growth markets. US growth on the other hand was subdued at 4% to ₹ 3530 crore and the slow-down was attributable to just 1% growth in Specialty & Injectables (~19% of US sales) which was lower than expected. Europe grew 19% to ₹ 2105 crore. Growth Markets grew 25% YoY to ₹ 812 crore (including India formulations) on the back of new launches. ARV de-grew 23% to ₹ 229 crore. APIs were flat at ₹ 1156 crore. EBITDA grew 41% YoY to ₹1566 crore while EBITDA margins improved 66 bps to 20.1%. EBITDA growth was mainly driven by strong GPM improvement (~366 bps YoY to 58.8%). Adjusted PAT grew 9% YoY to ₹ 816 crore.
- Despite Eugia III induced slowdown, outlook remains promising – The injectable business slowdown was not entirely unexpected given the cGMP remediation undertaken at the critical Eugia III facility. Lower than expected gRevlimid sales also impacted US sales. But the coming quarters are expected to bring stability with normalcy being restored at Eugia, new launches (+40 planned including injectables) and waning price erosion in the base business. Likely traction from gRevlimid (before expiry) is also expected to support growth. The management has guided for 21-22% EBITDA guidance for FY25 on the back of better GPM outlook and launch momentum besides reduced remediation costs. Sustainability of the margins will be the key determinant for investors' sentiment as the company plans to expand the R&D bandwidth and diversify into more complex models such as biosimilars.
- With possible improvement in the US injectables business, continuing decent momentum in Europe and Growth markets, and commencement and ramp-up of Pen G production, we believe the company is well poised to maintain a decent growth momentum with margin improvement.

Rating and Target price

- Our target price is ₹ 1580 based on 19x FY26E EPS of ₹ 83.2.

Key Financial Summary

Key Financials (₹ crore)	FY22	FY23	FY24	2 year CAGR (FY22-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues (₹ crore)	23455.5	24855.2	29000.4	11.2	31463.4	34615.5	9.3
EBITDA (₹ crore)	4386.8	3683.8	5827.3	15.3	6840.6	8150.1	18.3
EBITDA margins	18.7	14.8	20.1		21.7	23.5	
Net Profit (₹ crore)	2776.1	1934.9	3390.2	10.5	3822.9	4872.7	19.9
EPS (₹)	47.4	33.0	57.9		65.2	83.2	
PE (x)	27.7	37.9	23.1		19.2	15.0	
EV/EBITDA (%)	16.2	19.9	13.0		11.3	9.1	
ROE (%)	11.3	7.2	11.4		12.4	13.8	
ROCE (%)	12.9	8.6	13.7		15.3	17.1	

Source: Company, ICICI Direct Research



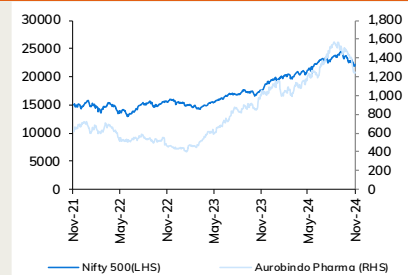
Particulars

Particular	Amount
Market Capitalisation	₹ 73242 crore
Debt (FY24)	₹ 6648 crore
Cash (FY24)	₹ 3393 crore
EV	₹ 76496 crore
52 week H/L (₹)	1497/815
Equity capital	₹ 58.6 crore
Face value	₹ 1

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	51.8	51.8	51.8	51.8
FIIIs	20.7	18.0	16.7	16.6
DIIIs	20.6	23.3	24.8	25.1
Others	6.8	6.9	6.7	6.5

Price Chart



Key risks

- Slower ramp up in new launches especially in the US.
- Regulatory issues which keep on emerging.

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Vedant Nilekar
vedant.nilekar@icicisecurities.com

Exhibit 1: Quarterly Summary

(₹ Crore)	Q2FY22	Q3FY22	Q4FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ(%)
Total Operating Income	5941.9	6002.2	5809.4	5809.4	6235.9	5739.2	6407.1	6473.0	6850.0	7219.0	7351.0	7580.4	7567.0	7796.1	8.0	3.0
Raw Material Expenses	2505.6	2744.2	2524.2	2524.2	2886.7	2568.0	2907.5	2931.0	3154.7	3236.7	3150.6	3060.9	3072.7	3210.3	-0.8	4.5
% of revenue	42.2	45.7	43.5	43.5	46.3	44.7	45.4	45.3	46.1	44.8	42.9	40.4	40.6	41.2	-366 bps	57 bps
Gross Profit	3436.3	3258.0	3285.2	3285.2	3349.2	3171.2	3499.6	3542.0	3695.3	3982.3	4200.4	4519.5	4494.3	4585.8	15.2	2.0
GPM (%)	57.8	54.3	56.5	56.5	53.7	55.3	54.6	54.7	53.9	55.2	57.1	59.6	59.4	58.8	366 bps	-57 bps
Employee Expenses	858.9	868.9	853.2	853.2	880.2	868.5	921.7	851.9	952.0	955.0	989.7	1026.3	1072.0	1109.5	16.2	3.5
% of revenue	14.5	14.5	14.7	14.7	14.1	15.1	14.4	13.2	13.9	13.2	13.5	13.5	14.2	14.2	100 bps	7 bps
Other Manufacturing Expe	1390.7	1372.8	1457.5	1457.5	1532.6	1512.1	1623.4	1687.9	1592.5	1624.5	1610.2	1820.1	1802.8	1910.2	17.6	6.0
% revenues	23.4	22.9	25.1	25.1	24.6	26.3	25.3	26.1	23.2	22.5	21.9	24.0	23.8	24.5	200 bps	68 bps
Total Expenditure	4755.2	4986.0	4835.0	4835.0	5299.4	4948.5	5452.6	5470.8	5699.2	5816.2	5750.5	5907.3	5947.5	6229.9	7.1	4.7
% of revenue	80.0	83.1	83.2	83.2	85.0	86.2	85.1	84.5	83.2	80.6	78.2	77.9	78.6	79.9	-66 bps	131 bps
EBITDA	1186.7	1016.3	974.4	974.4	936.5	790.7	954.5	1002.2	1150.9	1402.8	1600.5	1673.1	1619.6	1566.1	11.6	-3.3
EBITDA Margins (%)	20.0	16.9	16.8	16.8	15.0	13.8	14.9	15.5	16.8	19.4	21.8	22.1	21.4	20.1	66 bps	-131 bps
Depreciation	294.2	299.1	253.6	253.6	279.5	298.1	321.4	345.6	326.6	417.5	423.3	354.3	404.2	382.3	-8.4	-5.4
Interest	10.4	16.1	9.2	9.2	14.6	25.3	45.0	55.6	56.6	68.2	75.6	89.4	111.0	112.7	65.3	1.5
Other Income	96.6	65.0	48.9	48.9	40.6	57.2	92.7	134.9	116.3	187.0	162.5	135.6	220.9	136.0	-27.3	-38.4
Less: Forex & Exceptional I	0.0	-34.8	162.8	162.8	0.0	0.0	0.0	0.0	69.8	29.8	0.0	122.1	0.0	-0.3		
PBT	978.7	800.9	597.7	597.7	683.0	524.5	680.8	735.9	814.3	1074.3	1264.2	1242.8	1325.3	1207.5	12.4	-8.9
Total Tax	270.9	189.5	17.5	17.5	158.6	113.0	189.1	224.2	242.3	323.7	322.5	322.6	405.7	390.5	20.6	-3.7
Tax rate (%)	27.7	23.7	2.9	2.9	23.2	21.5	27.8	30.5	29.8	30.1	25.5	26.0	30.6	32.3	221 bps	173 bps
Profit from Associates	-11.1	-7.1	-4.1	-4.1	-4.0	-1.2	0.0	0.0	-2.8	0.9	-2.6	-12.7	-1.4	-1.4		
PAT before MI	696.7	604.3	576.1	576.1	520.4	410.3	491.7	511.7	569.2	751.5	939.2	907.6	918.2	815.6	8.5	-11.2
Minority Interest	-0.3	-0.4	-0.3	-0.3	-0.2	-0.1	-0.3	-0.4	-0.3	-0.3	-0.4	0.0	0.0	0.0		
Adjusted PAT	697.0	569.9	734.5	734.5	520.5	410.4	491.9	512.1	639.2	781.7	939.6	1029.7	918.2	815.3	4.3	-11.2

Source: Company, ICICI Direct Research

Q2FY25 Results / Conference call highlights

- The company filed 10 ANDAs, received approval for 8 products and launched 14 products in Q2.
- In the US oral solids business, price erosion is more or less stabilised.
- The manufacturing site at Puerto Rico is expected to be functional in the upcoming months that will provide incremental revenue.
- The management has maintained the EBITDA margin guidance of 21-22% for FY25 and H2 is expected to be better than H1 in FY25.
- The expected tax rate for FY25 is 30%.
- The ramp up in other expenses was on account of increase in number of air shipments, R&D costs and overheads expense of the Pen-G plant.
- The management is expecting a regular supply from the Eugia 3 plant in Q3FY25.
- The generic injectable run rate is expected to improve in H2FY25. The sales ramp up from Eugia 3 and sales run-rate from the plant will normalise in Q4.
- In the Europe region, management expects a growth of 8-12% and sales with a target of US\$ 1 billion in FY25.
- In the following couple of quarters management expects a higher R&D spend on biosimilars.
- Phase 3 patient recruitment for Denosumab has been completed and the trial is expected to be completed by June 2025. The commercialisation of the drug is expected by 2025 and 2026 in India and Europe respectively.
- The patient recruitment for Xolair has been slower than anticipated, it is expected to be completed by
- The management expects to file Trastuzumab in Q3FY25 in the US and its commercialisation is expected in 2026 after the approval from the USFDA.
- The first set of biosimilars for Europe are expected to launch in FY26 and the supply chain related issues to be resolved by FY26-27.
- In Q3FY25, Pen G operational costs are expected to go down by ₹ 40 crore (from ₹ 80 crore in Q2) and EBITDA breakeven is targeted in Q3FY25.
- Eugia sales guidance has been reduced to US\$ 570-600 million due to manufacturing-related issues at Eugia plant III.

Financial Tables

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Revenues	24,855.2	29,000.4	31,463.4	34,615.5	
Growth (%)	6.0	16.7	8.5	10.0	
Raw Material Expenses	11,293.2	12,602.9	12,922.2	14,103.4	
Employee Expenses	3,522.3	3,922.9	4,472.7	5,019.2	
Other Manufacturing Expenses	6,356.0	6,647.3	7,227.9	7,342.7	
Total Operating Expenditure	21,171.4	23,173.2	24,622.8	26,465.4	
EBITDA	3,683.8	5,827.3	6,840.6	8,150.1	
Growth (%)	-16.0	58.2	17.4	19.1	
Interest	140.5	289.7	449.1	369.2	
Depreciation	1,244.6	1,521.7	1,551.0	1,610.6	
Other Income	325.4	601.5	637.8	603.9	
PBT before Exceptional Items	2,624.1	4,617.3	5,478.2	6,774.1	
Less: Forex & Exceptional Item:	0.0	221.7	-0.3	0.0	
PBT	2,624.1	4,395.7	5,478.5	6,774.1	
Total Tax	684.9	1,211.0	1,650.5	1,896.8	
PAT before MI	1,939.3	3,184.7	3,828.1	4,877.4	
Minorities and Associates	-4.3	-16.1	-4.9	-4.7	
PAT	1,934.9	3,168.5	3,823.2	4,872.7	
Adjusted PAT	1,934.9	3,390.2	3,822.9	4,872.7	
Growth (%)	-30.3	75.2	12.8	27.5	
EPS (Diluted)	33.0	54.1	65.2	83.2	
EPS (Adjusted)	33.0	57.9	65.2	83.2	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	58.6	58.6	58.1	58.1	
Reserve and Surplus	26,798.3	29,784.2	30,820.3	35,316.4	
Total Shareholders funds	26,856.9	29,842.8	30,878.4	35,374.4	
Total Debt	5,286.1	6,647.6	8,427.3	6,927.3	
Deferred Tax Liability	389.6	356.6	370.7	407.8	
Minority Interest	12.0	8.0	6.6	7.4	
Long term Provisions	172.7	225.7	247.4	277.1	
Other Non Current Liabilities	41.5	51.9	59.9	62.9	
Source of Funds	32,759	37,133	39,990	43,057	
Gross Block - Fixed Assets	17,650.5	21,442.8	22,114.2	18,403.7	
Accumulated Depreciation	6,714.9	7,443.1	7,900.8	7,466.9	
Net Block	10,935.6	13,999.8	14,213.5	10,936.8	
Capital WIP	5,390.0	3,868.7	4,698.3	3,646.6	
Net Fixed Assets	16,325.6	17,868.5	18,911.8	14,583.4	
Goodwill on Consolidation	596.0	595.2	630.0	630.0	
Investments	542.7	372.2	324.9	324.9	
Inventory	8,511.2	9,808.2	10,431.9	10,819.1	
Cash	4,413.4	3,393.5	3,295.0	5,813.1	
Debtors	4,466.4	4,816.7	5,388.3	6,164.4	
Loans & Advances & Other CA	2,332.8	3,251.8	3,537.3	3,819.1	
Total Current Assets	21,520.7	24,053.0	25,588.1	33,269.3	
Creditors	3,871.3	4,454.2	4,433.1	4,636.7	
Provisions & Other CL	3,276.7	3,484.8	3,671.1	3,964.8	
Total Current Liabilities	7,147.9	7,938.9	8,104.3	8,601.6	
Net Current Assets	14,263.8	16,216.1	17,483.9	20,949.9	
LT L&A, Other Assets	861.3	970.1	1,436.5	1,551.4	
Deferred Tax Assets	677.4	1,212.6	1,203.3	1,299.6	
Application of Funds	32,759	37,133	39,990	43,057	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	1,895.3	2,613.4	3,823.2	4,872.7	
Add: Depreciation & Amortizatio	1,244.6	1,521.7	1,551.0	1,610.6	
Net Increase in Current Assets	-1,933.1	-2,410.4	-1,480.7	-1,445.2	
Net Increase in Current Liabilities:	838.2	735.4	165.3	497.3	
CF from operating activities	2,386.8	2,434.5	4,508.0	5,904.6	
(Purchase)/Sale of Fixed Assets	-2,709.3	-3,501.2	-1,500.9	-1,000.0	
(Inc)/dec in Investments	442.8	153.5	47.4	0.0	
Others	-1,711.2	-908.2	-449.5	-140.6	
CF from investing activities	-3,977.8	-4,256.0	-1,903.1	-1,140.6	
Issue of Equity Shares	0.0	0.0	-0.5	0.0	
Inc / (Dec) in Debt	2,365.1	1,461.3	1,779.6	-1,500.0	
Dividend & Dividend Tax	-439.5	-263.6	-295.5	-376.6	
others	-111.2	-396.2	-449.1	-369.2	
CF from financing activities	1,814.4	801.5	1,034.5	-2,245.8	
Net Cash flow	223.4	-1,019.9	-98.5	2,518.1	
Opening Cash	4,190.0	4,413.4	3,393.5	3,295.0	
Closing Cash	4,413.4	3,393.5	3,295.0	5,813.1	
Free Cash Flow	-322.6	-1,066.7	3,007.1	4,904.6	
Free Cash Flow (US\$)	-45.6	-144.1	408.1	663.3	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Adjusted EPS (Diluted)	33.0	57.9	65.2	83.2
BV per share	458.3	509.3	526.9	603.7
Dividend per share	7.5	4.5	5.0	6.4
Cash Per Share	75.3	57.9	56.2	99.2
Operating Ratios (%)				
Gross Profit Margins	54.6	56.5	58.9	59.3
EBITDA margins	14.8	20.1	21.7	23.5
Net Profit margins	7.8	11.7	12.2	14.1
Inventory days	275	284	295	280
Debtor days	66	61	63	65
Creditor days	125	129	125	120
Asset Turnover	1.7	1.5	1.6	2.1
EBITDA Conversion Rate	64.8	41.8	65.9	72.4
Return Ratios (%)				
RoE	7.2	11.4	12.4	13.8
RoCE	8.6	13.7	15.3	17.1
RoIC	11.1	15.2	17.3	21.0
Valuation Ratios (x)				
P/E	37.9	23.1	19.2	15.0
EV / EBITDA	19.9	13.0	11.3	9.1
EV / Net Sales	3.0	2.6	2.5	2.1
Market Cap / Sales	2.9	2.5	2.3	2.1
Price to Book Value	2.7	2.5	2.4	2.1
Solvency Ratios				
Debt / Equity	0.2	0.2	0.3	0.2
Debt / EBITDA	1.4	1.1	1.2	0.8
Current Ratio	2.1	2.3	2.4	2.4
Quick Ratio	1.0	1.0	1.1	1.2
Net debt/Equity	0.0	0.1	0.2	0.0
Working Capital Cycle	216	216	232	225

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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