



Research



## RESEARCH:: COMPANY:: AUROBINDO PHARMA LIMITED

11<sup>th</sup> Sept. 2010

### BUY

|                   |            |
|-------------------|------------|
| CMP               | Rs 1030    |
| Target price      | Rs 1120    |
| Investment period | 1-2 months |

### STOCK INFO (TTM Basis)

|                    |           |
|--------------------|-----------|
| Sector             | Pharma    |
| Market cap (Rs.Cr) | 5996.82   |
| Face value         | 5.00      |
| Book value         | 329.02    |
| EPS                | 79.52     |
| 52 week H/L        | 1100/660  |
| Avg Daily Vol(2wk) | 29000     |
| Chairman           | P V Reddy |
| Incorporation      | 1986      |
| Listed             | NSE/BSE   |
| Equity             | 29.11cr   |
| Promoter Holding   | 56.15%    |
| FII's/M.F Holding  | 22.49/6.6 |

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Aurobindo Pharma started off as a pure API supplier but over the years has scaled its business to focus more on formulations. As a result, the company now derives revenues from three segments namely formulations, dossier licensing and APIs. The company has a strong presence in the antibiotic space especially in the segments of penicillin and cephalosporins and the anti-retroviral segment. After establishing a presence in the semi regulated markets, the company began to venture into the regulated markets of US and Europe and these are expected to become key growth drivers going forward.

### Investment Argument:

#### Focus on formulations

It has shifted from the commodity-based businesses to a more value-added product portfolio. The formulations business now commands 54 per cent of revenues compared to 10 per cent a few years ago. The contribution from the segment is expected to grow to 63 per cent by the next financial year.

#### Improving Balance Sheet

The company has managed to shape up its balance sheet, with leverage moving into the rational zone. From 1.9 times, the debt-to-equity ratio has come down to 1.2 times. The number may come down to 0.7 times in FY12 with the expectations of healthy operational cash flows in the coming years.

#### New Product Approvals

Medicines Control Council (MCC) of South Africa has granted 23 registrations to manufacture and market products there. With this grant Aurobindo now has a total of 91 registrations and 48 products approved by the MCC which are likely to be launched during this fiscal.

It also entered into licensing and supply agreements with AstraZeneca, one of the world's leading bio pharmaceutical company, to supply several solid dosage and sterile products for Emerging Markets.

#### US Business will be a key growth driver

The US business would become a key growth driver for the company. Till December 2009, it had made a total of 65 ANDA filings and received approvals for 110 ANDAs. This indicates the revenue visibility.

Further, to boost the sales, it has acquired a manufacturing facility in New Jersey which will enable them to participate in US government business.

## Quarterly Result:

| Particulars (Rs Cr)       | June'10 | June'09 | VAR %<br>Y-o-Y | Mar'10  | VAR %<br>Q-o-Q |
|---------------------------|---------|---------|----------------|---------|----------------|
| Net Sales                 | 922.25  | 852.75  | 8.15           | 924.79  | -0.27          |
| Other Operating Income    | 3.11    | 2.23    | 39.46          | 102.74  | -96.97         |
| Other Income              | -       | -       | -              | -       | -              |
| Total Income              | 925.36  | 854.98  | 8.23           | 1027.53 | -9.94          |
| Total Expenditure         | 750.52  | 657.05  | 14.23          | 753.25  | -0.36          |
| PBIDT                     | 174.84  | 197.93  | -11.67         | 274.28  | -36.25         |
| Interest                  | 54.69   | -34.86  | -256.88        | 68.25   | -19.87         |
| PBDT                      | 120.15  | 232.79  | -48.39         | 206.03  | -41.68         |
| Depreciation              | 40.07   | 33.26   | 20.48          | 38.75   | 3.41           |
| Tax                       | 28.51   | 33.08   | -13.81         | 45.61   | -37.49         |
| Reported Profit After Tax | 51.57   | 166.45  | -69.02         | 121.67  | -57.61         |
| EPS                       | 9.13    | 30.9    | -70.45         | 21.83   | -58.18         |
| CEPS                      | 16.23   | 37.15   | -56.31         | 28.79   | -43.62         |
| OPM (%)                   | 18.96   | 23.21   | -              | 29.66   | -              |
| NPM (%)                   | 5.59    | 19.52   | -              | 13.16   | -              |

Aurobindo Pharma has reported 8.15% increase in its net sales to Rs 922.25cr for the quarter ended June 2010 compared to corresponding previous year period. It has posted a net profit of Rs 51.50 crore for the June quarter of the year 2010 which is almost 69.02% decline from the net profit registered in the June quarter of the year 2009. The profitability of the firm was affected by the overheads of the newly operationalized facilities in the quarter under review.

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