

Aurobindo Pharma

Performance Highlights

Y/E march (₹ cr)	4QFY2012	3QFY2012	% chg (qoq)	4QFY2011	% chg (yoy)
Net sales	1171	1262	(7.2)	1128	3.8
Other income	26	28	(7.5)	32	(19.1)
Operating profit	119	168	(29.1)	188	(36.6)
Interest	(68)	172	-	19	-
Adj. Net profit	109	(29)	-	129	(15.5)

Source: Company, Angel Research

For 4QFY2012, Aurobindo Pharmaceuticals (APL) posted results in –line with expectations, on top line, while on the net profit came below expectations. The main disappointment came in on the operating front, wherein the OPM's came in at 10.2%. **We maintain our Buy view on the stock.**

In-line expectations: Net sales grew by 3.8% yoy to ₹1,171cr. API was the key growth driver for the quarter, registering a growth of 17.8% yoy, whereas the formulation segment de-grew by 3.2% yoy. The US formulation segment de-grew by 14.0% to ₹301cr (₹350cr). The ARV formulation segment de-grew by 2.3% yoy to ₹176cr (₹180cr). Gross margin came in at 45.2% (46.4%), impacted by higher raw-material costs, thus impacting the OPM's which came in at 10.2% V/s 16.7% in 4QFY2011. For the quarter, APL reported profits on account of Adjusted net profit came in at ₹109cr (₹125cr) for the quarter.

Outlook and valuation: Commencement of operations at the Hyderabad SEZ and incremental contribution from the Pfizer deal would boost APL's earnings with better growth visibility going forward. We estimate net sales to log a 12.7% CAGR to ₹5,767cr over FY2012–14E on the back of supply agreements and the US and ARV formulation contracts. Even after factoring in lower profitability going forward, the stock trades at attractive valuations. **Hence, we maintain a Buy with a revised price target of ₹156.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	4,126	4,551	5,243	5,767
% chg	22.4	10.3	15.2	10.0
Net profit	563	198	457	489
% chg	(0.0)	(64.8)	130.6	7.2
Recurring profit	332	141	342	367
% chg	9.2	(57.4)	142.2	7.2
EPS (₹)	19.3	6.8	15.7	16.8
Recurring EPS	11.4	4.9	11.8	12.6
EBITDA margin (%)	17.1	11.7	14.6	14.6
P/E (x)	9.2	21.6	8.9	8.3
RoE (%)	24.6	8.3	17.9	16.4
RoCE (%)	11.7	10.0	15.8	15.9
P/BV (x)	1.2	1.3	1.1	0.9
EV/Sales (x)	1.3	0.8	0.7	0.6
EV/EBITDA (x)	7.5	7.1	5.0	4.1

Source: Company, Angel Research

BUY

CMP	₹105
Target Price	₹156

Investment Period	12 months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	3,055
Beta	1.2
52 Week High / Low	189/80
Avg. Daily Volume	216,225
Face Value (₹)	1
BSE Sensex	15,965
Nifty	4,842
Reuters Code	ARBN.BO
Bloomberg Code	ARBP@IN

Shareholding Pattern (%)	
Promoters	54.8
MF / Banks / Indian Fls	21.9
FII / NRIs / OCBs	13.0
Indian Public / Others	10.3

Abs. (%)	3m	1yr	3yr
Sensex	(9.2)	(14.2)	7.6
Aurobindo	(6.1)	(40.5)	33.5

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Exhibit 1: 4QFY2012 performance (Consolidated)

Y/E March (₹ cr)	4QFY2012	3QFY2012	% chg (qoq)	4QFY2011	% chg (yoy)	FY2012	FY2011	% chg (yoy)
Net sales	1,171	1,262	(7.2)	1,128	3.8	4,551	4,330	5.1
Other income	26	28	(7.5)	32	(19.1)	102	76	34.4
Total income	1,197	1,290	(7.2)	1,160	3.2	4,652	4,405	5.6
Gross profit	529	556	(4.8)	523	1.2	2031	2157	(5.8)
Gross margins	45.2	44.1		46.4		44.6	49.8	
Operating profit	119	168	(29.1)	188	(36.6)	212	901	(76.5)
OPM (%)	10.2	13.3		16.7		4.7	20.8	
Interest	(68)	172	(139.7)	19	(459.1)	326	17	1803.6
Dep & amortisation	54	55	(2.0)	47	14.7	201	172	16.9
PBT	159	(31)	-	154	3.4	(213)	788	(127.0)
Provision for taxation	52	(2)	-	35	48.3	(89)	225	(139.5)
Net profit	107	(29)	-	119	(9.7)	(124)	563	(122.0)
Less : Exceptional items	(1)	-		(6)		(322)	(7)	
MI & share in associates	(1)	0	-	0	(583.3)	0	0	(7.7)
PAT after Exceptional items	108	(29)	-	125	(13.4)	(124)	563	(122)
Adjusted PAT	109	(29)	-	129	(15.5)	198	571	(65)
EPS (₹)	3.8	-		4.4		6.8	19.6	

Source: Company, Angel Research

Exhibit 2: Actual v/s Estimate

(₹ cr)	Actuals	Estimate	Variation %
Net sales	1,171	1,128	3.8
Other operating income	25.9	32	(19.7)
Operating profit	119	188	(36.5)
Tax	52	35	46.6
Adj. Net profit	109	125	(12.7)

Source: Company, Angel Research

Revenue up at 3.8% yoy, in line with expectations: Net sales grew by 3.8% yoy to ₹1,171cr. API was the key growth driver for the quarter, registering a growth of 17.8% yoy, whereas the formulation segment de-grew by 3.2% yoy. The formulation sales during the period de-grew mainly on back of import ban of the Unit VI, ~ to be at \$36mn.

The US formulation segment de-grew by 14.0% to ₹301cr (₹350cr). The ARV formulation segment de-grew by 2.3% yoy to ₹176cr (₹180cr). As a result, contribution from the formulations segment to net sales decreased to 53% in 4QFY2012 from 58% in 4QFY2011. The API segment posted growth of 17.8% yoy to ₹570cr (₹484cr), driven by SSP and other segments, which grew by 21.2% and 84.4% yoy respectively.

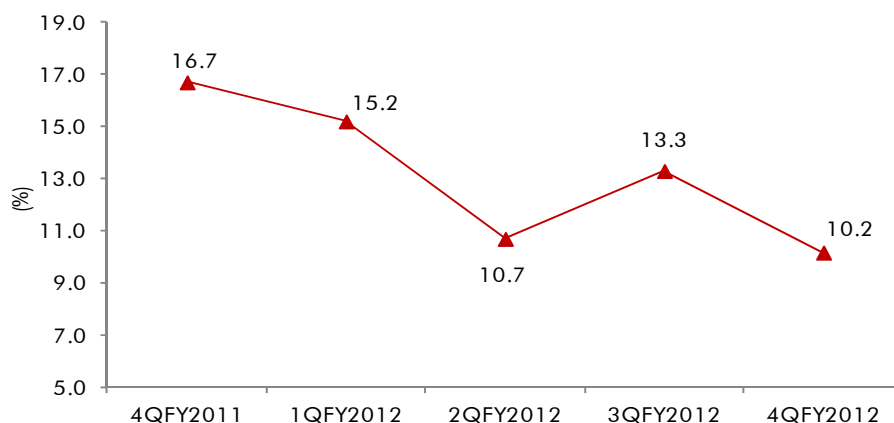
As of March 2012, the company now has 147 approved ANDAs and 28 tentative approvals, with the cumulative filings to 239. In EU, the company filed 267 Dossier filings in FY2012, cumulative filings 1258.

Exhibit 3: Sales break-up (Consolidated)

(₹ cr)	4QFY2012	3QFY2012	% chg (qoq)	4QFY2011	% chg (yoy)	FY2012	FY2011	% chg
Formulations	649	670	(3.2)	670	(3.2)	2602	2423	7.4
US	301	350	(14.0)	350	(14.0)	1184	1190	(0.5)
Europe & ROW	172	199	(13.5)	140	22.7	632	540	17.0
ARV	176	215	(18.0)	180	(2.3)	787	694	13.4
API	570	483	18.1	484	17.8	2063	1802	14.5
SSP	165	157	4.8	136	21.2	629	565	11.4
Cephs	193	190	2.0	233	(17.0)	748	847	(11.8)
ARV & others	212	197	7.4	115	84.4	687	390	76.1

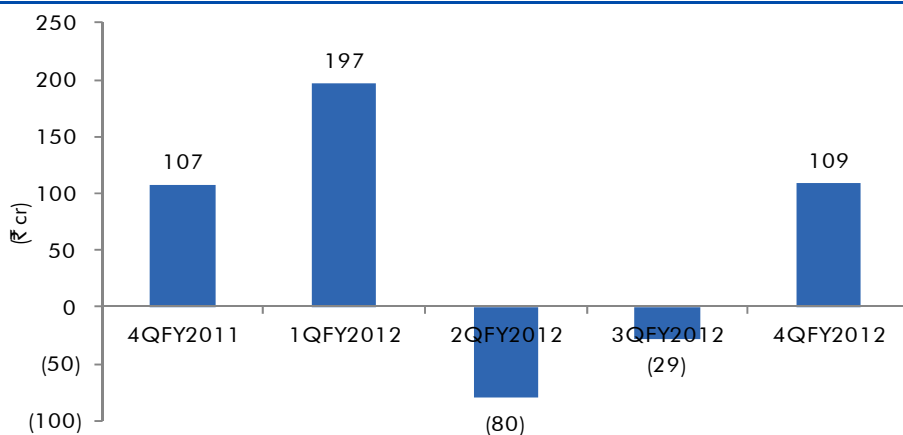
Source: Company, Angel Research

OPM dips by 649bp for the quarter: Gross margin came in at 45.2% (46.4%), impacted by higher raw-material costs, thus impacting the OPM's which came in at 10.2% V/s 16.7% in 4QFY2011. However, the OPM's were lower than the expectations. The margins dipped, on back of lower than expected growth in sales.

Exhibit 4: OPM Trend


Source: Company, Angel Research

Net profit lower than estimates: For the quarter, APL reported profits on account of Adjusted net profit came in at ₹109cr (₹125cr) for the quarter.

Exhibit 5: Adj. Net profit


Source: Company, Angel Research

Management takeaways

- Management has guided for 20 new launches in US, which was only at 10-12 during the FY2012, on account of the USFDA issues.
- Post the USFDA inspection of Unit III in February-March'2012, Aurobindo received three approvals from facility, thus indicating the facility has been approved by the US. The management expects USFDA inspection of unit VI, which is facing an import ban, to take place between July and September'2012.
- Management has guided has for a revenue growth of 14-15% in FY2013. EBDITA Margins are expected to be around 18%.
- Capex is guided to be Rs100cr in FY2013.

Recommendation rationale

- **Supply agreements to drive growth:** On the global filings front (ANDAs and dossiers), APL has increased its filing dramatically from 313 in FY2008 to 1,647 in FY2012, as it proposes to scale up from SSP and Cephs to NPNC products. Further, the company's transformation from being a pure API supplier to becoming a formidable formulations player has increased APL's cost efficiencies, as 90% of its formulation is now backward integrated. Thus, to leverage on its cost efficiency and strong product filings, APL entered into long-term supply agreements with Pfizer (March 2009) and AstraZeneca (September 2010), which provide significant revenue visibility going ahead. APL is also in discussion with other MNCs for more supply agreements.
- **US and ARV formulation segments** – The key drivers for base business: APL's business, excluding the supply agreements, would primarily be driven by the US and ARV segments on the formulation front. APL has been an aggressive filer in the US market, with 239 ANDAs filed until FY2012. Amongst peers, APL is the third-largest ANDA filer. The company has aggressively filed ANDAs in the last three years and is now geared to reap benefits, even though most of the filings are for highly competitive products. APL expects to file 15–20 ANDAs every year going forward. Going ahead, during the next three years in the US with US\$70bn going off-patent, one of the highest in history, we believe APL is well placed to tap this opportunity. APL is one of the largest generic suppliers under ARV contracts, with a 35% market share. The company enjoys high market share as it is fully integrated in all its products apart from having a larger product basket.

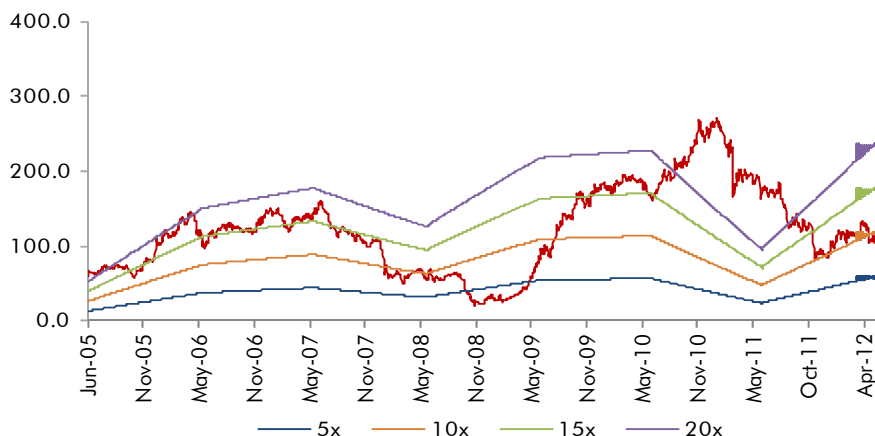
Outlook and valuation

Commencement of operations at the Hyderabad SEZ and incremental contribution from the Pfizer deal would boost APL's earnings with better growth visibility going forward. We estimate the company's net sales to log a 12.6% CAGR to ₹5,767cr over FY2012-14E on the back of supply agreements and the US and ARV formulation contracts. Even after factoring in a lower profitability going forward, the stock trades at attractive valuations. **Hence, we maintain our Buy recommendation on the stock with a revised price target of ₹156.**

Exhibit 6: Key assumptions

	FY2013E	FY2014E
API Sales Growth (%)	(0.4)	(2.3)
Formulations Sales Growth (%)	22.5	17.9
Operating Margins (%)	14.6	14.6
Capex (₹cr)	200	250

Source: Company, Angel Research

Exhibit 7: One-year forward PE


Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2014E		FY12-14E	FY2014E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	49	91	85.7	5.4	0.7	4.7	14.6	29.4	29.2
Aurobindo Pharma	Buy	105	166	58.1	8.3	0.9	4.1	61.1	15.9	16.4
Aventis*	Neutral	2,070	-	-	21.7	2.4	15.8	15.4	15.7	17.0
Cadila Healthcare	Buy	726	953	31.3	15.2	2.1	10.9	22.3	23.1	27.5
Cipla	Buy	309	379	22.7	18.3	3.3	15.4	13.5	15.2	16.8
Dr Reddy's	Accumulate	1,650	1,859	12.7	17.8	2.5	11.8	2.3	18.9	21.0
Dishman Pharma	Buy	50	92	84.0	4.4	0.8	4.3	26.6	8.7	8.8
GSK Pharma*	Neutral	1,978	-	-	20.5	4.6	13.2	13.6	43.9	32.1
Indoco Remedies	Buy	54	82	51.9	6.1	0.7	6.1	33.3	15.6	16.3
Ipca labs	Buy	342	435	27.2	9.4	1.3	6.5	28.7	26.8	28.8
Lupin	Buy	538	647	20.3	16.6	2.1	10.8	29.1	28.0	25.2
Orchid Chemicals	Buy	118	178	50.9	5.3	0.9	4.9	27.8	11.5	7.9
Ranbaxy*	Neutral	492	-	-	16.5	1.6	10.4	44.8	15.6	28.1
Sun Pharma	Neutral	569	-	-	25.2	4.7	12.5	0.0	22.8	15.6

Source: Company, Angel Research; Note: *December year ending; #Based on CY2012 estimates

Company background

Aurobindo Pharma India, manufactures generic pharmaceuticals and active pharmaceutical ingredients. The company's manufacturing facilities are approved by several leading regulatory agencies like US FDA, UK MHRA, WHO, Health Canada, MCC South Africa, ANVISA Brazil. The company's robust product portfolio is spread over 6 major therapeutic/product areas encompassing Antibiotics, Anti-Retrovirals, CVS, CNS, Gastroenterologicals, and Anti-Allergics.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	3,025	3,446	4,225	4,619	5,322	5,855
Less: Excise duty	90	76	100	69	80	88
Net Sales	2,935	3,370	4,126	4,551	5,243	5,767
Other operating income	142	206	256	77	77	77
Total operating income	3,077	3,575	4,381	4,627	5,319	5,843
% chg	26.1	16.2	22.5	5.6	15.0	9.9
Total Expenditure	2,561	2,752	3,422	4,017	4,477	4,924
Net Raw Materials	1,680	1,777	2,189	2,520	2,770	3,047
Other Mfg costs	301	338	411	475	550	606
Personnel	244	327	429	536	696	765
Other	336	310	804	487	460	506
EBITDA	374	617	704	533	766	843
% chg	9.6	65.1	14.0	(24.3)	43.7	10.0
(% of Net Sales)	12.7	18.3	17.1	11.7	14.6	14.6
Depreciation & Amortisation	128	149	172	201	232	262
EBIT	246	468	532	409	534	580
% chg	2.3	90.0	13.8	(23.2)	30.4	8.7
(% of Net Sales)	8.4	13.9	12.9	9.0	10.2	10.1
Interest & other Charges	93	73	62	103	57	57
Other Income	27	44	25	25	52	52
(% of PBT)	8.4	6.9	3.4	7.5	8.7	8.0
Share in profit of Associates	0.0	-	-	-	-	-
Recurring PBT	323	645	751	331	606	653
% chg	10.5	100.0	16.4	(55.9)	83.0	7.7
Extraordinary Expense/(Inc.)	201.0	(109.5)	(37.2)	544.5	-	-
PBT (reported)	122	754	788	(213)	606	653
Tax	21.4	191.4	225.1	(88.8)	149.4	163.2
(% of PBT)	17.6	25.4	28.6	41.6	24.6	25.0
PAT (reported)	100	563	563	(125)	457	489
Less: Minority interest (MI)	-	(0)	(0)	(1)	-	-
PAT after MI (reported)	100	563	563	(124)	457	489
ADJ. PAT	301	454	526	198	457	489
% chg	26.3	50.7	15.9	(62.4)	131.0	7.2
(% of Net Sales)	3.4	16.7	13.7	(2.7)	8.7	8.5
Basic EPS (₹)	3.7	20.2	19.3	6.8	15.7	16.8
Adj EPS (₹)	11.2	16.3	18.1	6.8	15.7	16.8
% chg	26.3	45.4	10.9	(62.4)	131.9	6.8

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	27	28	29	29	29	29
Share Application Money	-	-	-	-	-	-
Reserves & Surplus	1,214	1,801	2,416	2,311	2,733	3,189
Shareholders Funds	1,241	1,829	2,445	2,340	2,762	3,218
Minority Interest	3	4	9	10	10	10
Total Loans	2,333	2,155	2,414	811	811	511
Deferred Tax Liability	77	91	118	(2)	(2)	(2)
Total Liabilities	3,654	4,079	4,987	3,159	3,582	3,737
APPLICATION OF FUNDS						
Gross Block	1,869	2,312	2,774	3,468	3,668	3,918
Less: Acc. Depreciation	575	697	882	1,082	1,315	1,577
Net Block	1,294	1,615	1,892	2,386	2,353	2,341
Capital Work-in-Progress	536	570	502	352	352	352
Goodwill	105	96	48	54	54	54
Investments	0.3	0.3	39	19	19	19
Current Assets	2,289	2,506	3,392	3,264	3,719	4,179
Cash	128	73	188	71	40	132
Loans & Advances	394	375	505	1,240	1,428	1,571
Other	1,767	2,058	2,699	1,953	2,250	2,475
Current liabilities	570	708	886	2,916	2,916	3,207
Net Current Assets	1,719	1,798	2,506	349	804	972
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,654	4,079	4,987	3,159	3,582	3,737

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	73	752	751	(213)	606	653
Depreciation	128	149	172	201	232	262
(Inc)/Dec in WC	(334)	(261)	(593)	2,040	(486)	(76)
Less: Other income	(180)	44	25	25	52	52
Direct taxes paid	(30)	(153)	(180)	89	(149)	(163)
Cash Flow from Operations	16	443	124	2,091	151	623
(Inc.)/Dec. in Fixed Assets	(479)	(400)	(470)	(544)	(200)	(250)
(Inc.)/Dec. in Investments	48	(9)	(38)	(20)	-	-
Other income	(180)	44	25	25	52	52
Cash Flow from Investing	(611)	(365)	(483)	(539)	(148)	(198)
Issue of Equity	-	5	1	-	-	-
Inc./(Dec.) in loans	287	(1)	297	(1,603)	-	(300)
Dividend Paid (Incl. Tax)	(39)	(29)	(37)	(34)	(34)	(34)
Others	193	(109)	-	(32)	-	-
Cash Flow from Financing	440	(132)	261	(1,669)	(34)	(334)
Inc./(Dec.) in Cash	(155)	(54)	(97)	(117)	(30)	92
Opening Cash balances	283	128	73	188	71	40
Closing Cash balances	128	73	188	71	40	132

Key ratios

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	9.4	6.4	5.8	15.5	6.7	6.2
P/CEPS	12.4	4.1	4.2	39.9	4.4	4.1
P/BV	2.3	1.6	1.2	1.3	1.1	0.9
Dividend yield (%)	0.9	0.9	1.0	0.9	0.9	0.9
EV/Sales	1.7	1.5	1.3	0.8	0.7	0.6
EV/EBITDA	13.4	8.1	7.5	7.1	5.0	4.1
EV / Total Assets	1.4	1.2	1.1	1.2	1.1	0.9
Per Share Data (₹)						
EPS (Basic)	3.7	20.2	19.3	6.8	15.7	16.8
EPS (fully diluted)	11.2	16.3	18.1	6.8	15.7	16.8
Cash EPS	8.5	25.6	25.2	2.6	23.7	25.8
DPS	0.9	1.0	1.1	1.0	1.0	1.0
Book Value	46.2	65.7	84.0	80.4	94.9	110.5
Dupont Analysis						
EBIT margin	8.4	13.9	12.9	9.0	10.2	10.1
Tax retention ratio	82.4	74.6	71.4	58.4	75.4	75.0
Asset turnover (x)	1.0	0.9	1.0	1.2	1.6	1.6
ROIC (Post-tax)	6.7	9.8	9.2	6.2	12.3	12.3
Cost of Debt (Post Tax)	3.6	2.4	2.0	3.7	5.3	6.4
Leverage (x)	1.6	1.5	1.0	0.6	0.3	0.2
Operating ROE	11.7	20.6	16.6	7.7	14.4	13.5
Returns (%)						
ROCE (Pre-tax)	7.3	12.1	11.7	10.0	15.8	15.9
Angel ROIC (Pre-tax)	9	15	14	12	18	18
ROE	25.5	29.6	24.6	8.3	17.9	16.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.7	1.7	1.5	1.5	1.5
Inventory / Sales (days)	99	101	107	98	97	99
Receivables (days)	92	94	92	115	128	131
Payables (days)	70	74	118	237	212	212
WC cycle (ex-cash) (days)	169	169	168	102	36	50
Solvency ratios (x)						
Net debt to equity	1.8	1.1	0.9	0.3	0.3	0.1
Net debt to EBITDA	5.9	3.4	3.2	1.4	1.0	0.4
Interest Coverage (EBIT / Int.)	2.6	6.4	8.5	4.0	9.4	10.3

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Note: Please refer to the important '₹ Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Aurobindo Pharma
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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