AUROBINDO PHARMA

VISIT NOTE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,105
12 month price target (INR)	1,460
52 Week High/Low	1,593/994
Market cap (INR bn/USD bn)	642/7.4
Free float (%)	48.2
Avg. daily value traded (INR mn)	1,581.8

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	51.82%	51.82%	51.82%
FII	15.33%	16.29%	16.59%
DII	26.23%	25.20%	25.13%
Pledge	16.92%	17.83%	20.39%

FINANCIALS

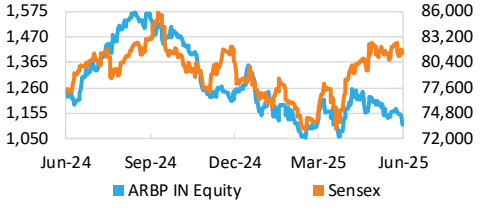
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	2,90,019	3,17,237	3,39,433	3,64,166
EBITDA	58,430	66,054	70,625	76,950
Adjusted profit	33,142	34,859	40,867	46,058
Diluted EPS (INR)	57.1	60.0	70.4	79.3
EPS growth (%)	71.9	5.2	17.2	12.7
RoAE (%)	11.2	11.2	11.8	11.9
P/E (x)	19.4	18.4	15.7	13.9
EV/EBITDA (x)	10.6	9.3	8.3	7.2
Dividend yield (%)	0.4	0.4	0.4	0.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	339,433	364,166	-0.1	0.3
EBITDA	70,625	76,950	-1.1	-0.1
Adjusted profit	40,867	46,058	-5.6	-6.6
Diluted EPS (INR)	70.4	79.3	-5.6	-6.6

PRICE PERFORMANCE



New assets: A pill for healthy future

Investments topping INR100bn in new assets have diluted Aurobindo Pharma's returns ratios. These investments pertain to Pen-G, injectables, biologics CMO, biosimilars, peptides, etc and are a better value proposition than regular oral products.

Over the medium term, Aurobindo (ARBP) has triggers like: i) resumption of the Pen-G unit; ii) launches in Europe from China unit; iii) injectable drug launches from Eugia-5; iv) normalisation of supplies from Eugia-3; and v) volume growth in oral products. We are building in a revenue/EBITDA/PAT CAGR of 7%/8%/15% over FY25–27E. The stock is trading at 13.9x FY27E EPS, 16% discount to its five-year average. We reiterate 'BUY' with a TP of INR1,460 (earlier INR1,485).

Strategic shift underway: Diversification from generics to complexity

Over the past four years, ARBP has committed INR100bn-plus in new assets, affecting its financial metrics with a decline in asset turnover and a 400bp-plus drop in return ratios over FY21 to FY25. A significant portion of this capacity is turning commercial over the next 12 months, which can lead to a gradual uptick in operational efficiency. The investments span diverse areas, including Pen-G, biologics CMO, biosimilars and peptides, reflecting a strategic push toward high-value segments. ARBP has also diversified its manufacturing footprint with two plants in the US (Dayton, Raleigh) and one in Puerto Rico set to restart in two years. Overall, Aurobindo is enhancing geographic and product complexity diversification.

Pen-G unit: Awaiting consent to restart

ARBP's Pen-G is awaiting clearance to restart the operations after a fire incident in Apr-25. The industry's push for minimum input price for PLI products can also provide a breather as Pen-G and 6-APA prices have corrected a sharp 25-35% from their recent peaks. This unit represents ~20%/80% of the global/India Pen-G supply. The NPV/share of this unit is INR50 (5% of CMP), corroborating its salience to ARBP.

Eugia 5 and biologics CMO: Ambitious investments

The company received an OAI classification on Eugia 3 last year, and the unit is under remediation. Clearance to this site can help ARBP add more injectable capacity and get approval for pending products. Meanwhile, Eugia 5 is part of the de-risking strategy as it expects to file 10/15 products for US/Europe. The Eugia 5 unit has eight lines with capacity in BFS/PFS as well as in GLP-1 products. Last year, ARBP announced INR10bn investment in biologics CMO for its client MSD—underwritten by the client itself. It provides an opportunity in high-growth biologics CMO.

Stock trading at ~16% discount; reiterate 'BUY'

We are building in FY26E/27E EBITDA margin of 20.8%/21.1%. We reckon gRevlimid in FY25 was ~USD110mn (3%/10% of FY25 revenue/EBITDA). The dip in gRevlimid shall be offset by growth in Europe and US launches. At 13.9x FY27E EPS, ARBP is trading at a 16% discount to 5Y average. Our TP is INR1,460 (18x FY27E); retain '**BUY**'.

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	2,90,019	3,17,237	3,39,433	3,64,166
Gross profit	1,63,990	1,86,975	2,00,426	2,14,858
Employee costs	39,229	44,756	48,337	51,237
R&D cost	14,776	16,220	17,311	18,208
Other expenses	51,554	59,944	64,153	68,463
EBITDA	58,430	66,054	70,625	76,950
Depreciation	15,217	16,494	17,403	18,205
Less: Interest expense	2,897	4,572	4,131	2,746
Add: Other income	5,186	6,219	7,824	8,126
Profit before tax	45,331	50,889	56,798	64,008
Prov for tax	12,110	15,827	15,936	17,955
Less: Exceptional item	(1,919)	0	0	0
Reported profit	31,730	34,859	40,867	46,058
Adjusted profit	33,142	34,859	40,867	46,058
Diluted shares o/s	581	581	581	581
Adjusted diluted EPS	57.1	60.0	70.4	79.3
DPS (INR)	4.5	4.0	4.7	5.3
Tax rate (%)	26.7	31.1	28.1	28.1

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	586	581	581	581
Reserves	2,97,842	3,25,952	3,65,658	4,10,264
Shareholders funds	2,98,428	3,26,533	3,66,239	4,10,845
Minority interest	80	(64)	(64)	(64)
Borrowings	66,476	82,629	54,926	49,294
Trade payables	44,542	41,889	45,701	51,133
Other liabs & prov	38,413	43,348	43,898	46,669
Total liabilities	4,50,715	4,97,850	5,14,216	5,61,392
Net block	1,12,608	1,18,950	1,21,547	1,25,342
Intangible assets	40,766	42,387	50,014	52,017
Capital WIP	27,394	32,660	32,246	34,596
Total fixed assets	1,80,768	1,93,997	2,03,807	2,11,955
Non current inv	3,217	2,517	3,734	4,006
Cash/cash equivalent	91,631	1,09,020	1,11,521	1,36,153
Sundry debtors	48,167	57,459	56,727	60,861
Loans & advances	129	156	151	161
Other assets	1,30,977	1,31,655	1,35,176	1,45,156
Total assets	4,50,715	4,97,850	5,14,216	5,61,392

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin	56.5	58.1	58.3	59.3
R&D as a % of sales	5.1	5.3	5.3	5.1
Net Debt/EBITDA	(0.4)	(0.4)	(0.8)	(1.1)
EBITDA margin (%)	20.1	20.8	20.8	21.1
Net profit margin (%)	11.4	11.0	12.0	12.6
Revenue growth (% YoY)	16.7	9.4	7.0	7.3
EBITDA growth (% YoY)	55.5	13.0	6.9	9.0
Adj. profit growth (%)	71.9	5.2	17.2	12.7

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	31,730	34,859	40,867	46,058
Add: Depreciation	15,217	16,494	17,403	18,205
Interest (net of tax)	2,681	4,404	4,131	2,746
Others	(8,531)	(4,066)	111	111
Less: Changes in WC	(16,751)	(12,445)	1,580	(5,922)
Operating cash flow	24,345	39,246	64,093	61,198
Less: Capex	(27,803)	(19,679)	(27,269)	(26,353)
Free cash flow	(3,458)	19,568	36,824	34,845

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.0	82.0	83.0
US generics (USD mn)	1,715.1	1,780.5	1,917.1	2,006.2
API (USD mn)	511.0	550.3	615.6	665.3
Europe growth (%)	4.1	12.0	7.0	6.0
ROW growth (%)	27.6	12.0	10.0	10.0
ARV growth (%)	(9.0)	3.0	0	0
Capex (USD mn)	421.8	81.9	96.4	102.4

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	11.2	11.2	11.8	11.9
RoCE (%)	14.1	14.4	14.7	15.2
Inventory days	265	285	278	270
Receivable days	58	61	61	59
Payable days	121	121	115	118
Working cap (% sales)	34.4	33.7	31.1	30.6
Gross debt/equity (x)	0.2	0.3	0.2	0.1
Net debt/equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Interest coverage (x)	14.9	10.8	12.9	21.4

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	19.4	18.4	15.7	13.9
Price/BV (x)	2.2	2.0	1.8	1.6
EV/EBITDA (x)	10.6	9.3	8.3	7.2
Dividend yield (%)	0.4	0.4	0.4	0.5

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	71.9	5.2	17.2	12.7
RoE (%)	11.2	11.2	11.8	11.9
EBITDA growth (%)	55.5	13.0	6.9	9.0
Payout ratio (%)	8.3	6.7	6.6	6.7

Source: Company and Nuvama estimates

Exhibit 1: Growth drivers, challenges and key triggers

Growth drivers	Current status/challenge	Trigger
Penicillin G plant	The plant had a small fire incident and is currently under a temporary shutdown	Restart of the plant upon clearance by local authorities
	Prices of Pen-G and 6-APA have come off	Possible announcement of minimum input price for PLI products
Biosimilar business	About 10 products are under development	Launch of biosimilars in Europe in FY26; filings in the US
Eugia Unit III	Currently under OAI	USFDA clearance in future, which can also lead to approval of the expanded capacity
Eugia Unit V (Anakapally)	The unit has started commercial operations but is running at low utilization	This plant would de-risk Unit III; utilisation is set to improve in FY27 with new launches
China unit	Newly opened and has EMA approval; China approval awaited	New launches expected in Europe and China. USFDA approval to this can also help to grow volumes in the US
US manufacturing units: Dayton	Oral product unit in Dayton currently seeing exhibit batches	Critical to de-risk India-based manufacturing operations; will be commissioned in Q2FY26
US manufacturing units: Raleigh	Has received Form-483 in March/April-2025	The derma block was commercialised in FY23 while inhaler block is pending for approval from the USFDA. This is a critical plant for inhaler launches in the US. Currently, this plant does not have a major contribution
US manufacturing units: Puerto Rico	Manufacturing operations at this plant are halted	Expecting this plant to restart soon
Europe	The business has grown to nearly USD1bn	Expected to see further growth in coming years with higher volumes and new launches form China unit and unit 15.
CMO business	Adding 30KL capacity at this unit (expandable to 60KL with two additional 15KL bioreactors)	The unit will become commercial in FY28/29 and would provide manufacturing service to MSD; opportunity to add more products; diversifying client base as the company expects to double the capacity

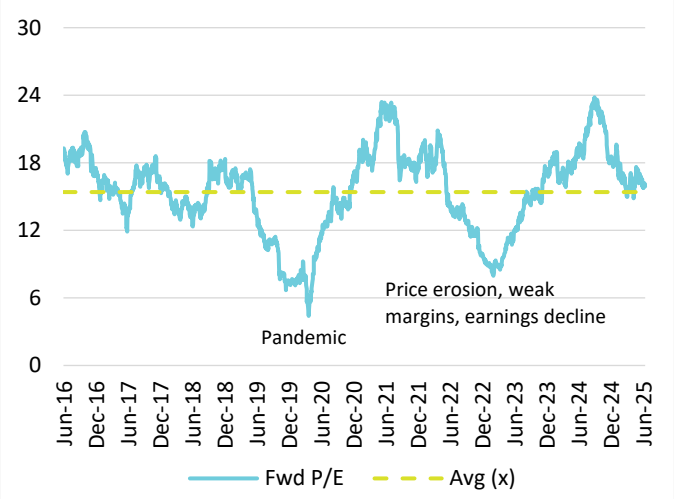
Source: Nuvama Research

Exhibit 2: ARBP in midst of large capex cycle

New projects	Capex (INR bn)
Pen-G complex	33
Other projects including Capacities de-bottlenecking	32
Quantum of capex underutilized currently	**65**
Investments that will contribute after FY28	
Biologics CMO	10
Biosimilars (includes R&D spend)	34
Total investments for future projects	**44**
Total capex	**109**

Source: Nuvama Research

Exhibit 3: Valuation multiple near long-term trough



Source: Nuvama Research

Specialty product moves in biosimilars, oncology and respiratory

- **Biosimilars: Late entrant but ambitious future plans**

ARBP is building the biosimilar business through its subsidiary CuraTeQ. Though CuraTeQ is a late entrant in this space, it has already secured four biosimilar approvals in Europe. Supplies of CuraTeq's four biosimilars to Europe are set to begin in H2FY26E. Europe is a competitive biosimilar market, and we think CuraTeq can generate only USD4–5mn in revenue. Considering this scale, we are not excited about the European biosimilar opportunity for Aurobindo. However, with this, the company gets a toehold in the global biosimilars' market. Biosimilar revenue from Europe would help ARBP somewhat manage overheads of the biosimilar business.

US, however, is a key part of its biosimilar strategy and the company expects to file its first product in the US in H2FY26E. With this US foray, ARBP reckons its biosimilar business would grow to USD250–400mn by 2030.

ARBP has invested more than USD400mn so far in this business and this includes the manufacturing facility, R&D spend and other opex. The company is largely focussed on immunology and oncology biosimilars. With the cost of biosimilar development expected to moderate over coming years, ARBP expects to benefit despite its late entry. The company is also confident about its biosimilar business in the US given attractive dynamics of Medicare Part B, which incentivises biosimilars' adoption/competition and where reimbursement rate (ASP+6% and ASP+8% for certain qualifying biosimilars) is higher.

Exhibit 4: Biosimilars: Pipeline and current status

Biosimilar	Molecule	Therapeutic segment	Brand/innovator	Status
Bevqolva	Bevacizumab	Oncology	Avastin/Roche	Approved in UK
Zefylti	Filgrastim	Oncology	Neupogen/Amgen	Approved in UK/ Europe
Dyrupeg	Pegfilgrastim	Oncology	Neulasta/Amgen	Approved in Europe
Dazublys	Trastuzumab	Oncology	Herceptin/Roche	+ve CHMP opinion in Europe
BP11	Omalizumab	Respiratory + dermatology	Xolair/Novartis	Phase III, Phase I was completed in Australia
BP16	Denosumab	Orthopaedic	Prolia/Amgen	Phase III
BP06	Ranibizumab	Ophthalmology	Lucentis/Roche	Phase III
BP08	Tocilizumab	Immunology	Actemra/Roche	Phase III
BP27	Undisclosed	Oncology	-	Under development
BP33	Undisclosed	Haematology	-	Under development

Source: Nuvama Research

- **Ryzneuta: Novel brand, competition for Pegfilgrastim**

To boost its specialty/complex business in the US, ARBP expects to launch Ryzneuta (Efbemalenograstim, in-licenced product from Evive Biotech) soon. This drug is indicated in the treatment of chemotherapy-induced Neutropenia (lower count of white blood cells after chemotherapy) and can be a cost-competitive alternative to Pegfilgrastim, which we think is a USD700–800mn market currently.

As per research, Efbemalenograstim is a non-inferior drug to pegfilgrastim, but it has longer half-life than pegfilgrastim and provides sustained neutrophil stimulation than with pegfilgrastim. Efbemalenograstim has simpler manufacturing process that can increase access to the drug. Aurobindo is cautiously positive on this product.

- **Deal with global pharma for respiratory products**

In Nov-24, Aurobindo entered into a licensing and collaboration agreement with an undisclosed global pharma company to co-develop and co-commercialise respiratory products. Each party would contribute 50% of the development costs, capped at USD90mn for ARBP over a 3–5 year period. Both companies will co-exclusively market the products with the global partner responsible for manufacturing. This is a strategic move to expand ARBP's specialty products portfolio.

Overall, the company's move is aimed at growing its global specialty/complex product business. Note that the company already has a small presence in the US branded oncology business (>USD100mn revenue/year), which should improve gradually on the back of new growth initiatives.

Auro Peptides: Silently building peptide and GLP-1 capability

ARBP's peptide division—Auro Peptides—has capabilities in both solid state and liquid phase peptide synthesis. It focusses on oncology- and diabetes-based peptides, and has set up a peptide facility at Vizag, which was recently inspected by the USFDA with zero observations. The facility has five manufacturing lines producing gm-to-kg quantities, and has synthesis/purification capabilities. For the GLP-1 products, it also has device assembly and high-capacity cartridge line.

Additionally, to address growing GLP-1 demand, ARBP is constructing a new facility slated to be operational by the end of 2026. This will increase the capacity to 100kg in phase-I and to 400kg in the future.

The company currently has 14 DMFs, which has led to five ANDA filings. Auro Peptides's also has three GLP-1s in its pipeline, including Liraglutide and Semaglutide. It is also exploring opportunities for Semaglutide and Liraglutide in India and other emerging markets. Overall, with its presence for over a decade, ARBP looks to be well positioned to capitalise on the peptide and GLP-1 opportunities. The opportunity is likely to materialise in FY28E in our opinion.

Pen-G: Temporary setback; operations to resume after clearance

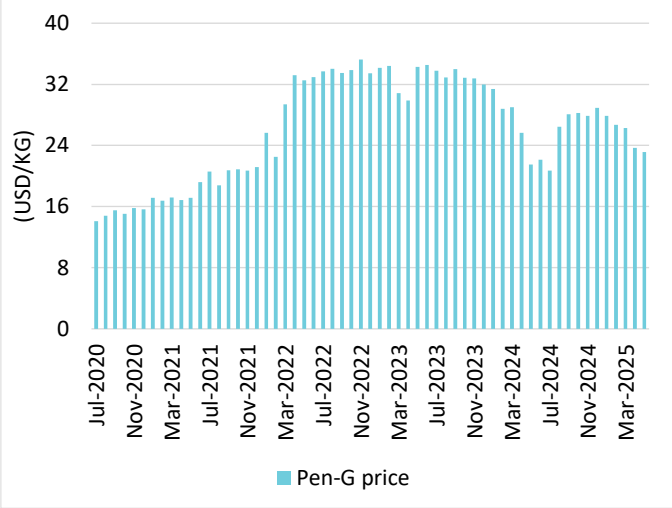
ARBP has invested INR27bn in the Pen-G manufacturing capacity at Kakinada. The company has also made additional investments across the value chain, i.e. i) 6-APA manufacturing plant (3,600 tonnes); ii) GCLE manufacturing unit; iii) forward integration to Amoxicillin API manufacturing; and iv) injectable and granulation capacities.

The Pen-G project has 15,000 tonnes of annual manufacturing capacity, of which ~60% would be used for captive consumption and the rest would be available for external sales. The global Pen-G requirement is ~80,000 tonnes, of which ~25% i.e. 20,000 tonnes market is located in India. At 15,000 tonnes, Aurobindo's Pen-G project has potential to serve 75% of the local demand, which indicates the large scale of the unit. Overall, the Pen-G project has attractive dynamics, i.e. presence across the value chain, large scale and assured PLI incentives.

This project was commissioned in Q1FY25, and the company has gradually improved the manufacturing yields by Q4FY25E. The project, however, faced a temporary setback due to a small fire incident in Apr-25. To restart operations, the company awaits clearance for its renewal application for Consent to Operate.

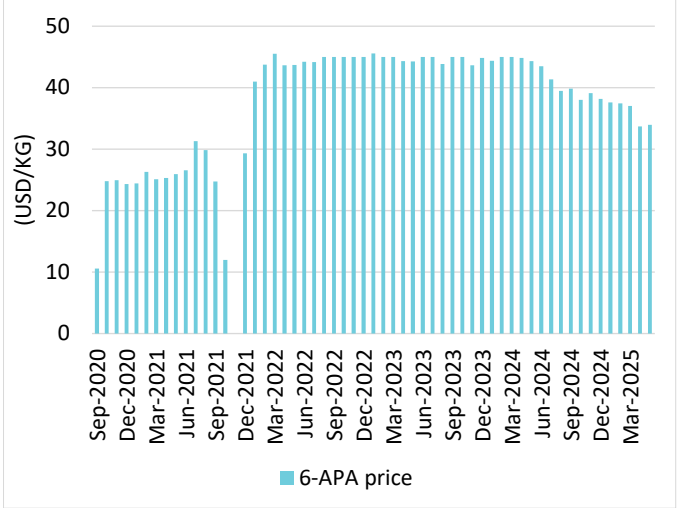
Pen-G market is a monopoly of China-based companies. With the addition of the large Pen-G capacity in India, we are observing a decline in Pen-G and 6APA prices. Over the past six months, Pen-G price has declined by 20%, also down ~35% from the peak price. At the same time, 6-APA price has slid 25% YoY off its peak.

Exhibit 5: Pen-G price at ~USD23/kg



Source: Nuvama Research

Exhibit 6: 6APA price: Sharp decline since 2024



Source: Nuvama Research

Indian manufactures have requested the Government of India to consider a minimum import price for PLI products. We suspect this might apply to Pen-G and 6-APA as well. In that case, if prices are revised at the higher level, that too would help Aurobinodo Pharma in our opinion.

Our DCF value for the Pen-G project works out to INR50/share assuming pricing of USD22/kg for Pen-G and USD30/kg for 6-APA. The NPV goes up to INR80/share if we consider pricing of Pen-G at USD29/kg and 6-APA at USD45/kg.

Exhibit 7: Scenario analysis — Valuing Penicillin G project using different prices

Assumptions	Pen-G price USD /KG	6-APA price USD/KG	Peak utilization	EBITDA margins	PLI incentive	Discount rate	Per share value
Scenario 1	22	30	85%	23%	INR2.5bn till FY31	10%	50
Scenario 2	29	45	85%	23%	INR2.5bn till FY31	10%	80

Source: Nuvama Research

CMO foray: Manufacturing contract with MSD

Through its subsidiary TheraNym Biologics, ARBP is investing INR10bn to foray into the biologics CMO business and has signed a manufacturing contract with Merck Sharpe & Dohme (MSD). TheraNym is setting up 30KL biologics manufacturing capacity at Borapatla in Telangana.

This facility will have two bioreactors of 15KL capacity each to manufacture an undisclosed mammalian cell culture product for MSD. It will also have a vial filling isolator line to produce drug product with capacity of 25–30mn vials/year. The company plans to add two more bioreactors at this location in the future. The unit is underwritten by MSD, which means, in the worst-case scenario, MSD will pay INR10bn to ARBP.

With this capacity, TheraNym will have presence in both drug substance and drug product manufacturing. The company expects to commission this facility in 2026 for qualification activities and engineering runs, and commercial supplies are expected to start in CY28 (FY28 or FY29).

Presently, MSD has three mammalian cell culture-based biologic drugs. If ARBP's contract includes manufacturing one of these products, it can be a good opportunity.

A good opportunity in fast-growing biologics manufacturing industry

The biologics contract manufacturing industry is expanding at ~9% CAGR; it would hence potentially grow from USD19bn in 2025 to ~USD30bn in 2030. With the MSD contract, ARBP gets a toehold in the fast-growing/attractive biologics contract manufacturing industry. While India's biologics CDMO industry is still nascent, ARBP's foray with DP/DS capabilities and a secured manufacturing contract holds promise. The 30KL capacity is also expandable to 60KL in the future with additional 2 15KL bioreactors.

MSD has underwritten this contract, which means even if the opportunity fails to materialise, the resultant plant can still be valued at INR14/share. Our assumptions and a 10-year DCF model, assuming exclusive CMO opportunity with MSD, yield a value of INR25.

Exhibit 8: MSD's existing biologic drugs

Brand	Molecule	Status	Current sales/future expectation
Keytruda	Pembrolizumab	Already commercial	USD29bn global sales
Enflonsia	Clesrovimab-cfor	Approved in 2025	Expected peak sales are USD3-4bn
Zinplaava	Bezlotoxumab	Approved in 2016, Discontinued in 2025	-

Source: Nuvama Research

#Company has not disclosed MSD's product that it has contracted for

New formulations facilities: Growth frontier until FY30

Along with aforementioned new growth opportunities in the existing business, ARBP has also expanded its manufacturing capacities at several locations. These capacities are either new or have seen capacity expansion, leading to growth visibility till 2030.

- **Taizhou plant: Dual purpose unit; can become key unit for Aurobindo**

ARBP has built a ~2bn-unit oral product manufacturing facility at Taizhou, China. The company has made regulatory submissions of generic products for European and Chinese markets. While providing growth in these markets, the Taizhou plant would also help Aurobindo debottleneck manufacturing capacity at its Indian plants for the US markets.

The operations at the Taizhou plant commercialised in Q3FY25, and are gradually ramping up. This plant currently supplies to Europe, while supplies to China would commence upon the plant clearance by Chinese regulatory authority. This unit will start contributing to revenue from FY26.

The manufacturing capacity at the Taizhou unit can be increased further to ~7bn units in the future. At ~80% utilisation, we think this unit can contribute ~220mn of annual revenue at peak capacity. This plant would break even in FY26. The company also expects USFDA inspection at this facility some time in the future.

- **Dayton plant: Part of de-risking strategy in case of tariffs**

This is an oral products manufacturing unit in Dayton, New Jersey. This plant is currently seeing exhibit batches for upcoming regulatory filings. This plant is critical for ARBP's de-risking strategy in case the US administration levies tariffs on imported pharmaceutical products. Presently, the unit has manufacturing capacity of ~3.6bn; the capacity can be increased, if required. The plant is slated for commissioning in Q2FY26E.

- **Puerto Rico: To restart in two years; can provide additional volumes**

Management decided to shut down this plant temporarily in 2023 as part of their restructuring exercise and to enhance production volumes. The facility is expected to operationalise over the next two years. It will also have 7–8bn of oral manufacturing capacity.

- **Raleigh plant: Compliance issues, no major contribution; critical for inhalers**

This is ARBP's US-based manufacturing facility with capacity to manufacture derma products and inhalers. ARBP commercialised the derma block in FY23. The company has metered dose inhalers (MDI) and dry powder inhalers (DPI) manufacturing capacity at this facility. The commercialisation of the inhaler block is pending for product approval from the USFDA. This undisclosed product has received USFDA's queries while it also has a legal challenge.

This plant was inspected in March/April-25 by the USFDA and received a Form-483 with 11 procedural observations. The company is addressing observations with appropriate corrective and preventive actions (CAPA). This plant does not have a major contribution currently, and no major product launches are expected from this unit in the near term.

- **Eugia-5 (Vizag): To de-risk unit III**

This is a new injectable facility with four commissioned manufacturing lines for vials and bags. The company is planning to add four more lines related to BFS/PFS products, cartridge and aseptic filling line. With expansion, capacity at this unit will reach 285mn vials. The company plans to file ten products for the US and 15 for Europe in FY26E.

One of the lines at Eugia-5 will be for BFS (Blow-Fill-Seal), which is among the most advanced aseptic processing technologies. ARBP's competitor Amneal Pharma collaborated with Apiject in May-25 to develop injectable products that are suitable for Apiject's BFS platform. This plant is part of the company's de-risking strategy for its large injectable Unit III and would be part of the future growth beginning FY27E. We think this unit can be as large as Eugia-3 in terms of revenue contribution.

Unit-3: OAI continues; utilisation improving

Eugia's Unit-3 injectable manufacturing facility received a Form-483 and an OAI classification last year. This unit has 17 lines and is a very large plant. We think this unit contributes 8–9% of ARBP's US revenue. After the receipt of Form-483, Aurobindo has completed necessary remedial actions using external consultants. Due to the compliance issue, approval to Aurobindo's 31 ANDAs at Eugia-3 (by Q4FY25) is stuck. The company is de-risking these products by dual filing them from Eugia-5 as well.

Last year, due to the plant shutdown, the utilisation level at Eugia-3 had declined to ~50%. This is expected to improve to 60–70% in FY26E.

Note that out of the total 17 lines, the company has a few lines that are not yet approved by the USFDA. Upon approval, the manufacturing capacity at Eugia-3 will increase too.

gRevlimid: Ending soon; new launches to help refill the gap

ARBP launched gRevlimid in Sep-23; as per our understanding, it clocked ~USD110mn in FY25 (~6% of US revenue and ~3% of total revenue). Due to the price erosion and competition, we think this product would contribute <USD50mn in FY26E. This, however, means that Aurobindo's US business would grow ~3% YoY in FY26.

Aurobindo plans to launch a few products that can mitigate the gRevlimid impact in FY26E. They include: i) gXarelto (~USD40mn revenue in FY26); and ii) gSprycel (USD22mn of revenue in FY26). Additionally, we think ARBP has launch plans for Suggamedex, gMyrbetriq, gPomalyst and gXiidra for the next two years.

Exhibit 9: Aurobindo's near-term potential launch pipeline

Brand	Molecule	Innovator	Competition	Market size	Other comment
Xarelto	Rivaroxaban	Janssen	Alembic, Apotex, Ascent, Biocon, Brekckenridge, Invagen, Lupin, Macleods	~USD8bn across all strengths	Lupin has launched already
Sprycel	Dasatinib	BMS	Apotex, Biocon, Dr. Reddy's lab, Zydus, Alembic, Lupin	1.3bn-1.6bn	To be launched in Q1FY26E
Bridion	Sugammadex	MSD	Mylan, Teva, Dr. Reddy's Sandoz, Sun Pharma, MSN, Qilu, Gland Phama	~USD600mn	Expiry in July 2026
Myrbetriq	Mirabegron	Astellas	Zydus, Lupin, Alkem, Apotex, Qilu, Ascent	~USD2bn	Launched at-risk by Zydus and Lupin. Trial starts in Feb-26.
Pomalyst	Pomalidomide	BMS	Teva, Breckenridge, Apotex, Hetero, Mylan, Dr. Reddy's Lab	USD2.7bn	Likely FY27 product

Source: Nuvama Research

Guidance and expectations from key segments

The company expects flat revenue growth in FY26 with margins of 21% despite a decline in gRevlimid. Revenue in FY27 is expected to grow 8% YoY and would be driven by volume growth in the US and Europe and aided by few launches.

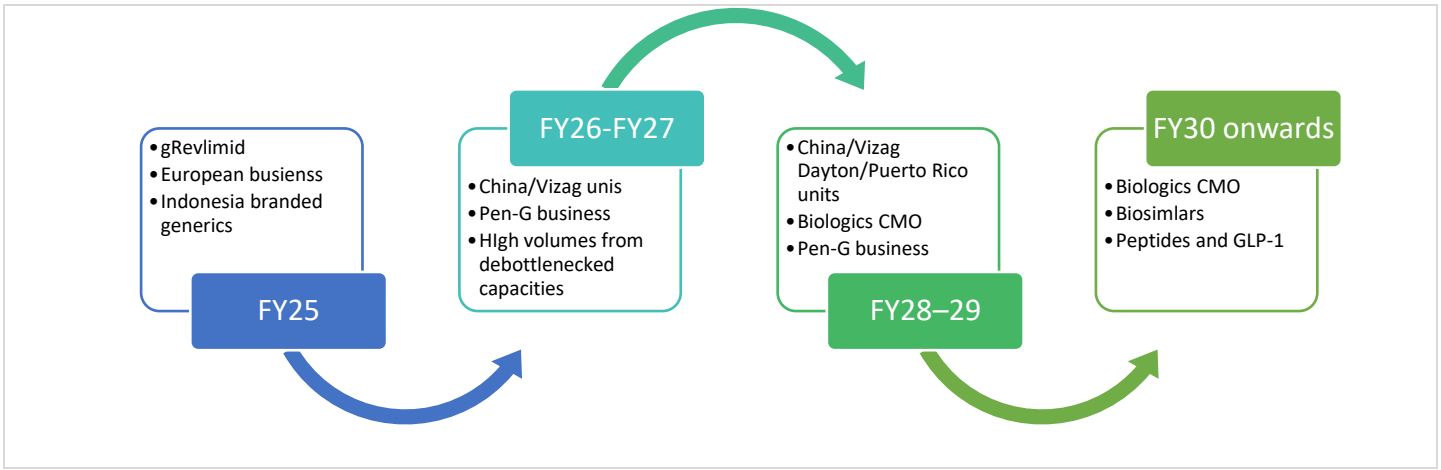
US business: The business has a secular product mix with top-10 products contributing ~20% to the US oral revenue. ARBP has a TRx share of 10.5% in the US oral products, and the company expects this to grow to ~11%. A large company like Teva too has seen ~100bp contraction in its oral TRx share (due to changed priorities) while Amneal has also suffered a dip of ~20bp in its oral TRx share. This is helping Indian companies, particularly ARBP, to further gain share in the US.

Surprisingly, the generic price erosion remains stable at a low single-digit rate as prices have already fell significantly, leaving little room for further reductions.

Europe: Europe contributed USD988mn revenue in FY25, and ARBP is expecting this business to grow in mid-single digits, crossing >USD1bn in FY26. This growth is likely to be driven by: i) product launches; ii) deeper penetration in the region; and iii) growing base business volumes. The European market is facing some supply constraints, which brings additional growth opportunity for Aurobindo to supply higher volumes using its Chinese facility. The biosimilar business can also add to the growth in Europe. With operating leverage kicking in led by higher volumes, we think the European business may see margin improvement.

We note ARBP's efforts to add complexity (biosimilars and peptides), diversity (Pen-G and CMO) and new growth measures (expansion to add volumes) over the past few years. We think Biologics CMO, biosimilars and Pen-G projects can contribute 7–10% to revenue by FY30, indicating diversity of revenue-generating assets. This can further diversify once the company commercialises its peptides and inhalers pipeline.

Exhibit 10: How ARBP's growth may evolve over FY25–30E



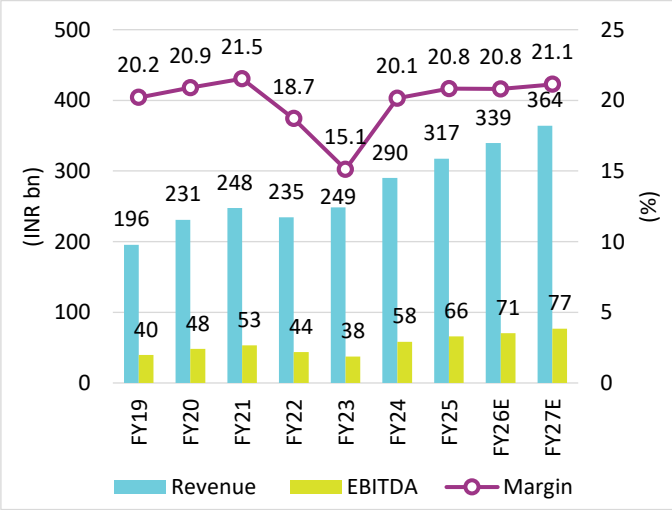
Source: Nuvama Research

Financials: 10% CAGR in PAT; gradual improvement in returns

We estimate ARBP's revenue would expand at a 7% CAGR over FY25–27E. This would be largely driven by growth momentum in Europe and growth markets. We estimate US would expand at a ~5% CAGR on the back of: i) launches; ii) gradual growth in the injectable business from Eugia-5; iii) normalisation of supplies at Eugia-3; and iv) volume growth in oral products owing to the new capacities.

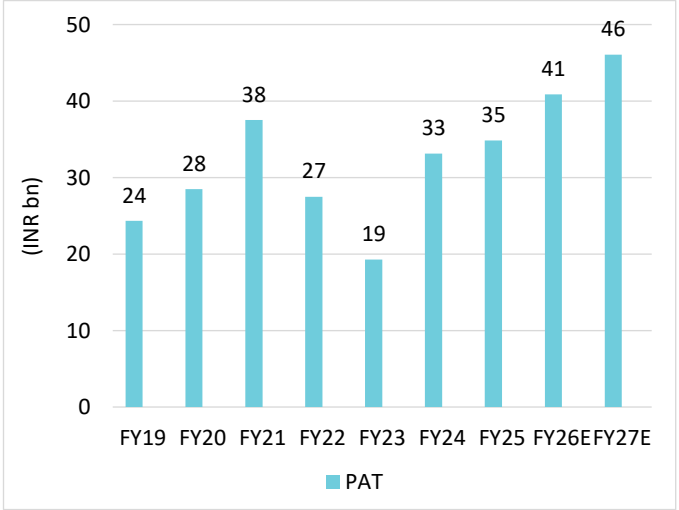
All in all, we are building in an EBITDA/PAT CAGR of 8%/15% over FY25–27E with EBITDA margins of 20.8% in FY26E and 21.1% in FY27E.

Exhibit 11: Growth to continue despite large base



Source: Nuvama Research

Exhibit 12: PAT to expand at 15% CAGR

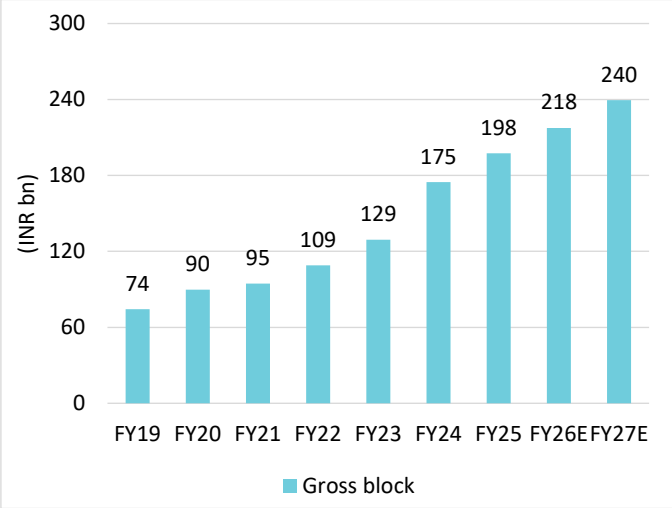


Source: Nuvama Research

ARBP's returns ratios have been affected as the company has been in an investment mode for the past four years. Its RoE/RoCE have declined from 17%/16% in FY21 to 11%/12% in FY25. At the same time, the company doubled its gross fixed assets over FY21–25. While capex intensity is gradually slowing, with the Pen-G project operational, we expect returns ratios to improve 50–100bp during our estimate period.

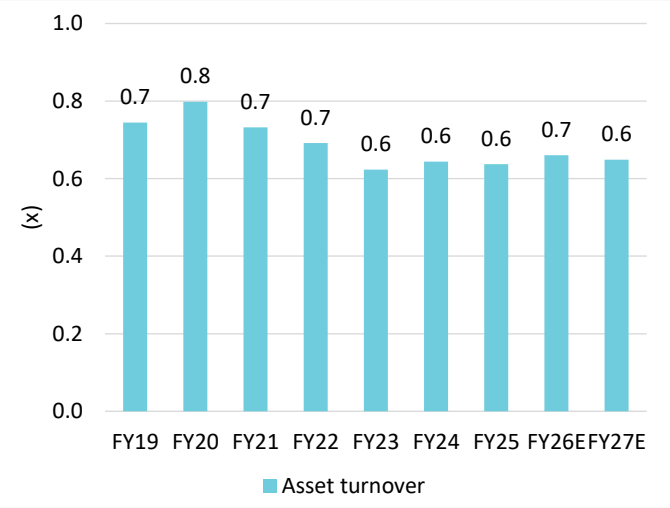
We think ARBP is set for strong operating leverage beyond FY28E with existing assets nearly at an inflection point in growth, commercialisation of biologics CMO and growing utilization of assets such as Pen-G and other units.

Exhibit 13: Capex intensity: 2x gross block over FY21–25…



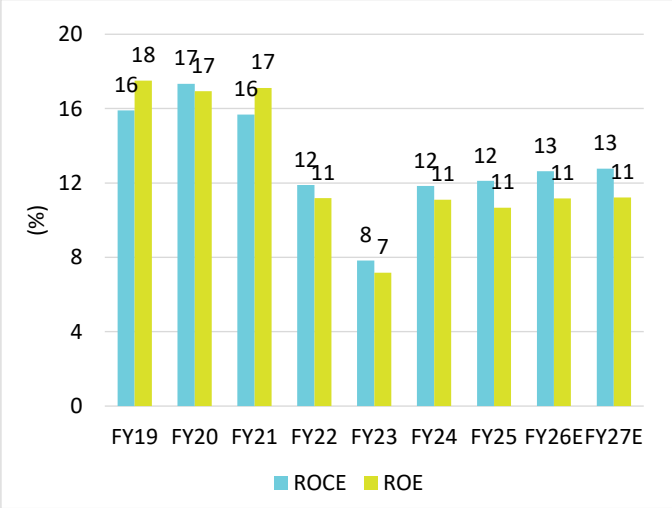
Source: Nuvama Research

Exhibit 14: …led to lower asset turns; improvement ahead



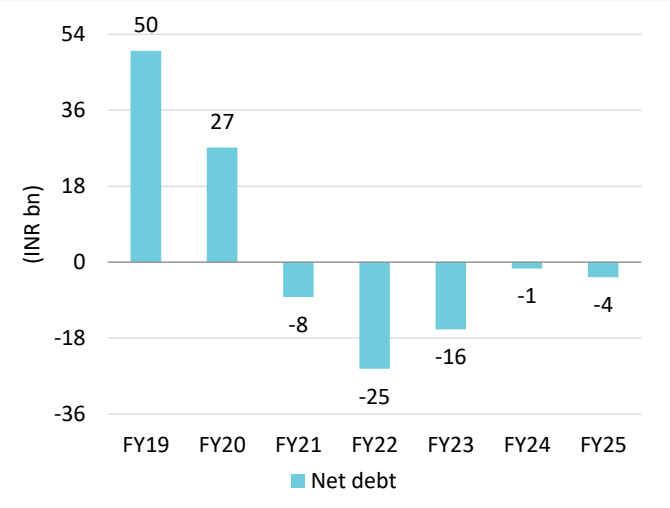
Source: Nuvama Research

Exhibit 15: RoCE/ROoE impacted by capex intensity



Source: Nuvama Research

Exhibit 16: Healthy balance sheet – A net-cash position



Source: Nuvama Research

Valuation

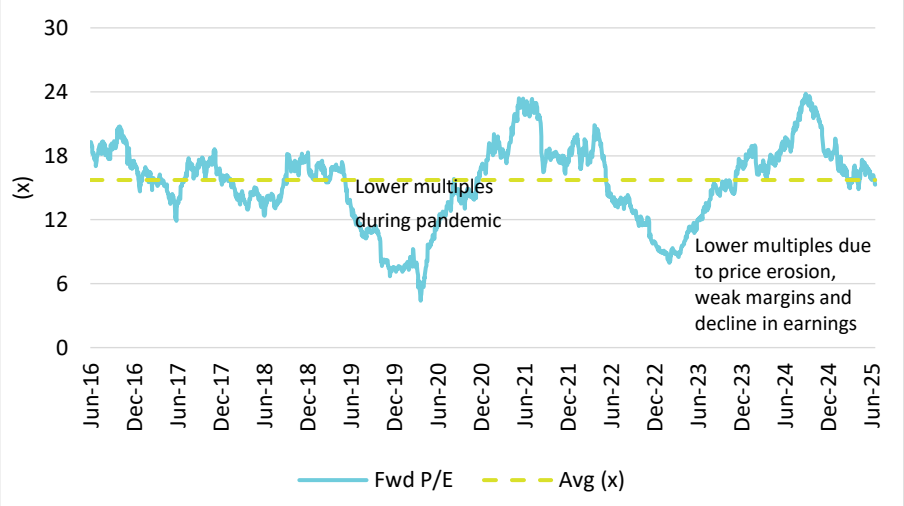
ARBP is trading at 14x FY27E EPS. The stock's one-year average forward P/E over 10-year/5-year periods is 15.4x/16.3x. The stock is trading at a discount of 11%/16% to its 10-year/5-year average multiple.

We highlight that the business has medium-term growth drivers due to: i) capacity additions at various locations; ii) biologics CMO; and iii) the Pen-G business. Over long term, given the drivers mentioned above, there is a growth opportunity in the biosimilars and peptide businesses.

Key near-term triggers are: i) restart of the Pen-G unit; ii) minimum input price for PLI products; iii) US filling of biosimilars; iv) completion of capex for biologics CMO; and v) USFDA clearance to Eugia-3.

We value the stock at 18x FY27E EPS, yielding a TP of INR1,460; reiterate '**BUY**'.

Exhibit 17: ARBP trading at discount to its long-term average 1Y forward multiple



Source: Bloomberg, Nuvama Research

Company description

Aurobindo Pharma (ARBP), unlike other major Indian pharma companies, is a pure generic player with export focus that has achieved scale primarily through acquisitions. In its drive to grow via consolidation and gain scale, company has been the most aggressive and also the most successful as company always focused on value. Its aggressive inorganic strategy is much like its global peers, and its strength lies in its execution. Company's future investments are mainly in injectables and now it has started investing meaningfully in biosimilars.

Investment theme

ARBP has followed a strategy of acquiring portfolios & technologies and bolstering offerings. It is on the cusp of filing transdermals, biosimilars, nasals, inhalers and depot injections. While promising, it also involves high R&D investments that are likely to push R&D to 6% of sales and also increase execution risks vis-a-vis generics. However, gRevlimid settlement offers cushion to the high risk business given that this opportunity will be there for at least 3 years. In the medium term, pipeline of 170 pending ANDAs, its 50 annual launches and injectable capacity expansion should translate to mid-to-high single-digit growth. API expansion, the PLI scheme and contract manufacturing opportunity in vaccines promise long-term growth.

Key risks

- US pricing pressure, lower demand for the oral products
- Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business.
- Pen-G unit not able to see desired ramp-up or lower prices of Pen-G and other intermediates
- Change in US policy with respect to drug imports or levy of import tariffs

Additional Data

Management

Chairman	Mr. K Ragunathan
Vice Chairman	Mr. K Nithyananda Reddy
CFO	S. Subramanian
Managing Director	N. Govindarajan
Auditor	B S R & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	4.29	LIC	2.45
Quant	4.13	Vanguard	1.89
Icici Pru	3.26	SBI Pension	1.81
Axis Clincals	2.97	Blackrock	1.57
Mirae	2.76	IDFC Mutual Fun	0.92

**Latest public data*

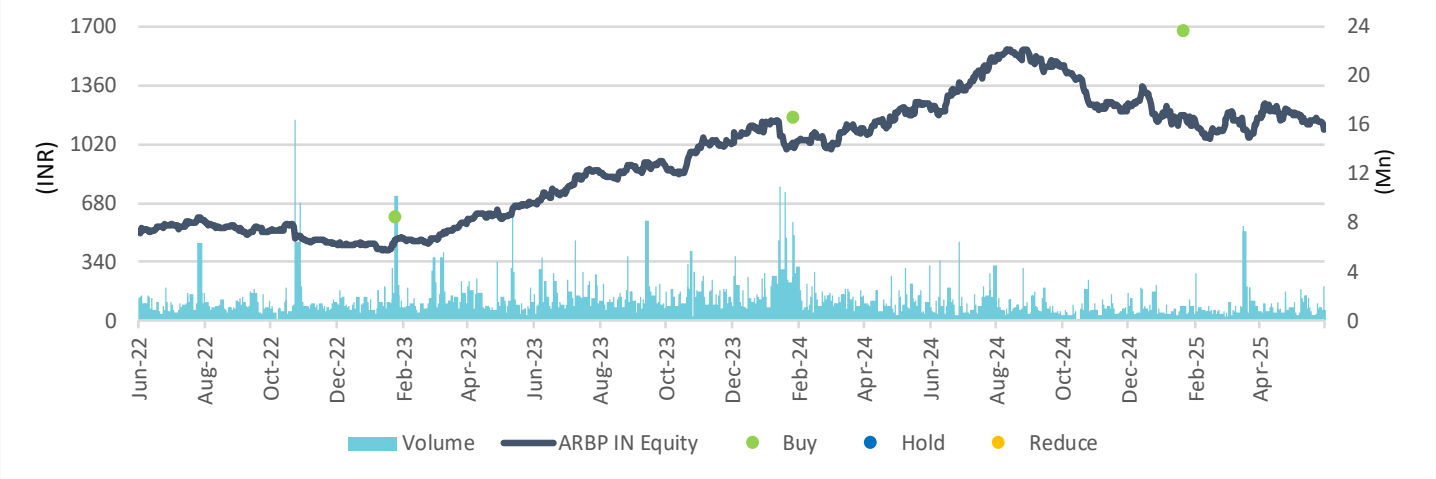
Recent Company Research

Date	Title	Price	Reco
27-May-25	EPS cuts after margin guidance; *Result Update*	1,191	Buy
07-Feb-25	Margin guidance unchanged; *Result Update*	1,192	Buy
11-Nov-24	Misses numbers with higher opex; *Result Update*	1,289	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
18-Jun-25	Pharmaceuticals	May-25: Modest growth; GLP-1 striking; *Sector Update*
05-Jun-25	Pharmaceuticals	Mixed trends; US policy an emerging risk; *Sector Update*
04-Jun-25	Zydus Lifesciences	Agenus: strategic spend, long-term play; *Company Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	203
Hold	<15% and >-5%	62
Reduce	<-5%	37

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