

BUY

TP: Rs 1,451 | ▲ 31%

AUROBINDO PHARMA

| Pharmaceuticals

| 17 March 2025

Growth triggers intact; valuations attractive

- Eugia unit 3 capacity utilization to increase to 60-65% from 50% in Q3FY25. We expect capacity utilisation to rise above 70% in FY26E
- Pen-G yield to improve from 4,200 tonnes pa currently to ~8,000-10,000 tonnes pa in FY26E and above 12,000 tonnes pa in FY27E
- We cut our EPS by 13% in FY26E and 14% in FY27E; and continue to ascribe P/E of 19x on Mar'27E to yield TP of Rs 1,451 (from Rs 1,728)

ARBP's global injectable sales bottom out: ARBP's Eugia unit 3 had peak capacity utilisation of above 70% in FY24E which is at 50% capacity utilization in 3QFY25 resulting in all-time low US injectable sales of US\$ 77mn. We expect capacity utilisation to increase to 60-65% in Q4FY25 and reach a peak utilisation rate of above 70% in FY26E. This would lead to US injectable sales recovering to US\$ 100mn-125mn in the next two to three quarters. Thus, we expect global specialty sales to grow at a CAGR of 10% to US\$ 715mn by FY27.

Highest market share in Oral Solids in the US region: ARBP is the leader in generic drugs in the US with 10.8% volume market share in Q3FY25. The volume market share increased to 10.8% in FY25 from 5.5% in 2018. Due to no product concentration risk, the generic price erosion in base products is currently nominal at 1-2%. ARBP currently has the highest capacity of 50bn units in the oral solids which management expects to increase to 60-65bn units by FY27E.

Pen-G plant yield increase is on track: The Pen-G plant is currently making a loss of Rs 600mn due to the slow ramp up post commercialization and shut down due to maintenance work. Post maintenance work, the plant's yield had fallen to 170 tonnes per month (pm), which we believe will increase to 350 tonnes pm by Mar'25-end, 650 tonnes pm in FY26 and to 1,000 tonnes pm in FY27E.

Europe to continue growth momentum: ARBP ranks among the top 10 drug companies in eight countries in Europe, which include France, Portugal, Germany, Netherlands, etc. It has a wide product portfolio and filed 57 products last year. The company's focus is specifically to the top 10 countries and expects to achieve EUR 1bn worth of sales in FY26 ex of biosimilar sales.

Valuation outlook: ARBP's many growth levers are intact. However, due to slower-than-expected ramp up in both the Eugia unit 3 and Pen-G plant, we have lowered our EPS estimates by 12% in FY25, by 13% in FY26 and by 14% in FY27. However, we continue to ascribe a P/E of 19x on Mar'27E, rolled forward by three months, to yield a TP of Rs 1,451 (earlier Rs 1,728). We maintain our BUY rating.

Foram Parekh

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ARBP IN/Rs 1,112
Market cap	US\$ 7.5bn
Free float	48%
3M ADV	US\$ 13.4mn
52wk high/low	Rs 1,592/Rs 986
Promoter/FPI/DII	52%/18%/23%

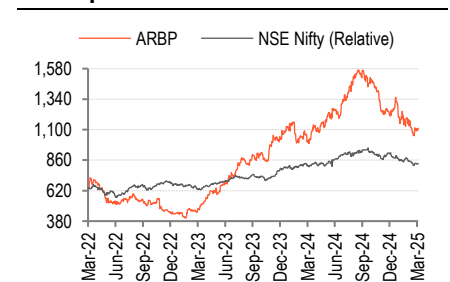
Source: NSE | Price as of 17 Mar 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	290,000	317,230	344,540
EBITDA (Rs mn)	58,411	67,245	75,216
Adj. net profit (Rs mn)	33,990	35,731	42,107
Adj. EPS (Rs)	58.0	61.0	71.9
Consensus EPS (Rs)	58.0	64.8	74.1
Adj. ROAE (%)	12.2	11.7	12.3
Adj. P/E (x)	19.2	18.2	15.5
EV/EBITDA (x)	11.0	9.7	8.6
Adj. EPS growth (%)	69.8	5.1	17.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Biosimilars: The company has a strong portfolio of biosimilars worth US\$ 50bn. However, it does not expect to participate in the first wave of biosimilars, which will have two to three players. Currently, four biosimilars are in the global Phase 3 clinical studies, so ARBP expects 2028-2030 to be an inflection point. For Filgrastim, marketing approval is currently expected in two months in Europe with supplies beginning from Jul'25. Denosumab is likely to file in Europe in Q3FY26 and in the US in Q4FY26. Omalizumab is currently in the recruitment phase for trials and Bevacizumab is in clinical trials currently with filing likely in FY27.

Fig 1 – ARBP's current biosimilars status

Biosimilars	Market Size (Rs bn)	Molecule	Therapy	Remarks
BP14	4.6	PEGFILGRASTIM	ONCOLOGY	Received positive opinion from European Medicines Agency
BP13	1.5	FILGRASTIM	ONCOLOGY	Received positive opinion from European Medicines Agency
BP01	6.2	BEVACIZUMAB	ONCOLOGY	Phase 1 of PK/PD clinical study completed. Multi-centre and multi country Phase 3 study of NSCLC patients is in progress
BP02	5.2	TRASTUZUMAB	ONCOLOGY	Marketing approval received in India. Has applied for manufacturing licence. Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met clinical end points successfully
BP05	4.2	RANIBIZUMAB	OPHTHALMOLOGY	Phase 3 multi-country and multi-centre trial is in progress
bp11	4	OMALIZUMAB	RESPIRATORY/ DERMATOLOGY	Phase 3 clinical study is ongoing in Europe in chronic spontaneous urticaria patients. Phase 3 clinical study in respiratory asthma patients is in progress in India
BP16	5.7	DENOSUMAB	ORTHOPAEDIC	Phase 3 clinical study recruitment completed in Europe and India. ARBP is on track to complete the study by May'25
BP08	3.5	TOCILIZUMAB	IMMUNOLOGY	Phase 3 clinical study completed in Apr/May'24. Filing in India in Q2FY24-FY25

Source: Companies, BOBCAPS Research | NSCLC: Non-small cell lung cancer; PKD: Polycystic Kidney Disease

CDMO: ARBP currently plans to install two lines of 15KL **bioreactors** for Merck Sharp & Dohme (MSD) which they are planning to expand by another 30KL. Capex for the first phase is Rs 10bn.

GLP-1: ARBP has filed one active drug master file (DMF) for Liraglutide and is likely to file another DMF for Semaglutide this year. All products are manufactured at its Vizag plant. The devices are manufactured by a third party. It plans to participate in the domestic GLP-1 opportunity too.

China dependency: Currently 35-40% of raw material is sourced from China and will remain at similar levels.

Eugia unit 5 received 5 observations: ARBP's Eugia unit 5 underwent pre-approval inspection from 10-18 February 2025. As these are procedural observations, the company is confident of clearing them. Currently, only one product Lidocaine Hydrochloride injection is launched from the Unit 5, the current observations would not have any impact on the company's financials.

Valuation methodology

ARBP has many growth levers intact like (1) rising volume market share in the US, (2) ramping up utilisation for Eugia unit 3, (3) ramping up yield for Pen-G plant, (4) healthy pipeline of biosimilar products, (5) setting up additional lines for CDMO segment driven by higher RFQs (request for quotation). Overall, we believe all these drivers will lead to an increase in EBITDA margin to 22% in FY27.

However, due to slower-than-expected ramp up in the Eugia unit 3 and Pen-G plants, we have lowered our EPS estimates by 12% in FY25, by 13% in FY26 and by 14% in FY27. However, we continue to ascribe a P/E of 19x on Mar'27E, to yield a TP of Rs 1,451 (earlier Rs 1,728). We maintain our BUY rating.

Fig 2 – Change in estimate

(Rs mn)	Actual	New			Old			Change (%)		
	FY24A	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	290,000	317,230	344,540	373,669	324,596	360,449	396,087	(2.3)	(4.4)	(5.7)
EBITDA	58,411	67,245	75,216	83,726	70,243	81,691	92,850	(4.3)	(7.9)	(9.8)
EBITDA margin (%)	20.1	21.2	21.8	22.4	21.6	22.7	23.4	(44bps)	(83bps)	(104bps)
EPS (Rs)	58.0	61.0	71.9	83.4	69.0	83.0	97.0	(11.6)	(13.4)	(14.0)

Source: , BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any USFDA regulatory escalation for Unit 3;
- implementation of US tariff;
- delays in filing biosimilar products;
- heightened intensity of price erosion in the US; and,
- delays in execution or commercialisation of biologics products.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	248,554	290,000	317,230	344,540	373,669
EBITDA	37,582	58,411	67,245	75,216	83,726
Depreciation	12,446	15,217	17,379	18,790	20,201
EBIT	25,136	43,195	49,865	56,425	63,525
Net interest inc./(exp.)	(1,405)	(2,897)	(4,633)	(3,938)	(3,348)
Other inc./(exp.)	3,254	6,015	4,395	5,194	5,858
Exceptional items	0	0	0	0	0
EBT	26,985	46,312	49,627	57,681	66,035
Income taxes	6,849	12,110	13,896	15,574	17,169
Extraordinary items	(744)	(2,217)	0	0	0
Min. int./Inc. from assoc.	118	212	0	0	0
Reported net profit	19,275	31,774	35,731	42,107	48,866
Adjustments	744	2,217	0	0	0
Adjusted net profit	20,018	33,990	35,731	42,107	48,866

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	38,713	44,542	47,802	50,973	54,259
Other current liabilities	31,178	32,799	38,068	44,790	41,104
Provisions	3,733	4,825	5,278	5,732	6,217
Debt funds	52,862	66,476	56,505	48,029	40,825
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	265,054	289,361	322,083	361,261	407,198
Shareholders' fund	265,640	289,947	322,669	361,847	407,783
Total liab. and equities	392,125	438,589	470,321	511,371	550,187
Cash and cash eq.	60,842	62,783	74,204	83,688	85,417
Accounts receivables	44,664	48,167	56,493	66,076	81,900
Inventories	85,112	98,082	105,164	121,769	138,206
Other current assets	31,943	42,219	47,902	55,471	63,897
Investments	5,428	3,723	3,723	3,723	3,723
Net fixed assets	79,954	115,455	114,676	112,486	108,885
CWIP	53,900	38,687	38,687	38,687	38,687
Intangible assets	30,283	29,473	29,473	29,473	29,473
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	392,125	438,589	470,321	511,371	550,187

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	25,842	31,680	45,636	41,427	31,811
Capital expenditures	(27,123)	(16,600)	(16,600)	(16,600)	(16,600)
Change in investments	4,544	1,705	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(22,579)	(14,895)	(16,600)	(16,600)	(16,600)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	24,349	13,614	(9,971)	(8,476)	(7,204)
Interest expenses	(1,405)	(2,897)	(4,633)	(3,938)	(3,348)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	(4,337)	(22,631)	(80)	0	0
Cash flow from financing	15,678	(14,844)	(17,614)	(15,344)	(13,481)
Chg in cash & cash eq.	18,942	1,941	11,421	9,484	1,729
Closing cash & cash eq.	60,842	62,783	74,204	83,688	85,417

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	32.9	54.2	61.0	71.9	83.4
Adjusted EPS	34.2	58.0	61.0	71.9	83.4
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	453.7	495.3	551.4	618.3	696.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	2.2	2.0	1.9	1.7
EV/EBITDA	17.1	11.0	9.7	8.6	7.5
Adjusted P/E	32.5	19.2	18.2	15.5	13.3
P/BV	2.5	2.2	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	73.4	72.0	73.0	74.0
Interest burden (PBT/EBIT)	107.4	107.2	99.5	102.2	104.0
EBIT margin (EBIT/Revenue)	10.1	14.9	15.7	16.4	17.0
Asset turnover (Rev./Avg TA)	20.9	21.5	21.6	21.8	21.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.1
Adjusted ROAE	7.8	12.2	11.7	12.3	12.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	6.0	16.7	9.4	8.6	8.5
EBITDA	(14.3)	55.4	15.1	11.9	11.3
Adjusted EPS	(26.0)	69.8	5.1	17.8	16.1

Profitability & Return ratios (%)

EBITDA margin	15.1	20.1	21.2	21.8	22.4
EBIT margin	10.1	14.9	15.7	16.4	17.0
Adjusted profit margin	8.1	11.7	11.3	12.2	13.1
Adjusted ROAE	7.8	12.2	11.7	12.3	12.7
ROCE	9.6	14.6	14.8	15.6	16.2

Working capital days (days)

Receivables	66	61	65	70	80
Inventory	125	123	121	129	135
Payables	57	56	55	54	53

Ratios (x)

Gross asset turnover	1.4	1.5	1.5	1.5	1.5
Current ratio	3.0	3.1	3.1	3.2	3.6
Net interest coverage ratio	17.9	14.9	10.8	14.3	19.0
Adjusted debt/equity	0.0	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

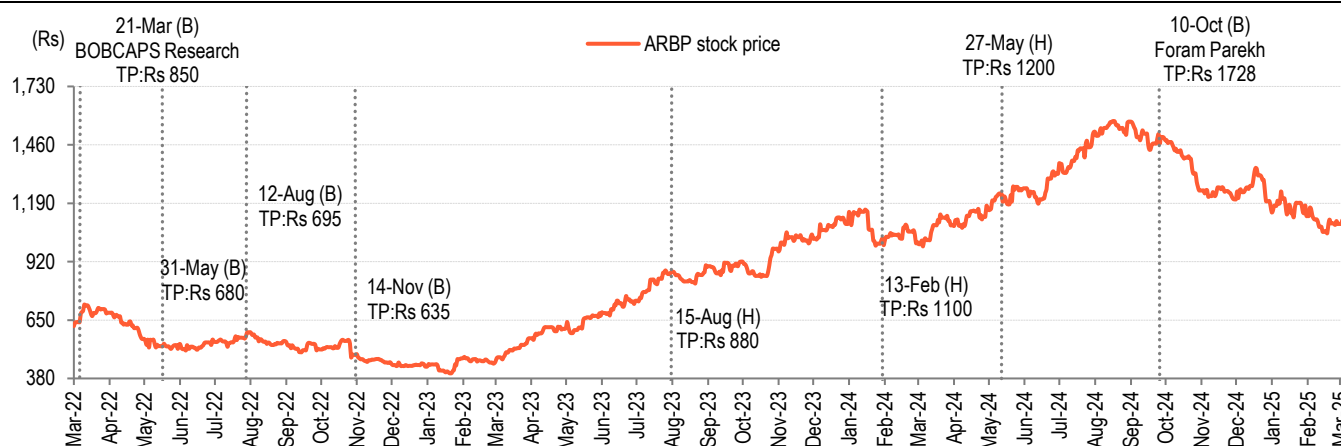
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AUROBINDO PHARMA (ARBP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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