

Aurobindo Pharma

Performance Highlights

Y/E march (₹ cr)	1QFY2013	4QFY2012	% chg (qoq)	1QFY2012	% chg (yoy)
Net sales	1197	1171	2.3	1065	12.4
Other income	19	26	(25.9)	19	0.3
Operating profit	123	119	3.1	171	(28.3)
Interest	33	(68)	-	16	-
Adj. Net profit	79	109	-	197	(60.1)

Source: Company, Angel Research

For 1QFY2013, Aurobindo Pharmaceuticals Ltd (APL) posted results in –line with expectations on the top-line front, while its net profit came below expectations. The main disappointment has come on the operating front with the OPM coming in at 10.3%. **We maintain our Buy view on the stock.**

In-line sales expectations: Net sales grew modestly by 12.4% yoy to ₹1,197cr, led by a robust growth in the active pharmaceutical ingredient (API) segment. The API segment grew by 27.9% yoy. On the other hand the formulation segment grew by 5.1% yoy only. But formulations in the key geographies like the US, and Europe and rest of world (RoW) grew by 19.8% and 35.8% respectively. Gross margin came in at 45.9% (46.2%), impacted by higher raw-material costs, thus impacting the OPM which came in at 10.3% vs our expectation of 15.4%. This led the company to post a net profit much lower than our expectation at around ₹79Cr.

Outlook and valuation: The commencement of operations at the Hyderabad SEZ and incremental contribution from the Pfizer deal would boost APL's earnings and provide better growth visibility going forward. We estimate net sales to log a 12.6% CAGR to ₹5,767cr over FY2012–14E on the back of supply agreements in the US and antiretroviral (ARV) formulation contracts. Even after factoring in lower profitability going forward, the stock trades at an attractive valuation. **Hence, we maintain our Buy recommendation 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)	9.7	22.6	9.3	8.7
RoE (%)	24.6	8.3	17.9	16.4
RoCE (%)	12.7	8.8	10.4	10.4
P/BV (x)	1.2	1.3	1.1	0.9
EV/Sales (x)	1.1	1.2	1.0	0.9
EV/EBITDA (x)	6.4	10.2	7.2	6.2

Source: Company, Angel Research

BUY

CMP	₹109
Target Price	₹156

Investment Period	12 months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	3,055
Net debt (₹ cr)	740
Beta	1.1
52 Week High / Low	159/80
Avg. Daily Volume	210,257
Face Value (₹)	1
BSE Sensex	17,601
Nifty	5,338
Reuters Code	ARBN.BO
Bloomberg Code	ARBP@IN

Shareholding Pattern (%)

Promoters	54.8
MF / Banks / Indian FIs	21.7
FII / NRIs / OCBs	13.8
Indian Public / Others	9.7

Abs. (%)	3m	1yr	3yr
Sensex	6.4	3.6	16.1
Aurobindo	(10.9)	(30.0)	(8.5)

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Exhibit 1: 1QFY2013 performance (Consolidated)

Y/E March (₹ cr)	1QFY2013	4QFY2012	% chg (qoq)	1QFY2012	% chg (yoy)	FY2012	FY2011	% chg (yoy)
Net sales	1,197	1,171	2.3	1,065	12.4	4,551	4,330	5.1
Other income	19	26	(25.9)	19	0.3	102	76	34.4
Total income	1,217	1,197	1.7	1,084	12.2	4,652	4,405	5.6
Gross profit	550	529	3.9	492	11.9	2031	2157	(5.8)
Gross margins	45.9	45.2		46.2		44.6	49.8	
Operating profit	123	119	3.1	171	(28.3)	212	901	(76.5)
OPM (%)	10.3	10.2		16.1		4.7	20.8	
Interest	33	(68)	(148.5)	16	110.2	326	17	1803.6
Dep & amortisation	59	54	9.1	45	30.3	201	172	16.9
PBT	50	159	-	110	(54.7)	(213)	788	(127.0)
Provision for taxation	(27)	52	-	(87)	(68.4)	(89)	225	(139.5)
Net profit	77	107	-	197	(60.7)	(124)	563	(122.0)
Less : Exceptional items	206	(1)		320		(322)	(7)	
MI & share in associates	(0)	(1)	-	-		0	0	(7.7)
PAT after Exceptional items	(129)	108	-	(123)	5.1	(124)	563	(122)
Adjusted PAT	79	109	-	197	(60.1)	165	571	(71)
EPS (₹)	2.7	3.8		6.8		5.7	19.6	

Source: Company, Angel Research

Exhibit 2: Actual v/s Estimate

(₹ cr)	Actuals	Estimate	Variation %
Net sales	1197	1258	(4.8)
Other operating income	19.2	6	214.6
Operating profit	123	194	(36.8)
Tax	(27)	32	-
Adj. Net profit	79	96	(18.0)

Source: Company, Angel Research

Revenue up at 12.4% yoy, in line with expectations: Net sales grew modestly by 12.4% yoy to ₹1,197cr, led by a robust growth in the API segment. The API segment grew by 27.9% yoy, mainly on the back of the ARV segment which grew by 71.3% yoy. On the other hand, formulations grew only by 5.1% yoy, on the back of pressure in the ARV segment, which de-grew by 33.7% yoy.

In the formulation segment, the key geographies like the US, and Europe & RoW grew by 19.8% and 35.8% respectively. In the API segment, the SSP and Cephs grew by almost 14.3% and 14.8% yoy respectively.

As of June 2012, the company now has 152 approved abbreviated new drug applications (ANDAs) and 26 tentative approvals, with cumulative filings at 248.

Exhibit 3: Sales break-up (Consolidated)

(₹ cr)	1QFY2013	4QFY2012	% chg (qoq)	1QFY2012	% chg (yoy)	FY2012	FY2011	% chg
Formulations	655	649	0.9	623	5.1	2602	2423	7.4
US	328	301	9.1	274	19.8	1184	1190	(0.5)
Europe & ROW	186	172	8.3	137	35.8	632	540	17.0
ARV	140	176	(20.3)	212	(33.7)	787	694	13.4
API	587	570	3.0	459	27.9	2063	1802	14.5
SSP	179	165	8.7	157	14.3	629	565	11.4
Cephs	223	193	15.4	194	14.8	748	847	(11.8)
ARV & others	185	212	(12.8)	108	71.3	687	390	76.1

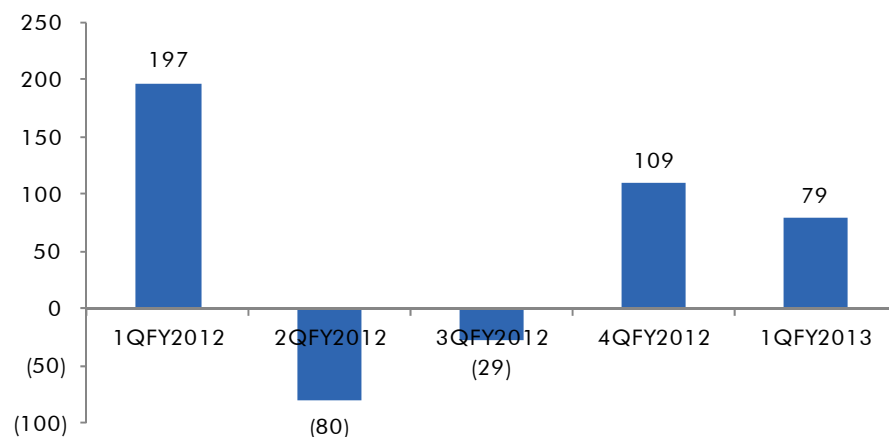
Source: Company, Angel Research

OPM dips by 582bp for the quarter: Gross margin came in at 45.9% (46.2%), impacted by higher raw-material costs, thus impacting the OPM which came in at 10.3% vs our expectation of 15.4%.

Exhibit 4: OPM Trend


Source: Company, Angel Research

Net profit lower than estimates: For the quarter, APL reported an adjusted net profit of ₹79cr (vs ₹197cr in 1QFY2012).

Exhibit 5: Adj. net profit


Source: Company, Angel Research

Management takeaways

- The management has guided for 25 new launches in US, out of which 3 are in controlled substances.
- Post the USFDA inspection of Unit III in February-March'2012, Aurobindo received three approvals for the facility, thus indicating that the facility has been approved by the US. The management expects the USFDA inspection of unit VI, which is facing an import ban, to take place in September'2012.
- The management has guided for a revenue growth of 15-20% in FY2013. The EBDITA margin is expected to be around 16%.
- Dossier income during the next two to three years is expected to be around US\$30-33mn.
- The tax rate is expected to be around 15% in FY2013.
- Capex is guided to be ₹225cr 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 Ceph's to NPNC products. Further, the company's transformation from being a pure API supplier to becoming a formidable formulations player has increased its cost efficiencies, as 90% of its formulation is now backward integrated. Thus, to leverage on its cost efficiency and strong product filings, APL has 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

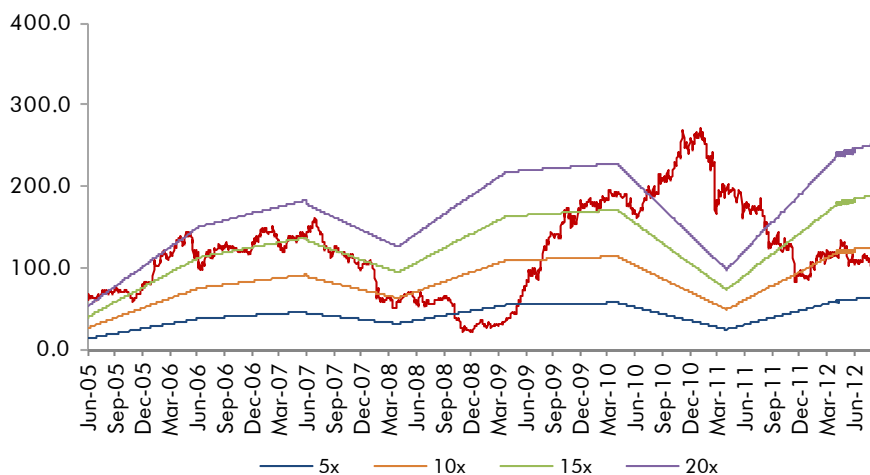
Commencement of operations at the Hyderabad SEZ and incremental contribution from the Pfizer deal would boost APL's earnings with better growth visibility going forward. We estimate the company's net sales to log a 12.4% CAGR to ₹5,767cr over FY2012-14E on the back of supply agreements and the US and ARV formulation contracts. Even after factoring in a lower profitability going forward, the stock trades at an attractive valuation. **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	64	91	41.4	9.1	0.6	4.1	14.6	29.4	29.9
Aurobindo Pharma	Buy	110	156	41.8	8.7	0.9	6.2	57.2	15.9	16.4
Aventis*	Neutral	2,211	-	-	21.1	2.7	17.7	12.0	16.1	17.0
Cadila Healthcare	Accumulate	894	953	6.6	19.4	2.6	13.5	20.5	20.2	26.8
Cipla	Accumulate	351	399	13.6	17.6	2.8	12.6	18.4	16.8	16.6
Dr Reddy's	Accumulate	1,657	1,859	12.2	17.8	2.6	12.3	2.3	15.1	20.8
Dishman Pharma	Accumulate	86	92	7.0	7.6	1.0	5.6	26.6	8.9	10.0
GSK Pharma*	Neutral	2,085	-	-	25.3	5.1	16.4	8.7	38.9	29.0
Indoco Remedies	Buy	58	92	59.9	6.6	0.9	5.0	32.8	15.5	17.0
Ipca labs	Buy	402	475	18.1	11.0	1.6	7.8	29.5	26.1	26.0
Lupin	Accumulate	582	647	11.3	18.7	2.6	13.2	26.7	22.9	24.7
Orchid Chemicals	Buy	109	178	63.7	4.9	0.8	4.7	27.8	11.5	7.9
Ranbaxy*	Neutral	515	-	-	17.3	1.8	11.2	44.8	15.6	28.1
Sun Pharma	Neutral	673	-	-	29.7	4.9	12.8	0.0	22.8	15.6

Source: Company, Angel Research; Note: *December year ending

Company background

Aurobindo Pharma manufactures generic pharmaceuticals and active pharmaceutical ingredients. The company's manufacturing facilities are approved by several leading regulatory agencies like the USFDA, UK MHRA, WHO, Health Canada, MCC South Africa and ANVISA Brazil among others. The company's robust product portfolio is spread over six 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
Diluted 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
Long-term provisions			3	4	4	4
Total Loans	2,333	2,155	1,758	2,573	2,573	2,573
Deferred Tax Liability	77	91	119	2	2	2
Total Liabilities	3,654	4,079	4,334	4,929	5,347	5,803
APPLICATION OF FUNDS						
Gross Block	1,869	2,312	2,387	3,032	3,232	3,482
Less: Acc. Depreciation	575	697	699	892	1,124	1,386
Net Block	1,294	1,615	1,688	2,141	2,108	2,096
Capital Work-in-Progress	536	570	657	657	657	657
Goodwill	105	96	51	54	54	54
Investments	0.3	0.3	39	39	39	39
Long-term loans and adv.			111	108	124	137
Current Assets	2,289	2,506	3,322	3,237	3,672	4,257
Cash	128	73	188	71	24	245
Loans & Advances	394	375	505	1,240	1,428	1,571
Other	1,767	2,058	2,629	1,926	2,219	2,441
Current liabilities	570	708	1,534	1,307	1,307	1,438
Net Current Assets	1,719	1,798	1,788	1,930	2,365	2,820
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,654	4,079	4,334	4,929	5,347	5,803

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 Working Capital	(334)	(261)	236	(262)	(481)	(234)
Less: Other income	(180)	44	25	25	52	52
Direct taxes paid	(30)	(153)	(180)	89	(149)	(163)
Cash Flow from Operations	16	443	952	(210)	155	465
(Inc.)/Dec.in Fixed Assets	(479)	(400)	(470)	(645)	(200)	(250)
(Inc.)/Dec. in Investments	48	(9)	(38)	-	-	-
Other income	(180)	44	25	25	52	52
Cash Flow from Investing	(611)	(365)	(483)	(620)	(148)	(198)
Issue of Equity	-	5	1	-	-	-
Inc./Dec.) in loans	287	(1)	(389)	817	-	-
Dividend Paid (Incl. Tax)	(39)	(29)	(34)	(34)	(34)	(34)
Others	193	(109)	-	(70)	(21)	-
Cash Flow from Financing	440	(132)	(421)	713	(55)	(34)
Inc./Dec.) in Cash	(155)	(54)	48	(117)	(47)	234
Opening Cash balances	283	128	73	188	71	24
Closing Cash balances	128	73	188	71	24	245

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	9.8	6.8	6.1	16.2	7.0	6.5
P/CEPS	13.0	4.3	4.4	41.8	4.6	4.3
P/BV	2.4	1.7	1.3	1.4	1.2	1.0
Dividend yield (%)	0.8	0.9	1.0	0.9	0.9	0.9
EV/Sales	1.8	1.5	1.1	1.2	1.1	0.9
EV/EBITDA	13.8	8.3	6.6	10.5	7.4	6.4
EV / Total Assets	1.4	1.3	1.1	1.1	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	110.6
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	1.1	1.0	1.0	1.1
ROIC (Post-tax)	6.7	9.8	9.9	5.4	8.0	8.1
Cost of Debt (Post Tax)	3.6	2.4	2.3	2.8	1.7	1.6
Leverage (x)	1.6	1.5	0.9	0.9	1.0	0.8
Operating ROE	11.7	20.6	16.7	7.6	14.3	13.4
Returns (%)						
ROCE (Pre-tax)	7.3	12.1	12.7	8.8	10.4	10.4
Angel ROIC (Pre-tax)	9	15	16	11	12	12
ROE	25.5	29.6	24.6	8.3	17.9	16.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.7	1.9	1.7	1.7	1.7
Inventory / Sales (days)	99	101	107	98	96	101
Receivables (days)	92	94	92	115	126	133
Payables (days)	70	74	118	237	95	95
WC cycle (ex-cash) (days)	169	169	139	136	144	154
Solvency ratios (x)						
Net debt to equity	1.8	1.1	0.6	1.1	0.9	0.7
Net debt to EBITDA	5.9	3.4	2.2	4.7	3.3	2.8
Interest Coverage (EBIT / Int.)	2.6	6.4	8.5	4.0	9.4	10.3

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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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