Aurobindo Pharma – BUY

'Concerns Overdone'

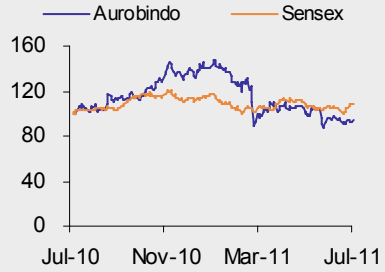
Sector: Pharmaceuticals	
Sensex:	18,745
CMP (Rs):	173
Target price (Rs):	238
Upside (%):	36
52 Week h/l (Rs):	275 / 156
Market cap (Rscr) :	5,041
6m Avg vol ('000Nos):	1,849
No of o/s shares (mn):	291
FV (Re):	1
Bloomberg code:	ARBP IS
Reuters code:	ARBN.BO
BSE code:	524804
NSE code:	AUROPHARMA

Closing price as on 05 July, 2011.

Shareholding pattern	
March '11	**(%)**
Promoters	54.4
Institutions	32.2
Non promoter corp hold	4.3
Public & others	9.2

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
Aurobindo	(4.7)	(8.4)	(14.7)
Dr. Reddy's	(2.4)	0.1	(1.2)
Ranbaxy	(0.7)	21.0	9.6
Cadila Healthcare	3.1	22.7	36.4

Share price trend



Research Analyst
Bhavika Thakker
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Aurobindo Pharma (APL), in the last five years, has transformed itself from being a low-margin API player to a high-margin formulation manufacturer. APL with all its ups and downs; Tie up with Pfizer and Astrazeneca on positive side and bullied by FDA on flip side; has factored in more negatives than positives. Though fundamentals remain intact, APL is currently trading at a deep discount to its peers and even to its historical PE multiple of 9X (5 Yrs Avg). We initiate coverage on APL with a BUY rating with a 9-month target price of Rs238. With emerging new business model, we expect APL to have a robust performance. In the near term we expect the stock to remain range bound as US FDA overhang is likely to continue till the clarity emerges.

Business transformation to lead future growth

APL has a twin benefiting business model. APL has tied up with Pfizer and AstraZeneca for selling and distribution in various countries (out licensing the dossiers). Additionally, it has its own distribution given that all the molecules are not exclusively licensed.

Margins continue to expand with change in revenue mix

In last five years, APL transformed itself from being a pure API supplier to a formulations player. Formulation segment revenues increased from 17% in FY06 to 57% in FY11. This endeavor resulted in EBITDA margin improvement from 10.7% in FY06 to 17.1% in FY11.

Well geared to grab the patent expiry opportunity

APL is among the top three Indian firms in ANDA/NDA filing with USFDA. APL has around Rs250bn worth of product filings till FY11 (Formulation filings; US-209, Europe and others-1270; Approved US-134 (32 tentative), Europe and others-431).

Revenues to register 18% CAGR over FY11-13E; Compelling valuations

Fueled by the rising growth opportunities led by strong US filings, acceleration by new product introduction and strong tie ups, we expect APL to post robust performance. Though near-term uncertainties over FDA rulings may weigh on the stock price performance, we believe APL's valuations are attractive at 6.5x FY13E EPS. We recommend BUY with a 9-month target price of Rs238.

Financial summary

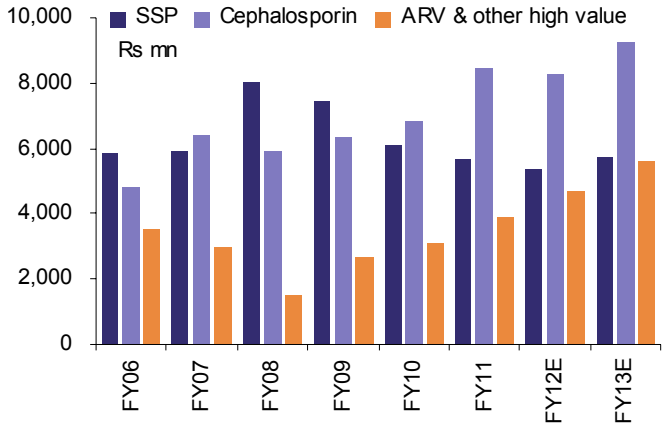
Y/e 31 Mar (Rs m)	FY10	FY11E	FY12E	FY13E
Net Revenues	35,754	43,815	50,163	61,066
yoy growth (%)	16.2	22.5	14.5	21.7
Operating profit	8,232	9,598	10,885	13,293
OPM (%)	23.0	21.9	21.7	21.8
Pre-exceptional PAT	5,273	5,533	6,192	7,723
Reported PAT	5,634	5,738	3,219	7,751
yoy growth (%)	461.9	1.8	(43.9)	140.8
EPS (Rs)	18.9	19.0	21.3	26.5
P/E (x)	9.1	9.1	8.1	6.5
Price/Book (x)	2.6	2.1	1.9	1.5
EV/EBITDA (x)	8.4	7.6	6.7	5.3
Debt/Equity (x)	1.2	1.0	0.9	0.7
RoE (%)	34.4	25.9	24.6	26.4
RoCE (%)	21.2	19.0	17.9	20.8

Source: Company, India Infoline Research

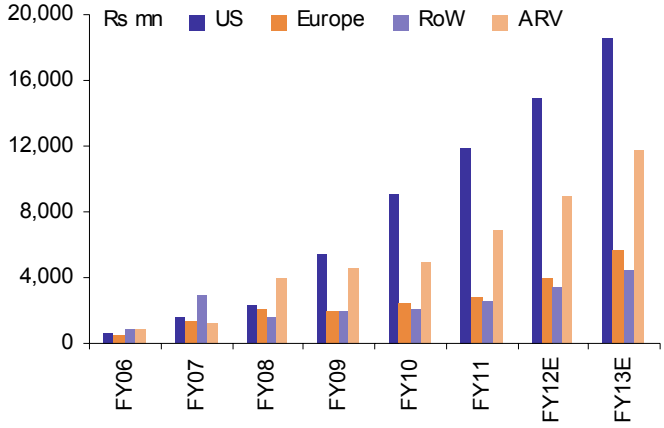
Business focus more towards leveraging manufacturing base

APL has a twin benefiting business model. APL has tied up with Pfizer and AstraZeneca for selling and distribution in various countries (out licensing the dossiers) and has its own distribution given that all the molecules are not exclusively licensed. The strategy is to leverage on its manufacturing and strong product filings capability.

Revenue Breakup



Formulation Breakup



Source: Company, India Infoline Research

APL derived 49% of its formulation revenue from US in FY11 which includes Pfizer and its own distribution endeavor. Though APL being late entrant in US, was able to gain market share in the business owing to its distinct business model.

Pfizer contract: APL would supply more than 100 products as per the contract and cover various highly regulated and regulated geographies. In FY11, APL approximately supplied more than 30 products to the US. The Pfizer-Europe business which started in FY11 under the agreement is ramping up. APL's ROW supply will start from FY12 onwards. (APL will receive licensing income and cost plus profit margin sharing).

Pfizer Deal Fine Prints

	Exclusive	Co-Exclusive	Non Exclusive
USA	11 (Injectable)	75 (Oral)	1 (Injectable)
Canada			14 (Oral)
France	34 (Oral)		13 (Oral), 12(Injectable)
Rest of EU			77 (Oral)
Aus/Nz			44 (Oral)
ROW			55 (Oral)

Source: Company, India Infoline Research

AstraZeneca Deal: Deal with AstraZeneca covers several oral solid and sterile products across emerging countries and the supplies are likely to commence by the end of FY12 (same like Pfizer deal APL will receive licensing income and cost plus profit margin sharing).

MNC supplies are unlikely to be margin dilutive as the APL to ensure minimum profitability criteria

MNC supplies margin assertive; it's not just contract manufacturing

MNC supplies are unlikely to be margin dilutive as APL will ensure minimum profitability criteria for supplies. We expect APL's margin for MNC supplies to be more or less inline with its own margins in the respective markets as molecules are not exclusively licensed.

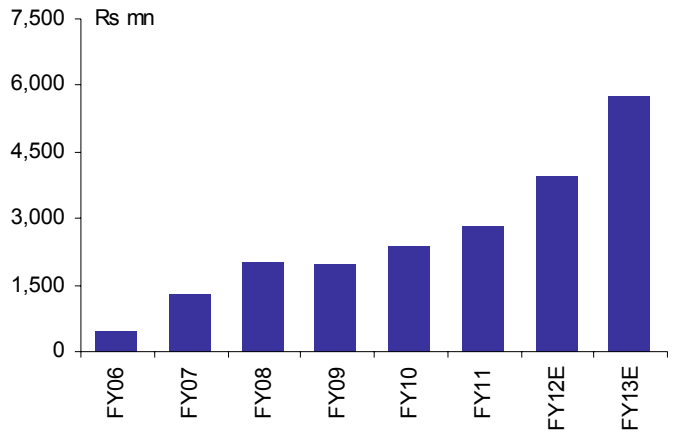
"These agreements represent solid, measurable progress, and a strong commitment to achieve our growth objectives and we will dramatically change Pfizer's Established Products portfolio to an engine of positive growth" said David Simmons (head of the Aurobindo's emerging markets. He adds "We expect more than US$1 billion of (additional) sales from this strategy in 2012 with more than half of the total coming from these two deals and other recent licensing deals".

The president of Pfizer's emerging markets business, Jean-Michel Halfon, says that "the company believes there will be double-digit growth in emerging markets in the next three years and that it will really be a volume game."

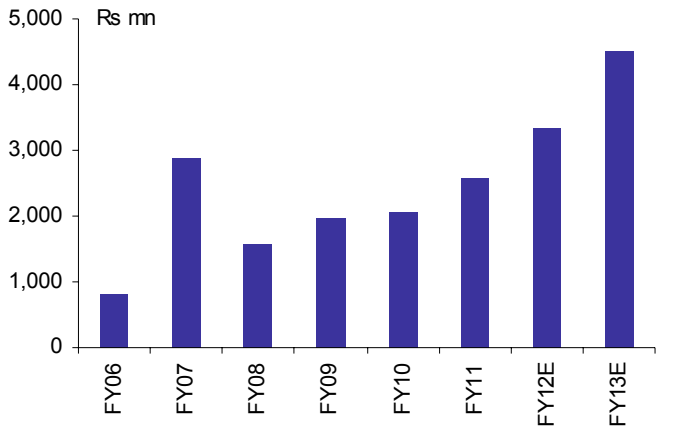
Impressive EU filing along with focus towards ROW makes revenue distribution more robust

APL has built a strong regulatory pipeline for the EU market. Currently APL derives 12% of formulation revenues from Europe. The monetization of all filings would gear up with commercialization and distribution through Pfizer. APL has strengthened its own distribution with the strategic acquisition done in EU (Acquisition of Milpharm in UK; TAD in Italy and Pharmacin in Netherlands). APL has a total of 1175 filings for the EU market (including multiple registrations) as on 2011 year end. We forecast APL's EU business to grow at a CAGR of 42% over FY11-13E

Trend in EU sales



Trend in ROW Sales



Source: Company, India Infoline Research

ROW sales to scale up by increasing supplies to AstraZeneca and Pfizer

ROW contribution to increase

ROW currently accounts for 7% of the company's sales and 10% to total formulation sales. We expect the ROW contribution to sales will increase in future adding to better margin profile. However, we will not be surprised if we see strong scale-up in this market driven by increasing supplies to AstraZeneca and Pfizer from FY12. ROW market is branded generic market and we believe the alliances will definitely have good impact on ROW sales. The company has filed around 233 dossiers in South Africa, Canada, Brazil and Australian markets, of which it is awaiting approvals for 91 dossiers as on FY11. We expect ROW business to grow at 33% CAGR on relatively smaller base over FY11-13E.

APL has commercialized around 80 products in the US with the top-10 products contributing nearly 60%

New product launches under the agreement and self introduction with own distribution to drive business in highly regulated international markets

APL has been able to scale up its business in the US market through product introduction and the supply agreement with Pfizer. We expect the company to scale up supplies under the Pfizer agreement along with own distribution network to clock in the revenue of around Rs18.5bn by FY13 v/s Rs12bn in FY11.

APL has commercialized around 80 products in the US with the top-10 products contributing nearly 60% of its revenues in FY11. The company's strategy to target day-1 launches in the US helps APL to garner greater market share in competitive generic products. APL has competitive advantage in terms of costing as 95% of APL revenues are backward integrated.

APL has around Rs250bn worth of product filings

Well geared to grab the patent expiry opportunity

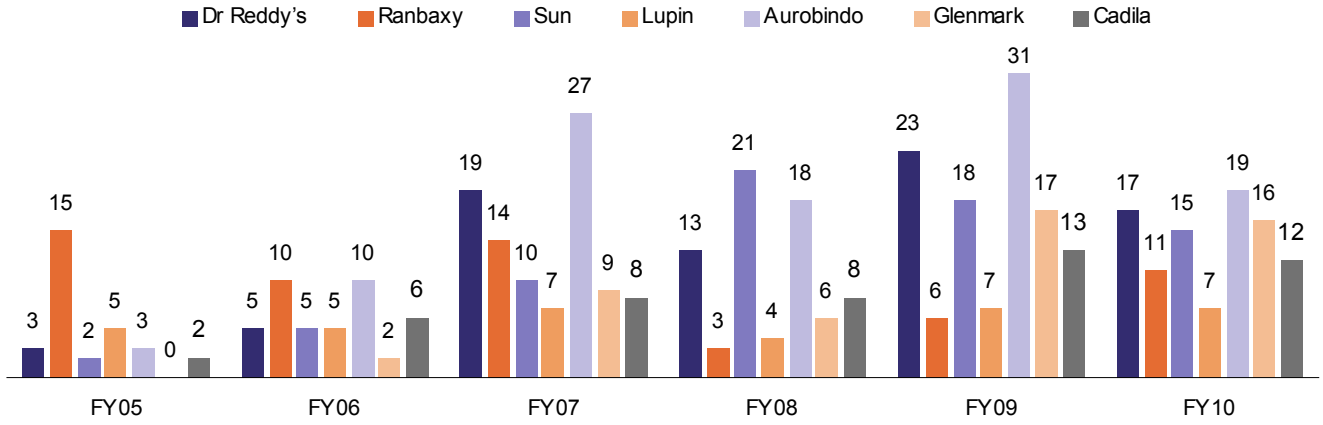
APL has one of the strongest generic product pipelines in the world. The company is among the top three Indian filers for ANDA/NDA with USFDA. APL has around Rs250bn worth of product filings (Formulation filings; (Formulation filings; US-209, Europe and others-1270; Approved US-134 (32 tentative), Europe and others-431)) and APL is continuously aiming at strengthening this portfolio. The company has a well planned strategy to cash in the opportunity (Pfizer and AstraZenca deal along with its own distribution. In the US, US$70bn of drugs are going off-patent in the next three years, we believe that APL is well placed to tap this opportunity. APL's regulated market business will scale up by FY13. We expect US Business under the agreement to approximately double by FY14.

APL's Top 5 ANDAs Approved*

Drug	Market Size
Duloxetine Hydrochloride	US$2.9bn
Rosuvastatin Calcium	US$2.9bn
Amlodipine Besylate	US$2.8bn
Escitalopram Oxalate	US$2.6bn
Venlafaxine Hydrochloride	US$2.4bn

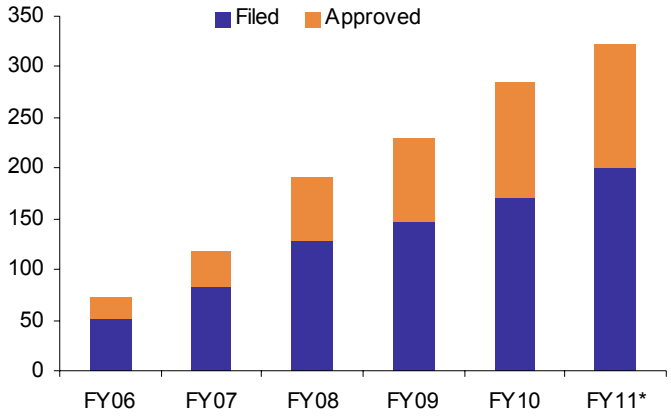
*Source: Company, India Infoline Research, *As on FY11*

Trend: ANDA Approvals

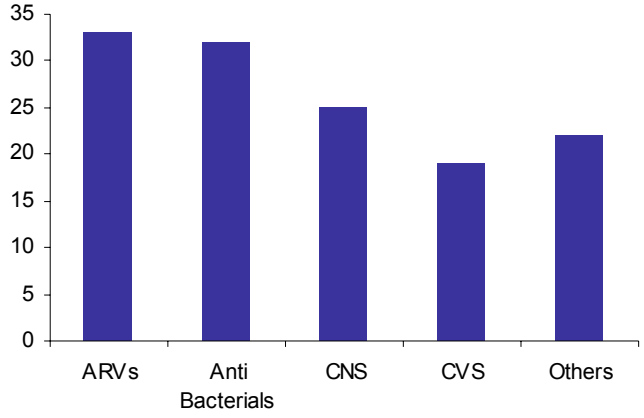


Source: Company, India Infoline Research

Trend: ANDA Approvals



Therapy-wise ANDA Approved *



*Source: Company, India Infoline Research * Dec 2010*

Company targets US$100mn revenue in FY13 from this space.

Unlocking Injectable Portfolio to accelerate growth

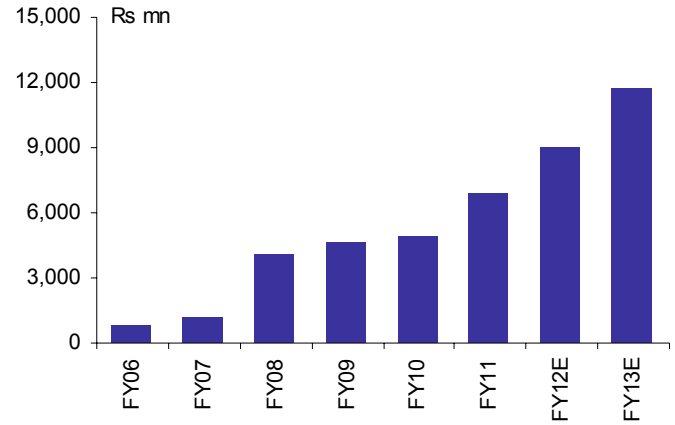
Unit IV of APL is on the verge of commercialization, which will make APL one of largest capacity holder in injectable space. For more than half of the injectable generics approved in recent years, just one or two manufacturers have received ANDA approvals and 86% of molecules have fewer than five generic competitors. It gets protection through entry barriers as it is capital intensive and technology driven thereby providing price and margin stability. We see this as a big opportunity for APL; the company targets US$100mn revenue in FY13 from this space. We have conservatively accounted revenue upside from this avenue as the approval process might get delayed. But, we don't rule out its early commercialization and hence, revenue surprise in FY13.

80% of ARV segments revenue comes in from President's Emergency Plan for AIDS Relief (PEPFAR)

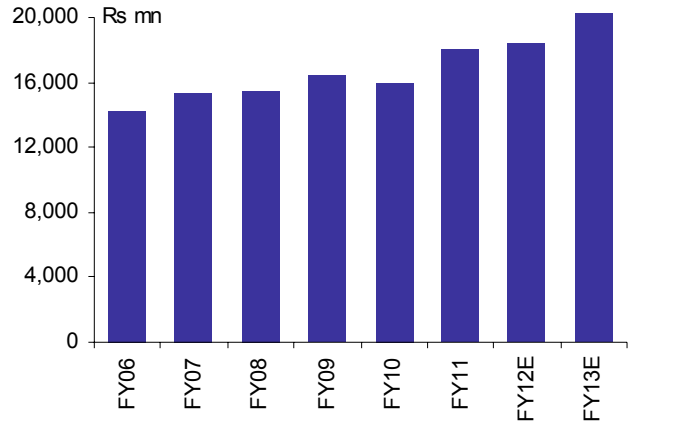
ARV business; Secured revenue stream

APL derives 15% of its revenues from the ARV segment. This segment has registered 52% CAGR over FY06-11 to Rs6.9bn, where 80% of ARV segments revenue comes in from President's Emergency Plan for AIDS Relief (PEPFAR) program, Clinton Foundation, WHO and other agencies tenders. US's overall expenditure on the ARV drugs has increased from US$117mn in FY05 to US$203mn in FY08. APL is one of the largest generic suppliers under the ARV contracts with 35% market share. APL enjoys high market share on the back of being fully integrated in almost all its products. We expect the ARV segment to post CAGR of 30% over FY11-13E with the PEPFAR allocation for generic ARVs expected to increase.

Trend in ARV Sales



Trend in API Sales



Source: Company, India Infoline Research

We expect the API segment revenues to grow by 7% CAGR over FY11-13E

API segment to remain subdued but the focus is still intact

APL is one of the leading players in the API space. The company has leadership in sterile business and has cost efficiencies as well as economies of scale in antibiotics. APL derived 43% of its revenue from this segment in FY11. APL supplies SSP (oral and sterile), Cephs (oral and sterile) and other APIs predominantly in its domestic segment. APL is continuously broadening its product portfolio in emerging and regulated markets. As on year end 2010, APL has US DMF 154; EDMF 1224; CoS 85; ROW 415 and going ahead these numbers will improve. Since FY09, APL registered a decline in oral (SSP and Cephs) owing to price volatility given the commodity nature of business. The backward integration has made the growth number look a little subdued. With an aim to deleverage its sensitivity, APL has shifted to sterile API products and is now using most of the API for internal consumption. We expect the API segment revenues to grow by 7% CAGR over FY11-13E.

CRAM division is planning to offer services across the entire product life cycle

CRAMS could be an another growth driver

APL launched its CRAMS division in FY10 named AuroSource. The division is planning to offer services across the entire product life cycle from pre-clinical to the commercial launch. APL is in discussions with few players. We believe it would be a long term play and hence, we have not factored in any upsides from the business. Any such avenue will surprise revenue growth positively.

Unit VI contributed around 4% of the revenues in FY10

FDA concerns overdone

APL received warning letter (WL) from US FDA for one of its cephalosporin oral and injectable facility unit (unit VI). Unit VI is being used to manufacture cephalosporin oral and injectable products and generated sales of around US$35mn in FY10 (4% of sales). This alert will lead to complete restriction on any sales from this facility in the US resulting in an immediate revenue loss along with future growth in this segment as APL had to roll back 18 products from US. The company has received an approval of 20 ANDAs out of 30 ANDAs filed from the Unit VI plant, while 10-12 are pending. Future ANDAs approval may get halted due to alert but quantum of loss would not be huge as the products are low margin products and company can channel the capacity to cater other countries. We see the current correction as unwarranted given the verdict does not impact any kind of relations with MNCs as pharma majors are quiet familiar with these kinds of events and ready to help in such circumstances.

"Once we understand FDA's concerns, we will work with Aurobindo to assist with next steps," a Pfizer spokesperson told the Press Trust of India.

Packaging cGMP issues are easier to resolve

The other set back is based on field alert report related to non-compliance with packaging and labeling norms at Unit III of the facility, the US FDA asked APL to submit a detailed action plan on rectifying the situation, despite no issues in Sept 2010 inspection of Unit III by the authority. Three batch withdrawal (Two in FY10 and one in FY11) on the back of mislabeling may have lead US FDA to ask APL for a detailed action plan to prevent this recurrence. Unit III produces oral solids and had US revenues of ~US$125mn in FY11 which translated to ~14% of its revenues. The comforting part is that the warning letter does not impact current exports and it has not even restrained future approvals (APL received 5 ANDA approvals from this site after it received WL on 20 May 2011). Unit VI is the only plant having significant cGMP issues and unable to export to US but the charge is not that intense as it does not involve charges like falsification of data. We expect Unit III issues to be resolved in two to three quarters as company has already submitted the data pertaining to it.

One more step towards value business

In January 2011, APL unlocked a non-core asset in China. The deal was signed with APL's China subsidiary and Sinopharm - the largest healthcare group in China. The deal's fine print includes Sinopharm will pick up 51 % stake at an undisclosed amount. Later, Sinopharm along with other investors will increase the stake up to 80.5%. APL would have minority stake at 19.5% stake in the subsidiary. APL's investment of 19.5% will be strategic in nature to ensure uninterrupted supply of raw materials at competitive price as the subsidiary currently manufactures 6APA, a derivative of Penicillin-G and most of its production is consumed by APL itself.

Margin improvement; the key focus area

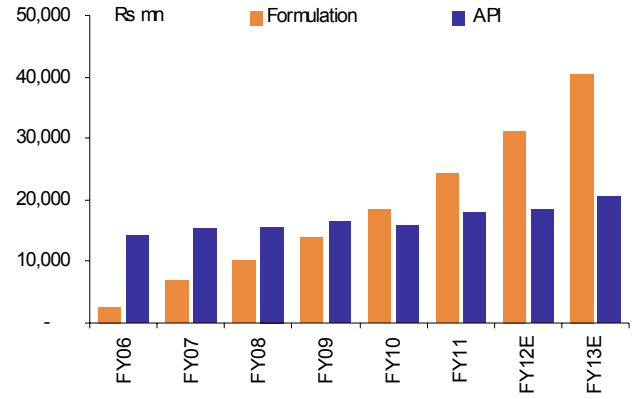
APL's Chinese subsidiary was incurring losses of around US$8-10mn every year. APL had invested around US$70mn towards the subsidiary since its inception in 1993. This development is positive as it would improve margins roughly by 50bps along with cash flows. This is a one more APL's strategic move towards shifting from API to Formulations business. This move strengthens our belief in the company's intention of value creation.

Financial Analysis

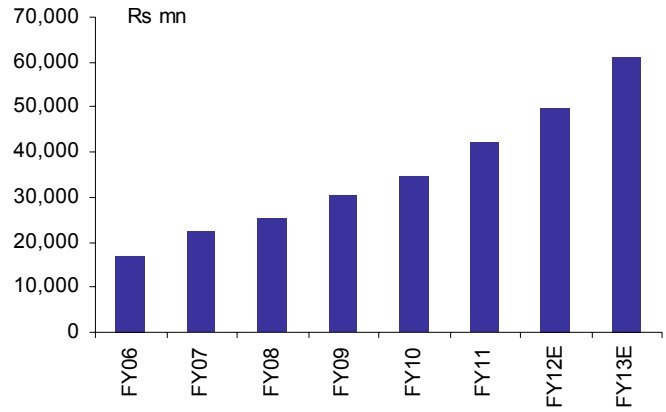
Expect APL to clock 18% of revenue CAGR over FY11-13E

APL's top-line registered 20% CAGR over FY05-11 led by formulation CAGR of 55% in the same period. We expect the robust trend of revenue growth to continue. We formulate revenue CAGR of 18% in FY11-13E. APL's US business to remain buoyant as APL is at a great advantage owing to supply agreements with Pfizer and AstraZeneca. The company's own distribution in US has also performed well. APL is likely to post strong revenue growth performance driven by multiple factors viz. increasing share of formulation business, proven track record in R&D efforts in successful drug approvals in regulated market, expertise in manufacturing (cost efficient quality leadership) and globalizing the intellectual property assets. With more visibility coming in from the supply agreements, we believe APL will enter the next growth trajectory. (We have estimated licensing income of Rs1.5bn and Rs1bn for FY12 and FY13 as per management guidance).

Increasing focus towards formulation



Trend in Revenue



Source: Company, India Infoline Research

EBITDA margin improvement from 10% in FY05 to 22% in FY11

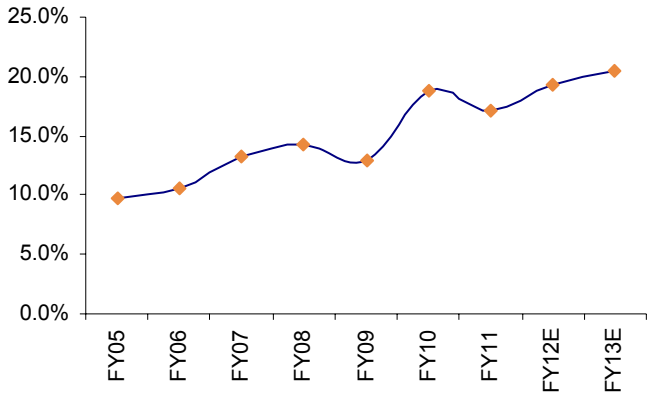
Margins expand with change in revenue mix

APL has transformed from being a pure API supplier to formulations player and strengthened its API manufacturing capability to become a fully integrated player. Formulation segment increased from 17% in FY06 to 57% in FY11 primarily led by the growth in US and ARV contracts revenue. 95% of APL's formulations are now backward integrated leading to EBITDA margin improvement from 10% in FY05 to 22% in FY11. Improvement in operating performance was driven by efficiency, business transformation and higher dossier income. We estimate the trend will continue going further.

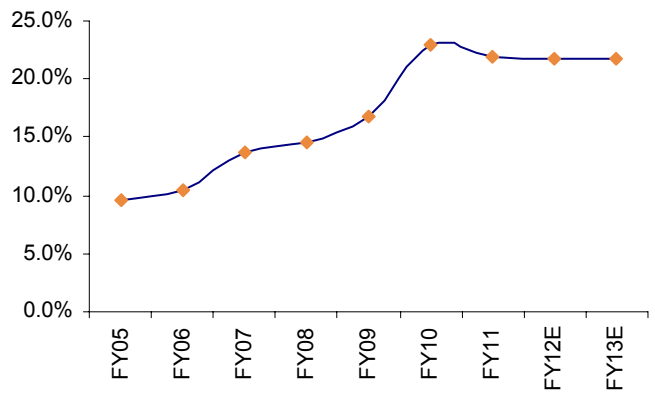
Multiple triggers for margin improvement

- Business mix improvement in favour of formulations
- Scale-up of sterile/injectable business
- Greater capacity utilisation helped by MNC supplies
- China facility divestment to help save costs
- Integration of operations- both backward and forward
- Commercialization of Hyderabad SEZ will reduce tax burden

OPM without licensing income



OPM with licensing income

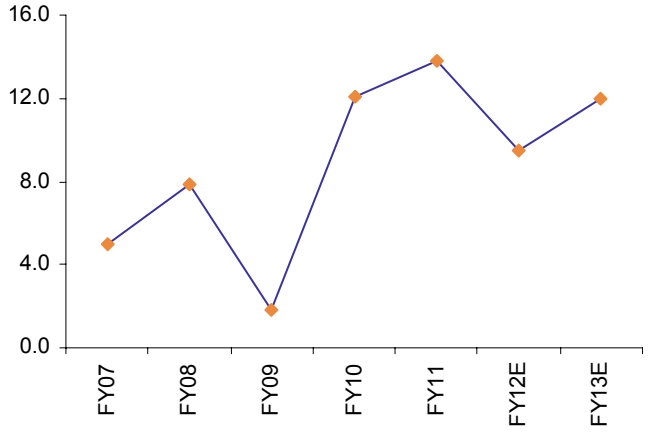


Source: Company, India Infoline Research

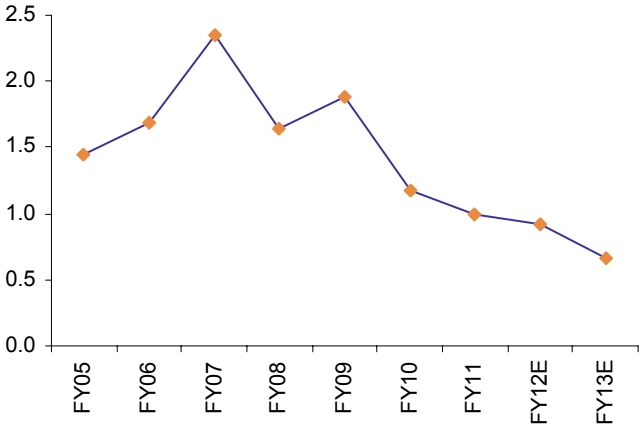
FCCB burden ends

In FY09, APL's D/E rose to 1.8x due to planned aggressive capex; however, with improved utilization level, the ratio improved to 1x in FY11. Going forward, with the visibility of cash flow coming in, we expect the ratio to improve further. The FCCB concerns are over now. FCCB worth US$203.5mn (along with coupon) was outstanding in May 17, 2011 and the company paid the amount on due date. APL funded the amount with internal accruals and had lined up ECB of US$150mn at very low cost (Libor+3.5%). We expect interest cost to go up by US$50-60mn in future impacting net margin. In FY12 there would be withholding tax of Rs200mn on FCCB interest and interest outgo of ~Rs3bn as a one time charge.

Improving Interest Coverage Ratio



Declining trend in D/E



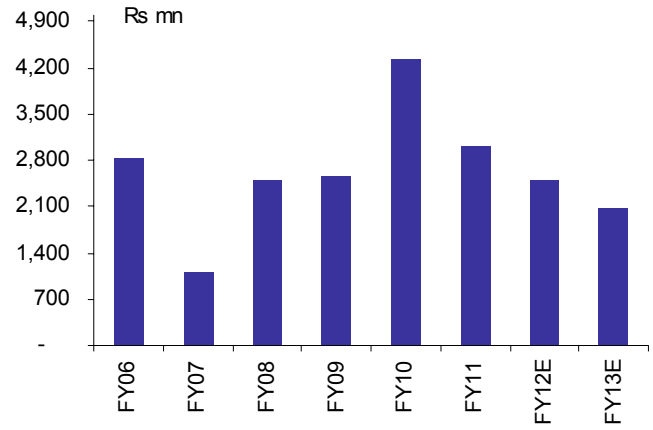
Source: Company, India Infoline Research

Running on ~35% average utilisations for formulations facility; enough capacity to fund growth

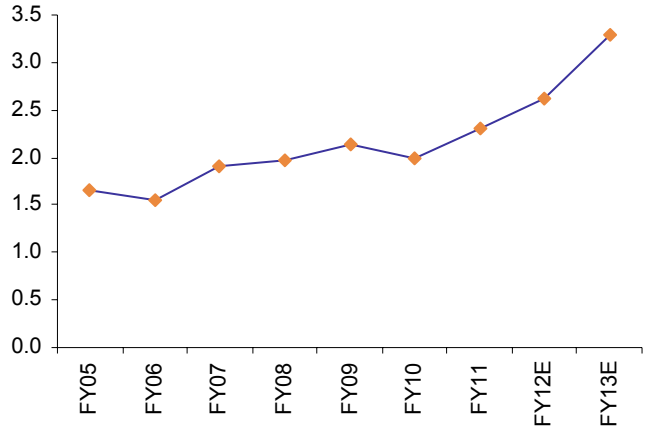
Greater capacity utilisation in future

APL's has a large chunk of underutilized capacities (APL has ~35% average utilisations for formulations including the new SEZ facility); we expect the ratio to improve with ramp up on the back of MNC supplies, aiding to operating leverage. The own distribution efforts, with increased penetration in existing market and entry into newer markets, APL's production is set to reach greater heights. APL commercialized its New Jersey (NJ) facility in FY11, which it acquired from Sandoz in 2006 and targets incremental revenues with more product filings (Institutional Biz and controlled substances). The new facilities at the Unit VII (SEZ) along NJ facility are expected to scale up significantly in coming quarters. Additionally one more new facility (Unit VII, non betalactum facility) commercialised in Q4FY11. We expect ramp up in revenues from this facility will improve FA turnover ratio further and the full commercialisation of SEZ facility will make the ratio look better.

Capex to moderate



Improving FA turnover ratio

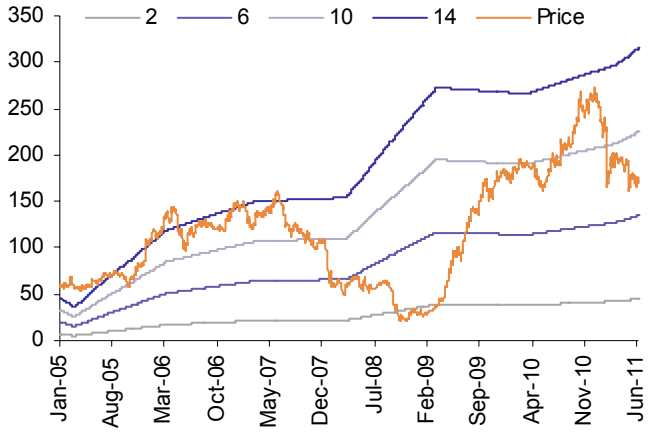


Source: Company, India Infoline Research

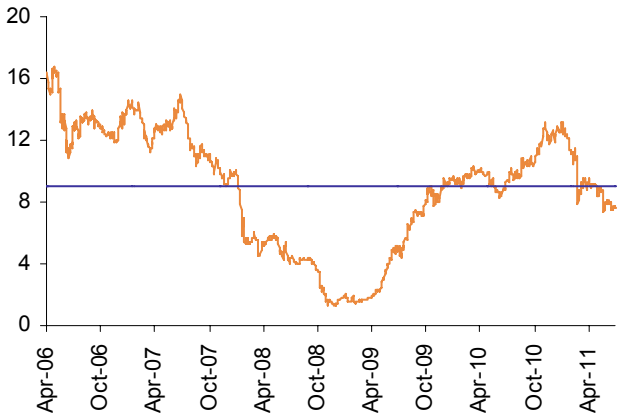
Valuations

APL's top-line registered 20% CAGR over FY05-11 led by formulation CAGR of 55% in the same period. Overall contribution of the formulation segment increased from 17% in FY06 to 57% in FY11 primarily led by the US and ARV contracts. The management expects the contribution from formulation to increase further resulting in margin expansion. Going ahead, we expect increased international business contribution. We expect CAGR of 18% over FY11-13E.

Historical Traded in large PE band



1 Year forward PE (Avg 9x)

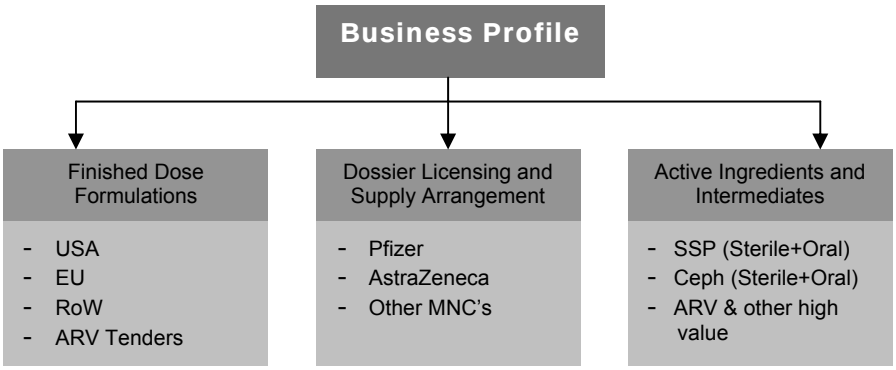


Source: Company, India Infoline Research

The company has always traded at a very wide PE band of 2-14x. We are confident there would be PE expansion with increasing margins and return ratio. At CMP of Rs173, APL is trading at 6.5x FY13E EPS and an EV/EBITDA of 5x. We value the company at Rs238 at a PE multiple of 9x on FY13E EPS of Rs26, which is at a deep discount to its peers (Industry average PE is 20x) on the concerns over FDA. APL is currently trading far below to its historical PE multiple of 9x (5 Yrs avg). Hence, recent correction provides a good buying opportunity. Looking at the business plan and aggressive strategy towards value creation, we believe the stock is largely undervalued compared to peers and we expect valuations to catch up. Hence, the sharp correction in the stock price was unwarranted. We expect valuations will remain subdued in short-term due to the import alert. However, APL's long term fundamentals are intact and therefore recent correction provides a good buying opportunity.

Company Background

Aurobindo Pharma (APL), headquartered at Hyderabad, manufactures generic pharmaceuticals and active pharmaceutical ingredients. APL is among the largest 'Vertically Integrated' pharmaceutical companies in India. APL's exports span over 125 countries with 70% of revenues from international operations. APL has well spread global marketing network through 41 subsidiaries. The company has long-term alliances with large MNC companies like Pfizer and AstraZeneca hence securing visibility on its revenue. APL has a total of 137 ANDA approvals (106 final approvals and 32 tentative approvals) from US FDA till June 2011. In last five years APL with its continuum efforts has transformed itself from being a low-margin API player to a high-margin formulation player. The management plans to utilise a major part of the API capacity for captive use to strengthen its back end to remain competitive in ever increasing competition. Recently, the company has also expanded into CRAMS business to utilise large formulation manufacturing capacity. APL has well-built presence in US, EU and ARV markets in formulation space. The company plans to launch niche therapeutic drugs in the US in 2014-15.



Revenue breakup as a % of Sales

Year (% of Total Sales)	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Formulation	**16**	**31**	**39**	**46**	**54**	**57**	**63**	**66**
US	3	7	9	18	26	28	30	30
Europe	3	6	8	6	7	7	8	9
RoW	5	13	6	6	6	6	7	7
ARV	5	5	16	15	14	16	18	19
API	**84**	**69**	**61**	**54**	**46**	**43**	**37**	**34**
SSP	35	27	32	24	18	13	11	9
Cephalosporin	29	29	23	21	20	20	17	15
ARV & other high value	21	13	6	9	9	9	9	9

Source: Company, India Infoline Research

Manufacturing Setup

Unit	Products	Approvals	Utilisation
Formulation			
Unit III (India)	Multi-purpose non-Betalactum Oral	USFDA, UKMHRA, THA, Health Canada, MCC (SA), ANVISA (Brazil), WHO, Warning letter for labeling and packaging	>80%
Unit VII (SEZ) (India)	Non-Betalactums-Oral	US FDA, EU-GMP, ANVISA,(Brazil) , TGA-GMP (Australia)	~40% as recently commercilaised
USA NJ	Non-Betalactum Oral	US FDA	<20%
Unit VIB (India)	Cephalosporin (Oral & Sterile)	US FDA Export Alert, Health Canada, MCC (SA), ANVISA (Brazil)	<20%
Unit XII (India)	Semi-synthetic penicillins (SSP) oral and sterile	US FDA, MHRA (UK),Health Canada, MCC (SA),ANVISA (Brazil)	~40%-50%
Unit IV (India)	Non beta lectam injectable	Awaited Approval (Expect inspection in Q2FY12)	Not commercilise, Expected by Q3FY12
Bhiwadi (India)	High end antibiotic Penems; And Oral Contraceptive	None, as only for EM	Not commercialise, Expected by Q2FY12
API			
Unit I (India)	CVS, CNS, Anti-allergic	US FDA , WHO,MHRA (UK),TGA (Australia)	>80%
Unit IA (India)	Cephalosporins (Non-Sterile)	US FDA ,MHRA (UK),TGA (Australia)	>80%
Unit V (India)	Semi-synthetic penicillins (sterile and Non sterile)	US FDA ,MHRA (UK),TGA (Australia)	>80%
Unit VIA Unit VIII (India)	Cephalosporins (Sterile), GI and ARV	US FDA, WHO, Health Canada, AM (Finland)	>80%
Unit XIB (India)	Anti-retroviral	US FDA, WHO,MHRA (UK)	>80%
Intermediates			
Unit IX	Intermediates	CGMP	High
Unit X	Intermediates	CGMP	High
Unit XIA	Intermediates	CGMP	High
China	Fermentation unit	CGMP	High (Sold majority stake)

Source: Company, India Infoline Research

Concerns

- Delay in ramp up of supply agreements or execution risk
- Forex risks: Exports constitute 70% of the company revenues. Any unfavorable currency movement can impact profitability. However, more than 80% of the company's debt is foreign currency denominated providing a natural hedge against currency volatility.
- High price volatility in the API business
- Delay in receiving approval for the new site and delay in resolution of USFDA import alert at Unit VI.
- Adverse verdict for Unit III can impact US revenues negatively

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	35,754	43,815	50,163	61,066
Operating profit	**8,232**	**9,598**	**10,885**	**13,293**
Depreciation	(1,493)	(1,715)	(1,981)	(2,443)
Interest expense	(678)	(625)	(953)	(916)
Other income	1,462	727	120	127
Profit before tax	**7,522**	**7,985**	**8,071**	**10,062**
Taxes	(1,914)	(2,251)	(1,856)	(2,314)
Minorities and other	3	(4)	(4)	(4)
Adj. profit	**5,273**	**5,533**	**6,192**	**7,723**
Exceptional items	22	-	(3,000)	-
Net profit	**5,634**	**5,738**	**3,219**	**7,751**

Balance sheet

Y/e 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Equity capital	279	291	291	291
Reserves	18,012	24,157	25,554	32,266
Net worth	**18,291**	**24,448**	**25,846**	**32,557**
Minority interest	43	91	95	99
Debt	21,546	24,144	23,587	21,231
Def tax lia (net)	912	1,183	1,183	1,183
Total liabilities	**40,792**	**49,866**	**50,710**	**55,070**
Fixed assets	21,688	23,301	23,492	23,125
Intangible assets	1,121	1,121	1,121	1,121
Investments	3	385	400	440
Net working capital	**17,251**	**23,177**	**24,830**	**29,484**
Inventories	11,025	14,553	15,049	18,320
Sundry debtors	9,560	12,434	13,795	16,488
Other current assets	3,746	5,053	5,919	6,767
Sundry creditors	(6,728)	(8,243)	(9,431)	(11,480)
Other current liabilities	(352)	(620)	(502)	(611)
Cash	728	1,882	867	900
Total assets	**40,792**	**49,866**	**50,710**	**55,070**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Profit before tax	7,522	7,985	8,071	10,062
Depreciation	1,493	1,715	1,981	2,443
Tax paid	(1,914)	(2,251)	(1,856)	(2,314)
Working capital Δ	(1,338)	(5,926)	(1,654)	(4,654)
Operating cash flow	5,764	1,523	6,543	5,537
Capital expenditure	(4,953)	(3,328)	(2,172)	(2,076)
Free cash flow	**811**	**(1,805)**	**4,370**	**3,460**
Equity raised	568	1,101	(1,048)	-
Investments	(0)	(383)	(15)	(40)
Debt financing/ disposal	(1,641)	2,869	(557)	(2,355)
Dividends paid	(324)	(681)	(773)	(1,040)
Other items	37	52	(2,992)	8
Net Δ in cash	**(549)**	**1,154**	**(1,015)**	**33**

Key ratios

Y/e 31 Mar	FY10	FY11E	FY12E	FY13E
Growth matrix (%)				
Revenue growth	16.2	22.5	14.5	21.7
Op profit growth	207.9	16.6	13.4	22.1
EBIT growth	424.1	5.0	4.8	21.6
Net profit growth	78.3	4.9	11.9	24.7
Profitability ratios (%)				
OPM	23.0	21.9	21.7	21.8
EBIT margin	22.9	19.7	18.0	18.0
Net profit margin	14.7	12.6	12.3	12.6
RoCE	21.2	19.0	17.9	20.8
RoNW	34.4	25.9	24.6	26.4
RoA	11.7	10.4	10.4	12.1
Per share ratios				
EPS	18.9	19.0	21.3	26.5
Dividend per share	1.0	1.9	2.2	3.0
Cash EPS	24.3	24.9	28.1	34.9
Book value per share	65.7	84.0	88.8	111.8
Valuation ratios				
P/E	9.1	9.1	8.1	6.5
P/CEPS	7.1	6.9	6.2	5.0
P/B	2.6	2.1	1.9	1.5
EV/EBIDTA	8.4	7.6	6.7	5.3
Payout (%)				
Dividend payout	6.1	12.3	12.5	13.5
Tax payout	25.4	28.2	23.0	23.0
Liquidity ratios				
Debtor days	98	104	100	99
Inventory days	113	121	110	110
Creditor days	69	69	69	69
Leverage ratios				
Interest coverage	12.1	13.8	9.5	12.0
Net debt / equity	1.1	0.9	0.9	0.6
Net debt / op. profit	2.5	2.3	2.1	1.5

Du-Pont Analysis

Y/e 31 Mar	FY10	FY11E	FY12E	FY13E
Tax burden (x)	0.70	0.69	0.77	0.77
Interest burden (x)	0.92	0.93	0.89	0.92
EBIT margin (x)	0.23	0.20	0.18	0.18
Asset turnover (x)	0.79	0.82	0.84	0.96
Financial leverage (x)	2.93	2.49	2.37	2.19
RoE (%)	**34.4**	**25.9**	**24.6**	**26.4**

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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