

Q2FY13 Result Update/Earning revision 15 Nov 2012

Growth across segments

Aurobindo Pharma's (APL) results for Q2FY13 were better than our expectations. The company reported 40%YoY growth in revenues, 600bps improvement in EBITDA margin and net profit of Rs2.23bn against net loss of Rs803mn. The formulations business (59% of revenues) grew by 53%YoY whereas the API business (40% revenues) grew by 27%YoY. The company's interest cost increased by 62%YoY due to the increase in working capital. APL reported forex gain of Rs1,177mn against forex loss of Rs1,854mn. We have a Buy rating for the scrip with a target price of Rs245 (based on 8x FY14E EPS).

- Excellent sales growth:** APL reported 40%YoY growth in revenues from Rs10.75bn to Rs15.00bn due to excellent growth in the formulation business and benefit of rupee depreciation against the dollar. The formulation business (59% of revenues) grew by 53%YoY. Formulation exports to US and (EU & RoW) grew by 50% and 82%YoY respectively. The company's ARV formulation exports grew by 37%YoY. APL's API business grew by 27%YoY from Rs4.90bn to Rs6.22bn. Dossier income declined by 24%YoY from Rs153mn to Rs117mn.
- Sharp improvement in margin:** APL's EBITDA margin improved by 600bps YoY (and 520bps QoQ) from 10.7% to 16.7% due to the decline in material and personnel costs. Material cost declined by 530bps from 55.7% to 50.4% of revenues due to higher formulation sales. Personnel cost declined by 120bps from 12.3% to 11.1% due to strong sales growth. Other expenses grew by 50bps YoY from 21.3% to 21.8% due to an increase in power and fuel cost and legal & professional fees for remedial measures of its manufacturing units.

Y/E Mar-Consol. (Rsmn)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	Q2FY13E	Var (%)
Total income	15,004	10,752	39.5	12,144	23.6	13,250	13.2
EBIDTA	2,503	1,145	118.5	1,397	79.1	1,648	51.9
EBIDTA Margin (%)	16.7	10.7		11.5		12.4	
Other income	66	60	10.6	22	197.3	35	88.6
PBDIT	2,569	1,205	113.2	1,420	81.0	1,683	52.6
Depreciation	598	462	29.4	588	1.6	625	(4.3)
Interest	335	207	61.8	331	1.2	350	(4.3)
Forex exchange gain / (loss)	1,177	(1,854)	NA	(2,065)	NA	975	
PBT	2,813	(1,318)	NA	(1,564)	NA	1,683	67.1
Prov. For tax	591	(516)	NA	(274)	NA	380	55.5
Tax rate	21.0	39.1		17.5		22.6	
PAT	2,222	(803)	NA	(1,290)	NA	1,303	70.5
Minority Interest	(4)	0		(1)		(1)	300.0
PAT after Min Int & share of P&L Asso.	2,226	(803)	NA	(1,289)	NA	1,304	70.7
Extraordinary item	1	-		-		-	NA
Reported PAT (after EO)	2,225	(803)		(1,289)		1,304	70.6
Equity capital (fully diluted)	291	291		291		291	0.0
EPS Rs.(Rs. 1 Paid up)	7.6	(2.8)	NA	(4.4)	NA	4.5	70.7

Source: Company, Centrum Research

- Unit VI likely to get inspected:** APL's manufacturing unit VI which is under import alert from US FDA was inspected in Q2FY13. We expect the unit to contribute significantly after clearance from US FDA. APL's Unit III and Unit XII have also been inspected by US FDA and are likely to get approvals soon.
- Strong product pipeline:** APL has a strong product pipeline for regulated markets. The company has filed 265 ANDAs with US FDA, of which 162 are approved. The company has over 170 DMFs filed in regulated markets. APL has filed 1,316 dossiers in Europe. All these are likely to contribute significantly in future.
- Valuations:** We expect APL to benefit from higher supply of generic formulations for regulated markets. We expect margin improvement due to reduced exposure to ARV formulations and new product introductions in the US market. We have revised our FY13 and FY14 EPS estimate upwards by 25% and 56% respectively. At the CMP of Rs178, the stock trades at 11.1x FY13E EPS of Rs16.0 and 5.8x FY14E EPS of Rs30.6. We have a Buy rating for the scrip with a target price of Rs245 (based on 8x FY14E EPS of Rs30.5) with a 37.4% upside over the CMP.

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)
FY11	43,813	22.5	9,598	21.9	5,731	2.1	19.7	26.9	12.9	9.0
FY12	46,274	5.6	5,613	12.1	(1,349)	(123.5)	(4.6)	(5.6)	4.6	(38.8)
FY13E	60,346	30.4	9,768	16.2	4,670	(446.2)	16.0	18.4	11.9	11.1
FY14E	74,430	23.3	14,340	19.3	8,895	90.5	30.6	28.2	16.8	5.8
FY15E	86,850	16.7	16,615	19.1	10,515	18.2	36.1	26.0	17.0	4.9

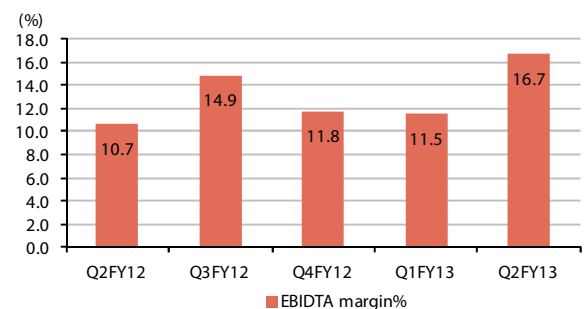
Source: Company, Centrum Research Estimates

Key Data

Target Price	Rs245	Bloomberg Code	ARBP IN
CMP	Rs178*	Reuters Code	ARBN BO
Upside	37.4%	Current Shares O/S (mn)	291.1
Stock to Sector	Outperform	Diluted Shares O/S(mn)	291.1
Sector to Market	Outperform	Mkt Cap (Rsbm/USDmn)	52/947.9
Price Performance (%)*		52 Wk H / L (Rs)	181/80
	1M	6M	1Yr
Aurobindo	14.7	68.2	86.6
NIFTY	(0.8)	14.2	8.9
		Daily Vol. (3M NSE Avg.)	1,912,385
		Face Value (Rs)	1
		1 USD = Rs54.8	

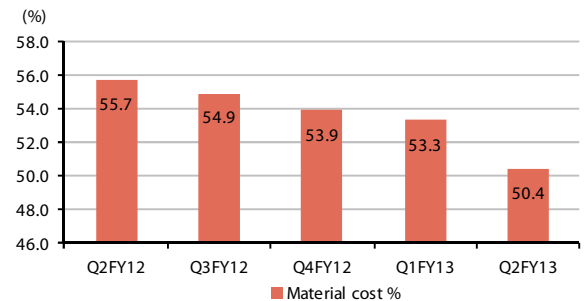
Source: Bloomberg, Centrum Research
*as on 13 November 2012

Trend in EBITDA margin (%)



Source: Company, Centrum Research

Trend in Material Cost (%)



Source: Company, Centrum Research

Earning Revision

Particulars	FY13E			FY14E		
	Current	Earlier	Chg (%)	Current	Earlier	Chg (%)
Sales	60,346	55,340	9.0	74,430	66,360	12.2
EBIDTA	9,768	7,792	25.4	14,340	10,160	41.1
EBIDTA margin (%)	16.2	14.1	210bps	19.3	15.3	400bps
Net profit	4,670	3,716	25.7	8,895	5,713	55.7
EPS (Rs)	16.0	12.8	25.4	30.6	19.6	56.0

Source: Company, Centrum Research Estimates

Ranjit Kapadia

Ranjit.kapadia@centrum.co.in
+91 22 4215 9645

Please refer to important disclosures/disclaimers inside

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Financials (Consolidated)

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	43,813	46,274	60,346	74,430	86,850
-Growth (%)	22.5	5.6	30.4	23.3	16.7
Operating Expenses	34,215	40,661	50,578	60,090	70,235
% of sales	78.1	87.9	83.8	80.7	80.9
EBIDTA	9,598	5,613	9,768	14,340	16,615
-EBIDTA margin (%)	21.9	12.1	16.2	19.3	19.1
Depreciation	1,715	2,005	2,270	2,380	2,500
EBIT	7,883	3,608	7,498	11,960	14,115
Interest Income/(expenses)	(625)	(2,873)	(1,180)	(1,315)	(1,460)
Forex gain / (loss) on loans	475	(3,212)	(888)	-	-
PBT from operations	7,734	(2,477)	5,430	10,645	12,655
Other non operating income	252	247	270	340	410
PBT	7,986	(2,231)	5,700	10,985	13,065
-PBT margin (%)	18.2	(4.8)	9.4	14.8	15.0
Provision for tax	2,251	(888)	1,030	2,090	2,550
Effective tax rate (%)	28.2	39.8	18.1	19.0	19.5
Minority Interest	4.0	6.4	-	-	-
EO Items	(103)	-	-	-	-
Net profit	5,628	(1,349)	4,670	8,895	10,515
Adj. PAT	5,731	(1,349)	4,670	8,895	10,515
-Growth (%)	2.3	(123.3)	(449.5)	90.5	18.2
-Net profit margin (%)	12.8	(2.9)	7.7	12.0	12.1

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Share capital	291	291	291	291	291
Reserves & surplus	24,158	23,004	27,162	35,373	45,033
Total shareholder's fund	24,449	23,295	27,453	35,664	45,324
Loan fund	24,144	27,771	27,139	25,669	29,251
Minority interest	91	102	120	140	170
Deferred tax liability	1,227	38	1,150	1,375	80
Total capital employed	49,910	51,207	55,861	62,847	74,825
Gross block	27,430	27,897	29,350	30,755	32,330
Accumulated depreciation	(8,783)	(7,976)	(8,123)	(8,482)	(8,842)
Net Block	18,647	19,921	21,227	22,274	23,488
Capital WIP	4,400	6,000	4,800	5,100	5,500
Net fixed assets	23,047	25,921	26,027	27,374	28,988
Deferred tax asset	44	54	65	70	70
Intangible assets	1,375	2,074	2,370	2,480	2,740
Investments	385	385	450	500	600
Cash and bank	1,884	3,056	1,799	2,221	2,597
Inventories	14,552	15,456	20,600	24,800	29,330
Debtors	12,434	12,400	16,050	20,000	25,650
Other CA and loans and adv.	5,052	4,972	3,811	4,736	5,666
Total CA and loans and adv.	34,307	34,588	42,710	52,257	63,843
Current liabilities & provisions	8,862	13,111	15,311	19,333	20,816
Net current assets	25,444	21,478	27,399	32,924	43,026
Total assets	49,910	51,207	55,861	62,847	74,824

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Cash flow from operations					
Net Profit	5,636	(1,336)	4,670	8,895	10,515
Dep. and amortization	1,715	2,005	2,270	2,380	2,500
Change in working capital	(5,924)	3,459	(5,433)	(5,053)	(9,627)
Deferred tax liability	273	(1,189)	1,112	225	(1,295)
Deferred tax assets	(2)	(10)	(11)	(5)	-
Forex Retranslation Reserve A/c	1,199	(1,159)	-	-	-
Cash flow from operations	2,896	1,770	2,608	6,442	2,093
Cash flow from investments					
Capex	(3,074)	(4,879)	(2,376)	(3,726)	(4,114)
Intangible asset	(254)	(699)	(296)	(110)	(260)
Minority interest	48	11	18	20	30
Other investing activities	(382)	(1)	(65)	(50)	(100)
Cash flow from investments	(3,662)	(5,568)	(2,719)	(3,866)	(4,444)
Cash flow from financing					
Inc / (dec) in long term debt	2,598	1,585	(1,528)	(3,500)	(1,300)
Dividends paid	(684)	(338)	(513)	(684)	(856)
Share issuance / (repurchase)	13	-	-	-	-
Cash flow from financing	1,927	1,246	(2,041)	(4,184)	(2,156)
Net Cash Flow	1,160	(2,552)	(2,152)	(1,608)	(4,507)

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
Profitability ratios (%)					
EBIDTA margin	21.9	12.1	16.2	19.3	19.1
PBIT margin	18.6	8.3	12.9	16.5	16.7
PBT margin	18.2	(4.8)	9.4	14.8	15.0
PAT margin	12.8	(2.9)	7.7	12.0	12.1
Return ratios (%)					
ROCE	12.9	4.6	11.9	16.8	17.0
ROE	26.9	(5.6)	18.4	28.2	26.0
Turnover Ratios (days)					
Working capital	163.6	164.5	139.5	134.7	146.4
Inventory	106.5	118.3	109.0	111.3	113.7
Debtors	91.6	97.9	86.0	88.4	95.9
Creditors	79.9	92.7	94.4	92.2	88.5
Per share (Rs)					
EPS	19.7	(4.6)	16.0	30.6	36.1
Book value	84.0	80.1	94.3	122.6	155.8
Valuation (x)					
P/E	9.0	(38.8)	11.1	5.8	4.9
P/BV	2.1	2.2	1.9	1.5	1.1
Market Cap/Sales	1.2	1.1	0.9	0.7	0.6
EV/EBIDTA	7.7	13.9	7.9	5.2	4.7
EV/Sales	1.7	1.7	1.3	1.0	0.9

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

This report has not been prepared by Centrum Securities LLC. However, Centrum Securities LLC has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by him, Mr. Ranjit Kapadia, research analyst and and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances

Key to Centrum Investment Rankings:

Stock to Sector	Sector to Market	Stock to Market
Outperform	Outperform	Buy
	Neutral	Buy
	Underperform	Accumulate
Neutral	Outperform	Neutral
	Neutral	Neutral
	Underperform	Neutral
Underperform	Outperform	Reduce
	Neutral	Sell
	Underperform	Sell

Accumulate: Add on decline; Reduce: Sell on rise

- **Stock to Sector** – This is the relative rating of the stock to the sector and reflects its relative attractiveness vis-à-vis other coverage stocks in the sector.
- **Sector to Market** – This is the relative rating of the sector vis-à-vis the other sectors in the coverage space. This is derived based on the conviction of the analyst on a sector and macro view outlined in market strategy.
- **Stock to Market** – The final rating on the stock is obtained as a combination of the “stock to sector” and “sector to market” view as outlined in the table above.

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Registration Nos.

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239, NSE: INB231454233

DERIVATIVES SEBI REGN. NO.: NSE: INF231454233 (TRADING & SELF CLEARING MEMBER)

CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

PMS REGISTRATION NO.: INP000004383

MCX – SX (Currency Derivative segment) REGN. NO.: INE261454236

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Mr. Praveen Malik; Tel: (022) 4215 9703; Email ID: compliance@centrum.co.in

Centrum Broking Limited

Registered Office Address

Bombay Mutual Building ,
2nd Floor,
Dr. D. N. Road,
Fort, Mumbai - 400 001

Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina,
Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000