

RESEARCH**BOB ECONOMICS RESEARCH | WPI**

WPI inflation ticks higher

AUROBINDO PHARMA | TARGET: Rs 1,451 | +31% | BUY

Growth triggers intact; valuations attractive

SUMMARY**INDIA ECONOMICS: WPI**

WPI inflation rose a tad to 2.4% in Feb'25 from 2.3% in Jan'25, led by slower pace of contraction in fuel and power inflation and pick up in manufactured product inflation. On the other hand, food inflation moderated further. As a result, core inflation rose to 1.3% from 0.9%. Food inflation softened to 5.9% in Feb'25, helped by largely broad-based slowdown. Vegetable inflation index eased the most, followed by food-grain inflation and inflation of protein-based items (milk, eggs meat and fish). Amongst vegetables, tomato and potato prices registered a decline, while that of onions are showing some build up. Within fuel, mineral oil and electricity indices decelerated at a much slower pace, even as international oil prices fell, thus reflecting the impact of pressure on domestic currency.

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AUROBINDO PHARMA

- 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)

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WPI

17 March 2025

WPI inflation ticks higher
Sonal Badhan
 Economist

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Within manufactured products, food, basic metals (mainly aluminium and copper) and equipment (electrical/machinery/ transport) led inflation higher. Going forward, as trade war deepens further and uncertainty around Fed rate cut looms, volatility in market is expected to remain. Commodity prices are seeing some build up in pressure as demand rose ahead of tariff implementation dates.

Food inflation moderates further:

Headline WPI inflation inched up a tad to 2.4% in Feb'25 (BoB est.: 2.5%) from 2.3% in Jan'25. This was despite notable easing in food inflation to 5.9% in Feb'25 from 7.5% in Jan'25. Vegetable inflation index registered deflation (-5.8% in Feb'25 from 8.4% in Jan'25), helped by easing pressures in prices of potato, tomato, carrot, radish, cucumber, cauliflower etc. Onion prices recorded some built-up in pressure. Inflation index for food grains (5.3% versus 6.9%), milk (1.6% versus 2.7%), eggs/meat/fish (1.5% versus 3.6%) and spices also inched down (-14.4% versus -5.5%). In contrast, inflation index for fruits (20.9% versus 15.1%) exerted upward pressure. Amongst food grains, while cereal inflation slowed (6.8% versus 7.3%), pulses inflation fell (-1% versus 5.1%). Amongst cereals, wheat inflation was broadly sticky, but paddy inflation slowed further, in line with global prices. On a global level, World Bank's pink sheet data reveals that wheat prices decelerated at a slower pace (-3.2% versus -8.9%. Paddy prices in contrast dropped even more in Feb'25 (-31.4% versus -27.6%).



BUY

TP: Rs 1,451 | ▲ 31%

AUROBINDO PHARMA

| Pharmaceuticals

| 17 March 2025

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Foram Parekh

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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.

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%

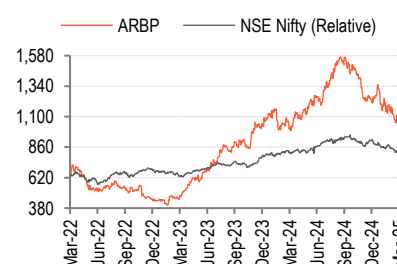
Source: NSE | Price as of 17 Mar 2025

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



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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

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