INSTITUTIONAL RESEARCH

Aurobindo Pharma

Strong Q4; Eugia's USFDA issues key concern

EBITDA (+68% YoY) was led by 17% sales growth (-4% QoQ US but up 18% YoY, +10% EU, and +49% YoY in growth markets), higher gross margin (+490 bps YoY), muted SG&A/R&D (+7%/ -4% YoY) but was partly offset by higher staff cost (+20% YoY). ARBP expects to maintain US oral solid business growth momentum, led by new launches and volume gain in the base business. However, specialty/injectable business is expected to remain muted due to Eugia plant impact (site transfer to Vizag plant may take 1 year)—the company has guided for quarterly sales rate at USD 150 mn (Q4FY24 was at USD 147 mn) and US sales rate of USD 100-110 mn for FY25; it expects growth to improve in FY26 on the back of new launches. It has guided for a margin of 21-22% in FY25 (20.1% in FY24) and expects it to improve from H2FY25, led by Pen-G plant commissioning (to improve gross margin). It expects to complete remediation work at the Eugia plant in Q2FY25. It expects steady growth in the EU, led by new launches. Factoring FY24 performance, we tweaked our EPS for FY25 and raise by 4% for 26E and revise the TP to INR 1,300 (18x FY26E). We maintain ADD, given steady US growth visibility and value unlocking in key R&D assets (biosimilars, respiratory, and specialty). While the outlook remains steady, we see OAI on Eugia Unit 3 as a key near-term concern.

- **Q3 highlights:** Sales grew 17% YoY to INR 75.8 bn as the US (48% of sales) was down 4% QoQ at USD 438 mn (+18% YoY) on 7% QoQ decline in US specialty and injectables sales at USD 104 mn; US business (ex-injectable) declined 3% QoQ to USD 333 mn. EU sales (24%) were up 10% YoY (CC growth was 8% YoY). The growth market (11%; ex-India) was up 49% YoY and India (1%) declined 9% YoY. ARV sales (3%) were up 50% YoY and API (13%) was flat YoY.
- **EBITDA led by steady costs:** GM increased 490 bps YoY to 59.6%, muted SG&A/R&D (+7%/-4% YoY), partly offset by higher staff cost (+20% YoY), leading to an EBITDA of INR 16.87 bn (+68% YoY) and margin at 22.3% (+677 bps YoY). Higher other income (21% YoY), interest cost (+61%), muted depreciation (+3%), one-off of INR 1.22 bn, and lower tax led to a reported PAT of INR 9.08 bn (+79% YoY). Adjusted for forex/one-off, PAT was at INR 10.09 bn (+106% YoY).
- **Con call takeaways:** ARBP expects to sustain US growth in the oral solid business. Expects traction in gRevlimid to remain higher YoY with an increase in share. **Update on Eugia Unit 3**: Inspected in Feb'23 and got nine observations from USFDA and received OAI status in May'24. Targets to transfer ANDA filing (~29 pending approvals) to its recently commissioned Vizag plant. Expects ES business to see steady growth on new launches and commission of China plant in FY25. **Capacity update**: Commercialized 4 manufacturing plants including Pen-G (total investment of USD 285 mn), 6-APA, injectables and granulation in Mar'24; it expects to scale-up production at its Pen-G plant in the next 3-6 months and focus on the conversion of Pen-G to 6-APA, to help gross margin expansion. Already have DMF for 1 GLP-1 peptide and to file one more soon. **Biosimilars assets (Investment of USD 341 mn; capitalized USD 75 mn)**: (1) received approval for Trastuzumab in India; waiting for manufacturing license and it expects to launch in FY25. (2) Global trials ongoing for ophthalmology (Prolia). (3) Omalizumab (Xolair) successfully met PK/PD endpoints in a three arm Phase 1 clinical study.

Financial Summary

(INR mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	75,802	64,730	17	73,518	3	2,34,555	2,48,554	2,90,019	3,15,043	3,40,001
EBITDA	16,871	10,022	68	16,013	5	43,868	37,582	58,430	68,364	73,440
APAT	10,094	4,906	106	9,027	12	26,937	19,567	32,837	38,688	42,300
EPS (INR)	17.2	8.4	106	15.4	12	46.0	33.4	56.0	66.0	72.2
P/E (x)						26.0	35.8	21.3	18.1	16.6
EV/EBITDA (x)							15.6	18.4	12.0	10.0
RoCE (%)						13	9	14	15	15

Source: Company, HSIE Research

ADD

CMP *(as on 27 May 2024)*	INR 1,196
Target Price	INR 1,300
NIFTY	22,932

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1250	INR 1300
EPS %	FY25E	FY26E
	-0.9	3.9

KEY STOCK DATA	
Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (INR bn) / ($ mn)	701/8,431
6m avg traded value (INR mn)	2,519
52 Week high / low	INR 1,246/585

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.7)	30.3	45.0
Relative (%)	(8.8)	16.1	23.3

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	51.83	51.83
FIs & Local MFs	20.60	23.28
FPIs	20.72	18.02
Public & Others	6.85	6.87
Pledged Shares	18.9	20.86

Source : BSE

Mehul Sheth
mehul.sheth@hdfcsec.com
+91-22-6171-7349

Exhibit 1: EBITDA growth impacted by lower sales and higher costs

(INR mn)	Reported					Reported		
	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Net revenue	**64,730**	**73,518**	**75,802**	**17**	**3**	**1,83,824**	**2,14,217**	**17**
Material cost	29,310	31,506	30,609	4	(3)	83,623	95,420	14
Gross Profit	**35,420**	**42,012**	**45,193**	**28**	**8**	**1,00,201**	**1,18,797**	**19**
Employee Expenses	8,519	9,897	10,263	20	4	26,704	28,966	8
Other Expenses (with R&D)	16,879	16,102	18,059	7	12	45,937	48,272	5
R&D cost	4,078	3,981	3,920	(4)	(2)	10,037	10,918	9
Other Expenses (ex-R&D)	12,801	12,121	14,139	10	17	35,900	37,354	4
Total expenses	**54,708**	**57,505**	**58,931**	**8**	**2**	**1,56,264**	**1,72,658**	**10**
EBITDA	**10,022**	**16,013**	**16,871**	**68**	**5**	**27,560**	**41,559**	**51**
Other income	1,123	1,174	1,356	21	16	1,783	3,830	115
Depreciation	3,456	4,233	3,543	3	(16)	8,990	11,673	30
Interest	556	756	894	61	18	849	2,003	136
Forex (gain)/ loss	(227)	(452)	143	NA	NA	622	(531)	NA
Exceptional items	-	-	1,221	NA	NA	-	698	NA
Share of profit/ (loss) of associates and JV	(59)	(26)	(127)	NA	NA	(58)	(45)	NA
PBT	**7,301**	**12,624**	**12,299**	**68**	**(3)**	**18,825**	**31,501**	**67**
Tax	2,242	3,225	3,226	44	0	4,607	8,885	93
Minorities	(4)	37	(14)	NA	NA	5	(26)	NA
Reported PAT	**5,063**	**9,363**	**9,088**	**79**	**(3)**	**14,213**	**22,642**	**59**
Extra-ordinaries	(157)	(336)	1,006	NA	NA	490	97	NA
Adj. PAT	**4,906**	**9,027**	**10,094**	**106**	**12**	**14,703**	**22,739**	**55**
Reported EPS (INR)	**8.6**	**16.0**	**15.5**	**79**	**(3)**	**24.3**	**38.6**	**59**
Adj EPS (INR)	**8.4**	**15.4**	**17.2**	**106**	**12**	**25.1**	**38.8**	**55**
% of sales								
Gross margin	**54.7%**	**57.1%**	**59.6%**	**490 bps**	**247 bps**	**54.5%**	**55.5%**	**95 bps**
EBITDA margin	**15.5%**	**21.8%**	**22.3%**	**677 bps**	**48 bps**	**15.0%**	**19.4%**	**441 bps**
Employee Expenses	13.2%	13.5%	13.5%	38 bps	8 bps	14.5%	13.5%	-100 bps
Other Expenses (with R&D)	26.1%	21.9%	23.8%	-225 bps	192 bps	25.0%	22.5%	-246 bps
R&D cost	6.3%	5.4%	5.2%	-113 bps	-24 bps	5.5%	5.1%	-36 bps
Other Expenses (ex-R&D)	19.8%	16.5%	18.7%	-112 bps	216 bps	19.5%	17.4%	-209 bps
Income tax rate	30.7%	25.5%	26.2%	-448 bps	68 bps	24.5%	28.2%	373 bps

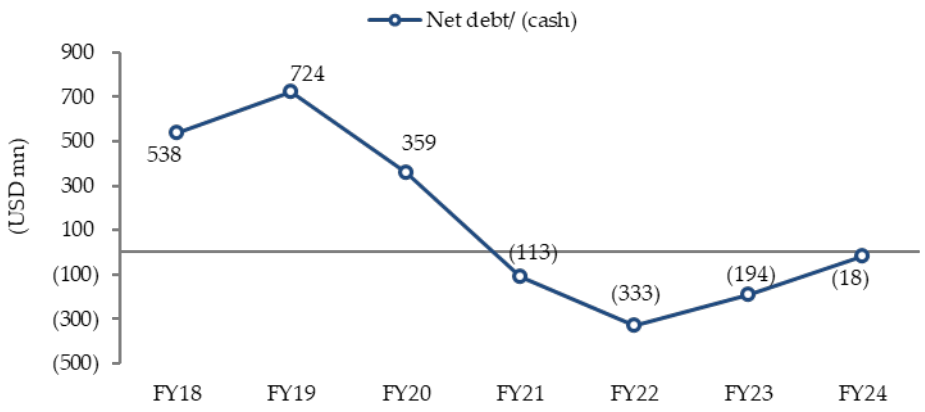
Source: Company, HSIE Research.

Exhibit 2: Revenue mix

(INR mn)	% of Q4FY24 sales	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
US Formulations	**48%**	**30,450**	**37,950**	**36,390**	**20**	**-4**	**1,16,549**	**1,42,080**	**22**
US (USD mn)		**370**	**456**	**438**	**18**	**-4**	**1,453**	**1,715**	**18**
Europe Formulations	24%	16,600	17,280	18,320	10	6	64,255	71,660	12
Growth market formulation (ex-India)	11%	5,391	5,670	8,040	49	42	17,531	22,916	31
India formulations	1%	529	600	480	-9	-20	2,203	2,264	3
ARV formulations	3%	1,590	1,790	2,380	50	33	9,541	8,680	(9)
Total formulations	**87%**	**54,560**	**63,290**	**65,610**	20	4	**2,10,079**	**2,47,600**	**18**
Betalactam	9%	6,380	7,370	6,980	9	-5	24,483	29,700	21
Non- betalactam	4%	3,800	2,850	3,210	-16	13	14,002	12,700	(9)
Total API	**13%**	**10,180**	**10,220**	**10,190**	0	-0	**38,485**	**42,400**	**10**
Total revenue		**64,730**	**73,518**	**75,802**	**17**	**3**	**2,48,554**	**2,90,019**	**17**

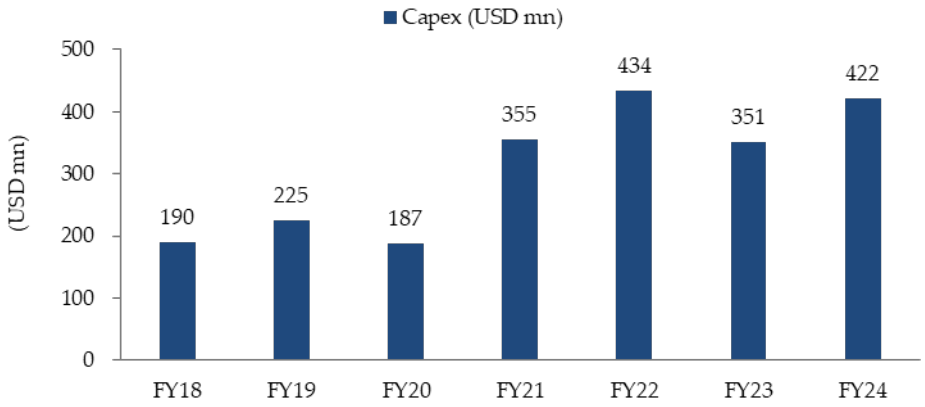
Source: Company, HSIE Research.

Exhibit 3: Net debt/ (cash) trend



Source: Company, HSIE Research

Exhibit 4: Capex trend



Source: Company, HSIE Research.

Biosimilar updates

- Over the last few years, the company has invested ~USD 341 mn in biosimilar development and capitalized ~USD 75 mn.
- In Oct'23, CuraTeQ Biologics (Aurobindo's subsidiary) and MSD signed a letter of intent (LoI) for contract manufacturing operations (CMO through CuraTeQ CDMO subsidiary TheraNym Biologics) for biologicals, and it expects to close the definitive agreement in May'24 end. TheraNym Biologics is establishing a large CMO facility for mammalian cell culture products manufacturing – in Phase 1, the facility will house 2x 15 KL bioreactors and a vial filling line integrated with an isolator. The company expects to start commercial supplies from FY27-28.
- Received approval for Trastuzumab in India; waiting for manufacturing license and it expects to launch in FY25. Also, filed in the EU and targets for filing in EMs and the US in Q2/H2FY25.
- Global trials ongoing for ophthalmology (Prolia); phase 3 recruitment to be completed in Europe. Targets to submit for the review in EU/ US by Q2/Q3FY26.
- Omalizumab (Xolair) successfully met PK/PD end-points in a three-arm Phase 1 clinical study. Currently, phase 3 global trials are ongoing, and it expects to complete recruitment by Oct'24; it is targeting to submit it to both Europe and US in the Q2/Q3FY26.
- 2 oncology biosimilar filed with EMA and expects to get approval in H2FY25.

- 1 more oncology product trial is ongoing, and recruitment is to be completed in Oct'24 and filing in Q4FY25.
- 1 Ophthalmology product is facing some delay due to slower recruitment in Europe, now expects filing in FY26/27.

Exhibit 5: Update on Biosimilar pipeline

Key products	Market size (USD bn)	Therapy	Status
BP01	6.2	Oncology	- Phase 1 PK/PD clinical study completed. - Multi center and multi country Phase 3 study in NSCLC patients is in progress
BP02	5.2	Oncology	- MA received in India. Have applied for Manufacturing License. - Product filed with EMA. - Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met the clinical end points successfully.
BP05	4.2	Ophthalmology	Phase 3 multi-country and multi-center trial is in progress.
BP08	3.5	Immunology	Phase 3 clinical study completed in Apr/May 2024. Filing in India in Q2FY25.
BP16	5.7	Immunology/Oncology	Phase 3 clinical study in Europe region
BP11	4.0	Respiratory	- Phase 3 clinical study is on-going in Europe in chronic spontaneous urticaria patients. - Phase 3 clinical study in respiratory asthma patients is in progress in India.
BP13	1.5	Oncology	Completed licensure trials and is filed with EMEA.
BP14	4.6	Oncology	Completed licensure trials and filed with EMEA.

Source: Company, HSIE Research

ARBP's Eugia Unit 3 observations received OAI status – negative development

Recent events at Eugia Unit 3

- Eugia's formulation Unit-III, at Telangana, was inspected by the USFDA between 22nd Jan'24 to 2nd Feb'24. This was concluded with nine observations.
- Subsequently, the company has decided to temporarily stop manufacturing its non-aseptic (sterilized) and aseptic lines to conduct a holistic investigation.
- In Feb'24 end, the company started production of sterilized product lines.
- In mid-Mar '24, ARBP started distribution of aseptic products manufactured at Unit 3, which was temporarily stopped. Also, commercial production from the aseptic lines of the said facility in a phased manner in the subsequent week.
- In mid-April24, the company re-started all the lines.
- Now In May'24, the USFDA has determined the inspection classification status of Unit 3 facility as Official Action Indicated (OAI).
- As of Mar'24, Eugia Unit 3 (Injectable and ophthalmic formulation) has 111 approved ANDAs, 3 tentative ANDAs, and 29 ANDAs pending for approval.

Detail observations

We see a few observations (1, 2, 5, 9) are serious in nature as they relate to the quality units and inadequate data. Other are procedural in nature. Considering the nature of the observations, we believe the plant clearance may take some time. However, any escalation by USFDA (like a warning letter or import alert) would certainly delay the plant clearance and product approvals from the plant.

- **Observation 1: Procedures designed to prevent microbiological contamination of drug products purporting to be sterile are not established and followed.**
  - During aseptic filling operations, "Clean Room Practices and Aseptic Behaviour" and line-specific intervention procedures were not followed. Multiple deficiencies during aseptic batch product through human intervention without proper precautions to prevent contamination or other risks.
- **Observation 2: Laboratory records do not include complete data derived from all tests, examinations and assays necessary to assure compliance with established specifications and standards.**
  - Lack of data reporting to support the integrity testing and environmental monitoring of the production batches. Non-viable particle counts (NVPC) taken in the aseptic processing areas are reported without collecting samples in the documented location.
- **Observation 3: Batch production and control records do not include complete information relating to the production and control of each batch.**
  - The intervention records showed production personnel did not document all interventions or document interventions accurately. Production personnel inside the aseptic filling room lacked records.
- **Observation 4: Procedures designed to prevent microbiological contamination of drug products purporting to be sterile did not include adequate validation of the aseptic process.**
  - Block line re-qualification (Chemical Indicators and Biological Indicators were not placed at the worst-case location of each) and exposure were not adequately performed. Deficiencies were observed during the review of airflow visualization studies. The qualification of the HVAC system for the Line machine failed to maintain appropriate air quality for aseptic filling of the US market.
- **Observation 5: There is a failure to thoroughly review any unexplained discrepancy and the failure of a batch or any of its components to meet any of its specifications whether or not the batch has been already distributed.**
  - The investigation failed to thoroughly assess any potential sources of microbial contamination. The CAPA failed to identify any assignable cause for the reject rate of a few vial batches. There were no identified corrective actions or preventive actions implemented. Failure to determine the cause of OOS for a few batches. Lack of root cause analysis for impurity and contamination in the production as well as commercial batches.
- **Observation 6: Failed to establish adequate written procedures for production and process controls designed to assure that the drug products have the identity, strength, purity, and quality that they are purported or represented to possess.**
  - Process performance qualification studies for the US market products do not include evaluation of intra-batch or inter-batch variability. Without acceptance criteria for variability, process performance qualification studies were approved without evaluating sources of potential variation –lack of root cause analysis for OOS batches.

- **Observation 7: Appropriate controls are not exercised over computers or related systems to assure that changes in master production and control records or other records are instituted only by authorized personnel.**
  - There are no controls to prevent operators from changing the date and time on the Climet nonviable particle count equipment. Operators stated they had changed the date and time to back-date printouts. Oxi 7310 Dissolved Oxygen Meter allows automatic saving of electronic data that can be backed up to a USB or transferred through a connected computer, but these capabilities are not being used.
- **Observation 8: Changes to written procedures are not drafted, reviewed and approved by the appropriate organizational unit.**
  - Failed to justify the changes in procedures related to visual inspection of the batches, video recording and other actions without proper documented justification, evaluation of historical data, or assessment of the impact of this change.
- **Observation 9: Laboratory controls do not include the establishment of scientifically sound and appropriate test procedures designed to assure that drug products conform to appropriate standards of identity, strength, quality, and purity.**
  - Sterility test method suitability and routine test method for the release of drug product is deficient in that the products are not appropriately performed. Lack documentation of the possibility that a lower product concentration instead of the intended concentration was tested for inhibition of microorganism.

Exhibit 6: USFDA inspection timeline and status

Inspection date	Facility	No. of observations	Facility status
May-24	Unit-7 (API plant, Apitoria Pharma, Anakapally)	1	-
May-24	Eugia - 2 (Penem), Bhiwadi, Alwar, Rajasthan,	7	-
Apr-24	New Eugia steriles injectable, AP	3	Started commercial operations
Feb-24	Eugia SEZ, injectable facility, Mandal, Mahaboobnagar, Telangana	7	-
Feb-24	Auro Peptides, synthetic peptides API, Mandal, Sangareddy, Telangana	0	-
Feb-24	Eugia formulation Unit-III, Pashamylaram, Telangana	9	OAI (May'24) 'Production stopped for CAPA; non-aseptic line started on 29 Feb'24, and aseptic line started on in Mar'24
Dec-23	Eugia new injectable facility at New Jersey, US	10 (PAI)	The observations are procedural in nature.
Nov-23	APL HC - Unit 1/3, Telangana	0 (PAI)	NAI
Sep-23	Unit VI-B (formulations), Telangana	1	VAI (Jan'24)
Sep-23	APL HC - Unit IV, Tirupati, AP	1	VAI (Dec'23)
Aug-23	Unit-7 (formulations) - Telangana	0 (PAI)	NAI
Jul-23	Eugia Unit-1 (formulations), Telangana	0	closed with NAI status
Jul-23	Unit-3 (formulation), Bachupally, Telangana	3	EIR + VAI (Sep'23)
May-23	Unit-14 (non-antibiotic API), Andhra	4	EIR + VAI (Jul'23)
Jan-23	APL HC U-I,III (Orals, Derma)	2	VAI in Feb'23
Aug-21	Unit-1 (API)	7	WL (Jan-22) OAI (Nov-21)
Feb-19	Units-1, 9 and 11	6 (Unit-1) 5 (Unit-9) 3 (Unit-11)	**Unit 1: OAI (May-19)** **Unit 9:** OAI (May'19); **VAI (Feb'23) after 10 obs (Nov'22)** **Unit 11**: WL (Jun'19); **Nov'22: EIR + VAI** (Aug'22 - 3 obs)

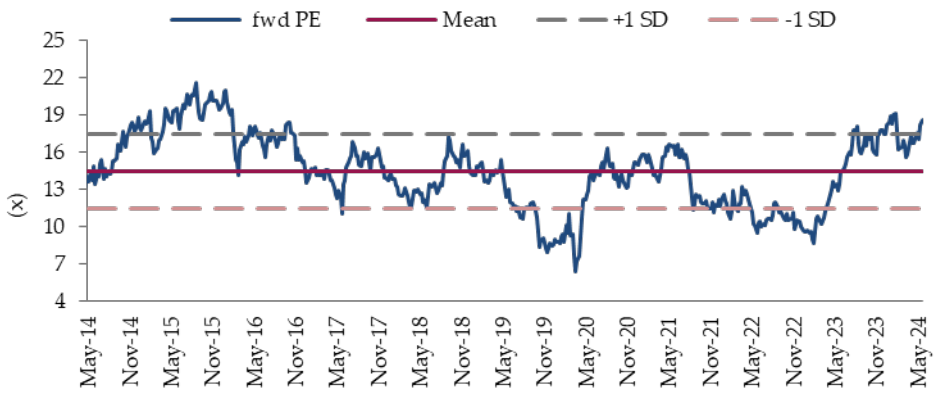
Source: Company, USFDA, HSIE Research

Exhibit 7: Facility wise ANDA filing status

Facility	Details	Final approval		Tentative approval		Pending ANDA		Filed ANDA	
		Mar-23	Mar-24	Mar-23	Mar-24	Mar-23	Mar-24	Mar-23	Mar-24
Unit III	Oral Formulations	118	118	7	1	7	10	132	129
Unit VIB	Cephalosporins Oral	11	11	-	-	2	4	13	15
Unit VII (SEZ)	Oral Formulations	147	153	10	6	17	12	174	171
Unit XII	Penicillin Oral & Injectables	21	22	-	-	1	-	22	22
APL HC I	Oral Formulations	15	23	2	3	16	13	33	39
APL HC III	Orals & topicals	1	6	-	-	3	10	4	16
APL HC IV	Oral Formulations	49	73	6	9	56	37	111	119
Aurolife & Aurolife –II	Orals & topicals	24	24	-	-	11	11	35	35
Eugia I	Oral & Injectable formulation	31	36	6	5	20	16	57	57
EugiaII	Penem Injectables	2	2	-	-	-	-	2	2
Eugia III	Injectables & Ophthalmic	98	111	3	3	39	29	140	143
Eugia VI	Injectables	-	-	-	-	1	2	1	2
EugiaSEZ	Injectables	-	1	-	-	-	-	-	1
Others***		48	78	-	-	2	1	50	79
Total		**565**	**658**	**34**	**27**	**175**	**145**	**774**	**830**
Eugia total		**131**	**150**	**9**	**8**	**60**	**47**	**200**	**205**

Source: Company, HSIE Research

Exhibit 8: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**1,92,259**	**2,27,380**	**2,45,579**	**2,33,666**	**2,46,171**	**2,87,045**	**3,15,043**	**3,40,001**
Other operating income	3,376	3,606	2,167	889	2,383	2,974	0	0
Total operating income	**1,95,636**	**2,30,985**	**2,47,746**	**2,34,555**	**2,48,554**	**2,90,019**	**3,15,043**	**3,40,001**
Cost of goods sold	-87,126	-97,352	-99,025	-1,01,403	-1,12,933	-1,26,029	-1,36,099	-1,44,160
Gross profit	1,08,509	1,33,633	1,48,722	1,33,152	1,35,621	1,63,990	1,78,944	1,95,841
Gross margin (%)	55	58	60	57	55	57	57	58
Total operating expenses	-68,990	-84,990	-95,388	-89,284	-98,039	-1,05,560	-1,10,580	-1,22,400
EBITDA	**39,519**	**48,643**	**53,334**	**43,868**	**37,582**	**58,430**	**68,364**	**73,440**
EBITDA margin (%)	20.2	21.1	21.5	18.7	15.1	20.1	21.7	21.6
Depreciation	-6,680	-9,667	-10,554	-11,265	-12,446	-15,217	-17,095	-18,190
EBIT	**32,840**	**38,976**	**42,780**	**32,603**	**25,136**	**43,213**	**51,269**	**55,250**
Net interest	-2,626	-3,051	-745	-486	-1,405	-2,897	-2,356	-1,768
Other income	1,157	862	2,773	2,504	2,906	5,186	4,567	4,978
Profit before tax	**30,887**	**37,582**	**73,990**	**34,040**	**26,242**	**43,972**	**53,480**	**58,461**
Total taxation	-7,269	-8,994	-20,098	-7,256	-6,849	-12,110	-14,660	-16,029
Tax rate (%)	24	24	27	21	26	28	27	27
Profit after tax	23,618	28,589	53,892	26,784	19,393	31,861	38,820	42,431
Minorities	-2	-15	-10	-10	2	-40	-40	-40
Profit/ Loss associate co(s)	27	-152	-554	-313	-117	-172	-172	-172
Adjusted net profit	**24,782**	**28,952**	**32,153**	**26,937**	**19,567**	**32,837**	**38,688**	**42,300**
Adj. PAT margin (%)	13	13	13	12	8	11	12	12
Net non-recurring items	-1,135	-500	21,195	-455	-292	-1,108	0	0
Reported net profit	**23,647**	**28,451**	**53,348**	**26,482**	**19,275**	**31,730**	**38,688**	**42,300**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	586	586	586	586	586	586	586	586
Reserves & surplus	1,38,322	1,67,661	2,18,713	2,45,174	2,67,813	2,97,842	3,30,830	3,66,888
Net worth	1,38,924	1,68,248	2,19,290	2,45,741	2,68,519	2,98,508	3,31,456	3,67,474
Borrowing	67,532	54,223	53,391	28,513	52,862	66,476	53,543	41,111
Other non-current liabilities	3,812	7,387	8,785	5,101	6,428	6,575	6,649	6,801
Total liabilities	**2,64,544**	**2,89,277**	**3,38,540**	**3,39,217**	**3,98,900**	**4,50,715**	**4,76,194**	**5,05,133**
Gross fixed assets	96,651	1,15,253	1,27,587	1,50,491	1,75,472	2,10,972	2,29,522	2,48,072
Less: Depreciation	-20,228	-30,448	-38,141	-49,925	-71,195	-71,995	-89,091	-1,07,281
Net fixed assets	76,423	84,805	89,447	1,00,567	1,04,276	1,38,976	1,40,431	1,40,791
Add: Capital WIP	16,685	19,859	30,615	37,472	53,900	38,687	38,293	38,293
Total fixed assets	93,108	1,04,665	1,20,062	1,38,039	1,58,176	1,77,664	1,78,724	1,79,084
Total Investment	3,602	5,547	5,910	9,972	5,427	3,722	3,732	3,741
Inventory	72,456	76,999	90,266	75,539	85,112	98,082	1,07,640	1,16,167
Debtors	34,150	43,152	35,033	40,123	44,664	48,167	52,507	56,667
Cash & bank	19,572	28,422	54,743	41,900	60,842	62,783	70,572	82,951
Loans & advances	167	195	216	190	180	187	203	217
Current liabilities	54,276	59,420	57,074	59,863	71,092	79,156	84,546	89,747
Total current assets	1,53,361	1,64,026	1,95,920	1,74,802	2,13,246	2,41,552	2,64,872	2,92,299
Net current assets	99,085	1,04,606	1,38,846	1,14,939	1,42,154	1,62,396	1,80,327	2,02,552
Other non-current assets	6,147	5,881	12,359	11,651	16,089	21,826	22,914	24,057
Total assets	**2,64,544**	**2,89,277**	**3,38,540**	**3,39,217**	**3,98,900**	**4,50,715**	**4,76,194**	**5,05,133**

Source: Company, HSIE Research

Cash flow (INR mn)

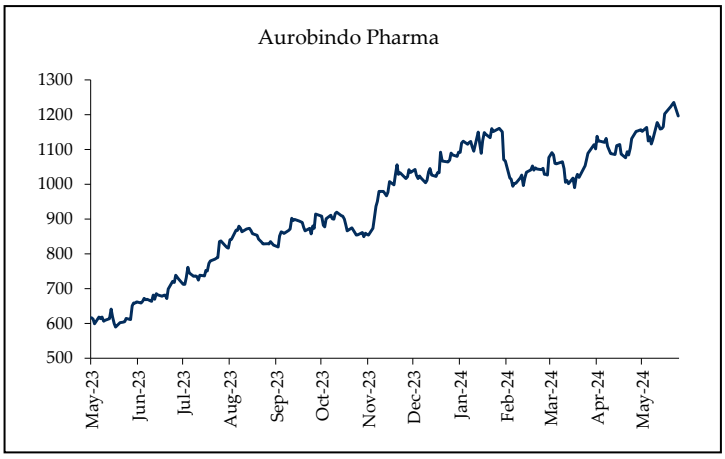
March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	30,887	37,582	73,990	34,040	26,242	43,972	53,480	58,461
Depreciation & Amortisation	-6,680	-9,667	-10,554	-11,265	-12,446	-15,217	-17,095	-18,190
Chg in working capital	-14,845	3,079	-10,667	15,578	-10,950	-16,751	-11,151	-10,989
CF from operations	**16,510**	**43,813**	**33,291**	**50,165**	**23,868**	**24,345**	**44,707**	**48,599**
Capital expenditure	-28,790	-14,311	-21,480	-32,860	-28,893	-35,615	-18,550	-18,550
CF from investing	**-29,026**	**-15,676**	**5,987**	**-32,116**	**-39,778**	**-42,560**	**-18,934**	**-18,540**
Equity raised/ (repaid)	1	2	0	0	0	0	0	0
Debt raised/ (repaid)	22,304	-15,300	-9,590	-25,539	24,576	14,613	-12,934	-12,432
Dividend paid	-1,603	-1,886	-2,344	-2,637	-4,395	-2,636	-5,803	-6,345
CF from financing	**19,191**	**-19,472**	**-13,649**	**-29,693**	**18,144**	**8,004**	**-21,093**	**-20,545**
Net chg in cash	6,674	8,665	25,628	-11,644	2,234	-10,210	4,680	9,513

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	42.3	49.4	54.9	46.0	33.4	56.0	66.0	72.2
CEPS (INR)	51.8	65.1	109.1	64.4	54.1	80.1	95.2	103.2
DPS (INR)	2.7	3.2	4.0	4.5	7.5	4.5	9.9	10.8
Dividend payout ratio (%)	6.8	6.6	4.4	10.0	22.8	8.3	15.0	15.0
GROWTH								
Net sales (%)	18.4	18.3	8.0	(4.9)	5.4	16.6	9.8	7.9
EBITDA (%)	4.3	23.1	9.6	(17.7)	(14.3)	55.5	17.0	7.4
Adj net profit (%)	1.7	16.8	11.1	(16.2)	(27.4)	67.8	17.8	9.3
FDEPS (%)	1.7	16.8	11.1	(16.2)	(27.4)	67.8	17.8	9.3
PERFORMANCE								
RoE (%)	19.4	17.2	16.6	11.6	7.6	11.6	12.3	12.1
RoCE (%)	18.1	17.3	17.8	12.5	9.2	13.8	14.6	14.9
EFFICIENCY								
Asset turnover (x)	2.3	2.1	2.0	1.7	1.5	1.5	1.4	1.4
Sales/ total assets (x)	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Working capital/ sales (x)	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Receivable days	65	69	52	63	66	61	61	61
Inventory days	169	154	169	145	147	155	159	159
Payable days	60	52	52	52	67	70	73	72
FINANCIAL STABILITY								
Total debt/ equity (x)	0.5	0.4	0.3	0.1	0.2	0.2	0.2	0.1
Net debt/ equity (x)	0.4	0.2	(0.0)	(0.1)	(0.0)	0.0	(0.1)	(0.1)
Current ratio (x)	2.8	2.8	3.4	2.9	3.0	3.1	3.1	3.3
Interest cover (x)	12.5	12.8	57.4	67.0	17.9	14.9	21.8	31.3
VALUATION								
PE (x)	28.3	24.2	21.8	26.0	35.8	21.3	18.1	16.6
EV/ EBITDA (x)	18.9	14.9	13.1	15.6	18.4	12.0	10.0	9.0
EV/ Net sales (x)	3.9	3.2	2.8	2.9	2.8	2.5	2.2	1.9
PB (x)	5.0	4.2	3.2	2.9	2.6	2.3	2.1	1.9
Dividend yield (%)	0.2	0.3	0.3	0.4	0.6	0.4	0.8	0.9
Free cash flow yield (%)	(1.8)	4.2	1.7	2.5	(0.7)	(1.6)	3.7	4.3

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

I, **Mehul Sheth, MBA** author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We 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.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HDFC Securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com