

Aurobindo Pharma

Performance Highlights

Y/E march (₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)
Net sales	1481	1197	23.7	1051	40.9
Other income	26	19	35.4	31	(14.8)
Operating profit	231	123	88.1	90	155.5
Interest	34	33	-	21	-
Adj. Net profit / (loss)	136	40	243.5	43	216.0

Source: Company, Angel Research

For 2QFY2013, Aurobindo Pharmaceuticals Ltd (APL) posted results above expectations on the top-line as well as the net profit front. The OPM came mainly in line with expectations (15.1%) at 15.6%. However, on back of lower taxation and higher OPM, the company posted higher than expected adj. net profits, which came in at ₹136cr. On back of improvement on the financial front and possible clearance of facilities by the USFDA, **we recommend a Buy view on the stock.**

Better than expected results: Net sales grew modestly by 40.9% yoy to ₹1,481cr, led by a robust growth in the formulations and active pharmaceutical ingredient (API) segment. The API segment grew by 26.9% yoy. On the other hand the formulation segment grew by 52.5% yoy only. But formulations in the key geographies like the US, and Europe and rest of world (RoW) grew by 50.0%, and 82.0% respectively. Gross margin came in at 48.9% (43.0% in 2QFY2013), on back of a favourable product mix, thus impacting the OPM which came in at 15.6% vs 8.6%. This led the company to post an adj. net profit of ₹136cr.

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 17.5% CAGR to ₹6,279cr 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 price target of ₹208.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	4,126	4,551	5,463	6,279
% chg	22.4	10.3	20.1	14.9
Net profit	563	198	482	543
% chg	(0.0)	(64.8)	143.7	12.6
Recurring profit	332	141	362	407
% chg	9.2	(57.4)	155.9	12.6
EPS (₹)	19.3	6.8	16.6	18.7
Recurring EPS	11.4	4.9	12.4	14.0
EBITDA margin (%)	17.1	11.7	15.0	15.0
P/E (x)	15.2	35.7	14.0	12.4
RoE (%)	24.6	8.3	18.8	17.8
RoCE (%)	12.7	8.4	10.2	10.7
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	₹174
Target Price	₹208

Investment Period	12 months
-------------------	-----------

Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	5,054
Net debt (₹ cr)	3,029
Beta	1.1
52 Week High / Low	181/80
Avg. Daily Volume	253,937
Face Value (₹)	1
BSE Sensex	18,471
Nifty	5,631
Reuters Code	ARBN.BO
Bloomberg Code	ARBP@IN

Shareholding Pattern (%)

Promoters	54.8
MF / Banks / Indian Fls	22.6
FII / NRIs / OCBs	13.0
Indian Public / Others	9.6

Abs. (%)	3m	1yr	3yr
Sensex	4.2	9.4	9.6
Aurobindo	68.3	80.9	12.8

Sarabjit Kour Nangra

+91 22 3935 7800 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QFY2013 performance (Consolidated)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)	1HFY2013	1HFY2012	% chg (yoy)
Net sales	1,481	1,197	23.7	1,051	40.9	2,678	2,116	26.6
Other income	26	19	35.4	31	(14.8)	45	50	(9.0)
Total income	1,507	1,217	23.9	1,082	39.3	2,724	2,166	25.8
Gross profit	725	550	31.7	452	60.4	1,275	943	35.1
Gross margins	48.9	45.9		43.0		47.6	44.6	
Operating profit	231	123	88.1	90	155.5	354	242	45.9
OPM (%)	15.6	10.3		8.6		13.2	11.5	
Interest	34	33	-	21	-	67	40	66.9
Dep & amortisation	60	59	1.7	46	29.5	119	91	29.9
PBT	164	50	-	54	-	214	161	-
Provision for taxation	59	(27)	-	(52)	-	32	(138)	-
Net profit	104	77	-	105	-	182	299	(39.2)
Less : Exceptional items	(118)	206		185		89	502	
MI & share in associates	(0)	(0)	-	(0)		(1)	0	-
PAT after Exceptional items	222	(129)	-	(80)	-	93	(203)	-
Adjusted PAT	136	40	243.5	43	216.0	175	129	36.2
EPS (₹)	4.7	1.4	243.5	1.5	216.0	6.0	4.4	

Source: Company, Angel Research

Exhibit 2: Actual vs Estimate

(₹ cr)	Actuals	Estimate	Variation %
Net sales	1,481	1,349	9.8
Other operating income	26.0	19	35.3
Operating profit	231	204	13.2
Tax	59	83	(28.7)
Adj. Net profit	136	48	180.7

Source: Company, Angel Research

Revenue up at 40.9% yoy, higher than expectations: Net sales grew robustly by 40.9% yoy to ₹1,481cr, led by a robust growth in the formulation and API segment. The API segment grew by 26.9% yoy, mainly on the back of the Chep segment which grew by 32.3% yoy. SSP and the NPNC, registered a growth of 22.8% and 25.1% yoy respectively.

On the other hand, formulations grew more strongly at 52.5% yoy, on the back of strong growth in Europe & ROW and US, which grew by 82.0% and 50.0% yoy respectively. The ARV formulation sales grew by 36.6% yoy during the period.

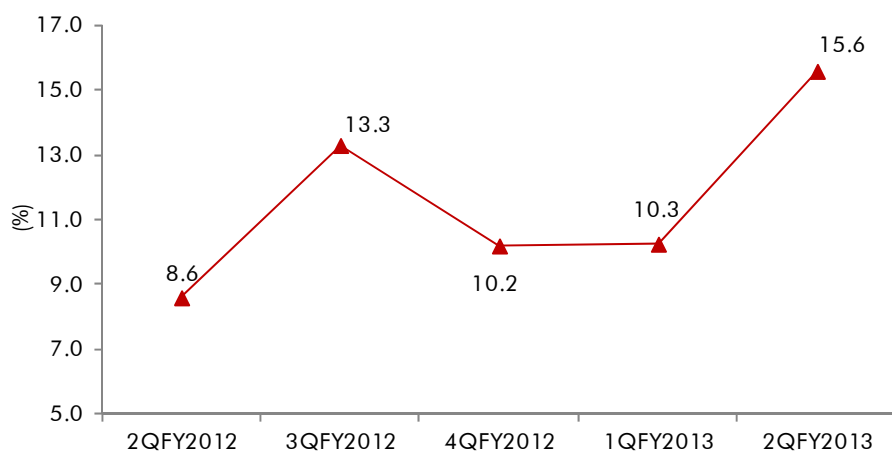
As of September 2012, the company now has 162 approved abbreviated new drug applications (ANDAs) and 26 tentative approvals.

Exhibit 3: Sales break-up (Consolidated)

(₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)	1HFY2013	1HFY2012	% chg
Formulations	903	655	37.9	592	52.5	1558	1215	28.2
US	425	328	29.4	283	50.0	753	557	35.2
Europe & ROW	226	186	21.3	124	82.0	393	396	(0.9)
ARV	252	140	79.9	185	36.6	412	261	57.8
API	622	587	5.9	490	26.9	1209	949	27.4
SSP	185	179	3.0	150	22.8	363	307	18.4
Cephs	226	223	1.1	170	32.3	449	365	23.0
NPNC	212	185	14.6	170	25.1	397	278	43.1

Source: Company, Angel Research

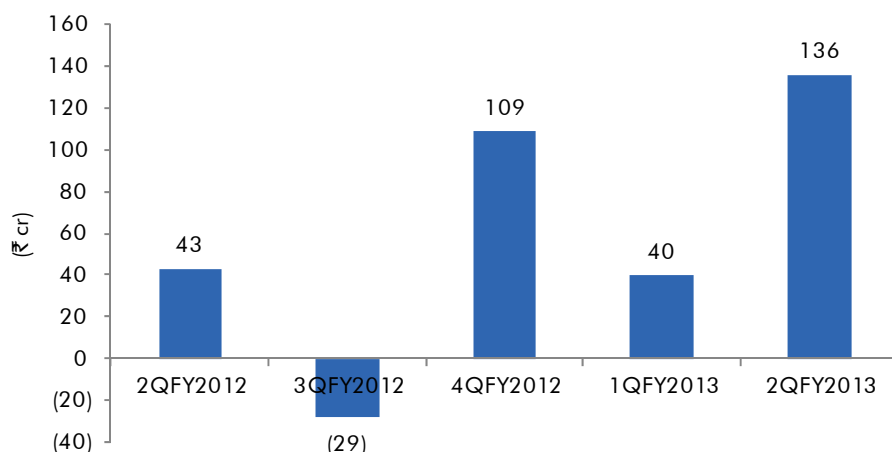
OPM expands to 15.6% for the quarter: Gross margin came in at 48.9% (43.0%), on back of favourable product mix, thus impacting the OPM which came in at 15.6% vs 8.6%.

Exhibit 4: OPM Trend


Source: Company, Angel Research

Net profit much higher than estimates: For the quarter, the company posted an adj. net profit of ₹136cr, much ahead of expectations of ₹43cr. This was mainly on back of higher than expected OPM and lower than expected tax outgo.

Exhibit 5: Adj. net profit



Source: Company, Angel Research

Management takeaways

- For FY2013 the company has guided for double digit growth (in dollar terms).
- The management has guided for 25 new launches in the US.
- USFDA inspection for unit IV & VI has been completed. Unit IV has no observations and Unit VI has 2-3 minor observations, for which the company has replied to the USFDA. The company does not expect re-inspection to happen at Unit VI.
- The company guided for improvement in margins in the coming quarters.
- The tax rate is expected to be around 20% in FY2013.
- Gross debt of ₹3,600cr as on 2QFY2013.

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 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

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 17.5% CAGR to ₹6,279cr 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 price target of ₹208.**

Exhibit 6: Key assumptions

	FY2013E	FY2014E
Sales Growth (%)	20.1	14.9
Operating Margins (%)	15.0	15.0
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	68	91	33.9	7.5	0.8	5.0	14.8	29.4	30.0
Aurobindo Pharma	Buy	174	208	19.8	12.4	1.3	8.8	69.7	10.7	17.8
Sanofi India*	Neutral	2,146	-	-	20.6	2.7	17.6	12.0	16.1	17.0
Cadila Healthcare	Accumulate	827	926	11.9	18.5	2.6	13.3	18.7	19.3	26.6
Cipla	Accumulate	389	419	7.7	18.6	3.2	13.2	21.2	18.4	17.2
Dr Reddy's	Accumulate	1,726	1,859	7.7	18.6	2.8	12.9	2.3	15.1	20.8
Dishman Pharma	Buy	118	145	23.2	6.0	1.2	8.1	26.6	10.6	11.0
GSK Pharma*	Neutral	1,977	-	-	24.4	4.9	15.6	8.7	38.9	29.0
Indoco Remedies	Buy	70	89	28.1	7.8	0.9	6.1	32.8	15.5	17.0
Ipca labs	Accumulate	429	485	13.1	11.5	1.7	8.3	30.6	26.1	26.0
Lupin	Accumulate	577	652	13.0	18.4	2.7	13.3	26.5	22.5	24.7
Orchid Chemicals	Neutral	101	-	-	7.6	0.8	5.5	(1.2)	4.8	7.3
Ranbaxy*	Neutral	527	-	-	17.7	1.8	11.6	44.8	15.8	28.9
Sun Pharma	Neutral	683	-	-	24.2	5.1	12.3	0.1	26.7	18.8

Source: Company, Angel Research

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	5,543	6,375
Less: Excise duty	90	76	100	69	80	96
Net Sales	2,935	3,370	4,126	4,551	5,463	6,279
Other operating income	142	206	256	77	77	77
Total operating income	3,077	3,575	4,381	4,627	5,540	6,356
% chg	26.1	16.2	22.5	5.6	19.7	14.7
Total Expenditure	2,561	2,752	3,422	4,017	4,644	5,337
Net Raw Materials	1,680	1,777	2,189	2,520	2,841	3,265
Other Mfg costs	301	338	411	475	546	628
Personnel	244	327	429	536	820	942
Other	336	310	804	487	437	502
EBITDA	374	617	704	533	820	942
% chg	9.6	65.1	14.0	(24.3)	53.7	14.9
(% of Net Sales)	12.7	18.3	17.1	11.7	15.0	15.0
Depreciation & Amortisation	128	149	172	201	232	262
EBIT	246	468	532	409	587	679
% chg	2.3	90.0	13.8	(23.2)	43.5	15.7
(% of Net Sales)	8.4	13.9	12.9	9.0	10.7	10.8
Interest & other Charges	93	73	62	103	57	57
Other Income	27	44	25	25	25	25
(% of PBT)	8.4	6.9	3.4	7.5	3.9	3.4
Share in profit of Associates	0.0	-	-	-	-	-
Recurring PBT	323	645	751	331	632	724
% chg	10.5	100.0	16.4	(55.9)	90.8	14.6
Extraordinary Expense/(Inc.)	201.0	(109.5)	(37.2)	544.5	-	-
PBT (reported)	122	754	788	(213)	632	724
Tax	21.4	191.4	225.1	(88.8)	149.4	181.1
(% of PBT)	17.6	25.4	28.6	41.6	23.6	25.0
PAT (reported)	100	563	563	(125)	482	543
Less: Minority interest (MI)	-	(0)	(0)	(1)	-	-
PAT after MI (reported)	100	563	563	(124)	482	543
ADJ. PAT	301	454	526	198	482	543
% chg	26.3	50.7	15.9	(62.4)	144.1	12.6
(% of Net Sales)	3.4	16.7	13.7	(2.7)	8.8	8.7
Basic EPS (₹)	3.7	20.2	19.3	6.8	16.6	18.7
Diluted EPS (₹)	11.2	16.3	18.1	6.8	16.6	18.7
% chg	26.3	45.4	10.9	(62.4)	145.0	12.2

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	2,759	3,269
Shareholders Funds	1,241	1,829	2,445	2,340	2,788	3,298
Minority Interest	3	4	9	10	10	10
Long-term provisions			3	4	4	4
Total Loans	2,333	2,155	1,758	3,096	3,300	3,300
Deferred Tax Liability	77	91	119	2	2	2
Total Liabilities	3,654	4,079	4,334	5,452	6,100	6,609
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	645	645	645
Goodwill	105	96	51	54	54	54
Investments	0.3	0.3	39	39	39	39
Long-term loans and adv.	-	-	111	108	129	149
Current Assets	2,289	2,506	3,322	3,248	3,908	4,528
Cash	128	73	188	71	93	143
Loans & Advances	394	375	505	1,240	1,489	1,711
Other	1,767	2,058	2,629	1,938	2,326	2,674
Current liabilities	570	708	1,534	784	784	901
Net Current Assets	1,719	1,798	1,788	2,465	3,124	3,627
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,654	4,079	4,334	5,452	6,100	6,609

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	73	752	751	(213)	632	724
Depreciation	128	149	172	201	232	262
(Inc)/Dec in Working Capital	(334)	(261)	236	(796)	(637)	(453)
Less: Other income	(180)	44	25	25	25	25
Direct taxes paid	(30)	(153)	(180)	89	(149)	(181)
Cash Flow from Operations	16	443	952	(745)	53	328
(Inc.)/Dec.in Fixed Assets	(479)	(400)	(470)	(633)	(200)	(250)
(Inc.)/Dec. in Investments	48	(9)	(38)	-	-	-
Other income	(180)	44	25	25	25	25
Cash Flow from Investing	(611)	(365)	(483)	(608)	(175)	(225)
Issue of Equity	-	5	1	-	-	-
Inc./Dec.) in loans	287	(1)	(389)	1,340	204	-
Dividend Paid (Incl. Tax)	(39)	(29)	(34)	(34)	(34)	(34)
Others	193	(109)	67	(70)	(26)	(19)
Cash Flow from Financing	440	(132)	(354)	1,236	144	(53)
Inc./Dec.) in Cash	(155)	(54)	115	(117)	22	50
Opening Cash balances	283	128	73	188	71	93
Closing Cash balances	128	73	188	71	93	143

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	15.5	10.7	9.6	25.6	10.4	9.3
P/CEPS	20.5	6.8	6.9	65.9	7.1	6.3
P/BV	3.8	2.6	2.1	2.2	1.8	1.5
Dividend yield (%)	0.5	0.6	0.6	0.5	0.6	0.6
EV/Sales	2.3	2.1	1.6	1.8	1.5	1.3
EV/EBITDA	18.4	11.2	9.3	15.0	9.9	8.6
EV / Total Assets	1.9	1.7	1.5	1.5	1.3	1.2
Per Share Data (₹)						
EPS (Basic)	3.7	20.2	19.3	6.8	16.6	18.7
EPS (fully diluted)	11.2	16.3	18.1	6.8	16.6	18.7
Cash EPS	8.5	25.6	25.2	2.6	24.6	27.7
DPS	0.9	1.0	1.1	1.0	1.0	1.0
Book Value	46.2	65.7	84.0	80.4	95.8	113.3
Dupont Analysis						
EBIT margin	8.4	13.9	12.9	9.0	10.7	10.8
Tax retention ratio	82.4	74.6	71.4	58.4	76.4	75.0
Asset turnover (x)	1.0	0.9	1.1	1.0	1.0	1.0
ROIC (Post-tax)	6.7	9.8	9.9	5.1	8.0	8.3
Cost of Debt (Post Tax)	3.6	2.4	2.3	2.5	1.3	1.3
Leverage (x)	1.6	1.5	0.9	1.0	1.2	1.1
Operating ROE	11.7	20.6	16.7	7.6	16.1	15.6
Returns (%)						
ROCE (Pre-tax)	7.3	12.1	12.7	8.4	10.2	10.7
Angel ROIC (Pre-tax)	9	15	16	10	12	12
ROE	25.5	29.6	24.6	8.3	18.8	17.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.7	1.9	1.7	1.8	1.9
Inventory / Sales (days)	99	101	107	98	98	99
Receivables (days)	92	94	92	115	129	130
Payables (days)	70	74	118	237	55	55
WC cycle (ex-cash) (days)	169	169	139	158	179	187
Solvency ratios (x)						
Net debt to equity	1.8	1.1	0.6	1.3	1.2	1.0
Net debt to EBITDA	5.9	3.4	2.2	5.7	3.9	3.4
Int. Coverage (EBIT / Int.)	2.6	6.4	8.5	4.0	10.4	12.0

Research Team Tel: 022 – 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

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%)
---------------------------	-------------------------------------	---	--------------------