

Aurobindo Pharma - 2QFY07 Results Review

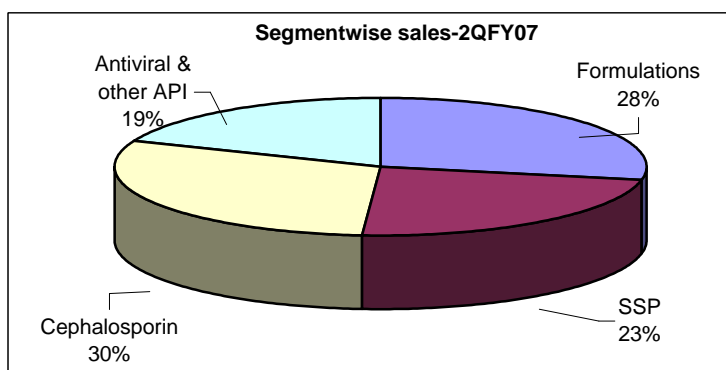
All Round Improvement

OUTPERFORMER

Aurobindo Pharma (APL) has reported excellent results for 2QFY07. Net sales for the quarter grew by 50%, operating profit by 222% and net profit by 1401%. APL's operating margin improved by 770 bps from 6.7% to 14.4% mainly due to sharp reduction in material cost. Domestic sales grew by 18% compared to industry growth of around 16%. Export Sales reported healthy growth of 86%. APL has plans to invest Rs. 2.0 billion in SEZ facility near Hyderabad. The company has acquired US FDA compliant facility in New Jersey to improve its presence in the US market.

Strong Export growth

- APL has reported 55% YoY growth in gross sales from Rs. 3.27 billion to Rs. 5.07 billion. Net sales were up by 50% from Rs. 3.20 billion to Rs. 4.80 billion. For the first time, the company has exceeded Rs. 5.0 billion sales mark in a quarter. Domestic sales grew by 18% from Rs. 1.69 billion to Rs. 2.00 billion. Exports were up by 86% from Rs. 1.51 billion to Rs. 2.80 billion. APL's thrust into regulated markets and formulations' business has contributed to the improved performance. APL's domestic sales' share dropped from 52.9% to 41.6% whereas exports improved from 47.1% to 58.4%.
- The segment wise sales for 2QFY07 is shown in the following chart:



- The company has reported marked improvement on the operating front. Operating profit surged by 222% from Rs. 215 million to Rs. 691 million due to strong exports' growth and tight control over the expenses.

PARTICULARS	FY06	FY07E	FY08E
EPS Rs.	12.5	31.7	42.7
P/E (CMP Rs. 616)	49.3	19.4	14.4

- The sales composition is shown in the following table:

Table 1: Sales Composition

PARTICULARS	2Q07	2Q06	%
(in Rs. Million)	SEPT 2006	SEPT 2005	CHANGE
Sales-exports	2802	1506	86.0
Sales-domestic	1998	1689	18.3
Exports % of total	58.4	47.1	
domestic % of total	41.6	52.9	

- **APL has reported 770 bps improvement in the operating margin from 6.7% to 14.4% mainly due to the sharp reduction in the material cost.** Material cost declined by 790 bps from 62.7% to 54.8% of net sales, due to the change in the product mix with strong export growth. Personnel cost increased marginally by 20 bps from 5.8% to 6.0% of net sales, due to increase in staff. Other expenses were marginally up by 20 bps from 24.7% to 24.9% of net sales due to operational efficiencies and keeping a tight control on the expenses.

Table 2: Quarterly Results

PARTICULARS	2Q07	2Q06	%	6MONTHS	ENDED	%	FY06
(in Rs. Million)	SEPT	SEPT	CHANGE	SEPT	SEPT	CHANGE	MAR
	2006	2005		2006	2005		2006
Net Sales	4800	3195	50.2	9186	6001	53.1	14722
Total expenses	4109	2980	37.9	7836	5556	41.0	12979
as % of Net Sales	85.6%	93.3%		85.3%	92.6%		88.2%
Raw Materials	2542	2018	26.0	5463	3832	42.6	9027
(Increase)/Dec. in stock	84	-15	NA	-361	-139	NA	-275
Personnel Expenses	288	187	54.2	546	370	47.7	792
Other Expenses	1195	790	51.3	2188	1494	46.5	3435
Operating Profit	691	215	221.6	1350	445	203.1	1743
as % of Net Sales	14.4%	6.7%		14.7%	7.4%		11.8%
Other Income	267	76	250.4	438	112	291.2	304
EBIDTA	958	291	229.2	1788	557	220.8	2047
as % of Net Sales	20.0%	9.1%		19.5%	9.3%		13.9%
Interest	202	141	43.2	383	276	39.0	606
Depreciation	150	125	20.4	293	243	20.4	511
PBT	606	25	2303.2	1112	38	2795.3	929
Provision for Tax-current	61	3	1790.6	119	5	2320.4	90
Provision for Tax-deferred	12	-15	-176.2	149	-24	-712.8	159
Provision for FBT	1	1	50.0	2	1	41.7	3
MAT credit entitlement	14	0	NA	66	0	NA	81
Tax-previous year provision	0	0	NA	0	0	NA	65
as % of PBT	12.0%	-44.4%		24.2%	-47.1%		34.0%
PAT	546	36	1401.1	909	56	1508.1	694
Equity Capital	266	266	0.0	266	266	0.0	266
EPS Rs. (Rs. 5 pd up)	10.3	0.7	1400.4	17.0	1.1	1507.4	13.0
Diluted EPS Rs.	8	0.7	1042.9	13.8	1.1	1154.5	12.5

- APL's other income was up by 250% from Rs. 76 million to Rs. 267 million from the interest on FCCB. **Due to the high other income, APL's EBIDTA margin improved by 1090 bps from 9.1% to 20.0%.**
- APL's interest cost increased by 43% from Rs. 141 million to Rs. 202 million, due to the rise in working capital. Depreciation was up by 20% from Rs. 125 million to Rs. 150 million.

Jump in Net Profit

- **APL's net profit for the quarter jumped by 1401% from Rs. 36 million to Rs. 546 million due to the improvement in operating margin and sharp rise in other income.**

Other developments

- APL's 50:50 JV with Cephalzone, US, is likely to receive US FDA approval shortly, for its sterile cephalosporin facility. This is likely to open up the hospital supply market in the US.
- The company is undergoing a re-structuring operation and is likely to hive off its old manufacturing units. This is likely to improve the overall performance of the company.
- APL acquired US FDA compliant cGMP facility at Dayton, New Jersey, which has a fully integrated formulation facility, R& D and distribution facilities. This will help the company to strengthen its presence in the US market.
- The company has converted its formulations' facility at Bachupally to a 100% EOU effective July'06, which will be eligible to income tax benefits. APL has plans to invest over Rs. 2.0 billion in a new SEZ facility near Hyderabad.
- The company has received the following ANDA approvals from US FDA:

MONTH	ANDA APPROVAL
July'06	Lamivudine, Zidovudine with Abacavir Sulphate Tablets Lamivudine, Zidovudine, Nevirapine Tablets Didanosine Tablets
August'06	Citalopram HCl oral solution
Sept'06	Lamivudine, Zidovudine Tablets
October'06	Didanosine oral solution

APL has filed 9 ANDAs and 14 DMFs with US FDA during the quarter. The company has received 4 ARV approvals from MCC, South Africa and one approval from UK MHRA. Till date, the company has filed 1267 product registrations across the globe.

- APL has recently acquired Senor Organics (SOL), a profit making Pharma Company based at Hyderabad. SOL's manufacturing unit is located adjoining to APL's US FDA approved facility and will help APL in expanding its operations at this facility.
- The company has plans to divest its holding in 100% subsidiary Aurobindo Tongling Pharma Co., China (ATDPL). This company is engaged in the manufacture and marketing of formulations in China. ATDPL reported sales of Rs. 1.31 billion and incurred net loss of Rs. 66 million for FY06. The divestment will help to improve the profitability of the company.
- The CMP of Rs. 610 discounts the FY07E EPS of Rs. 31.7 by 19.2x and FY08E EPS of Rs. 42.7 by 14.3x. We are positive on the long-term prospects of the company due to its acquisition in the US, improved performance on the export front and increase in ANDA approvals.

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