

## Equities

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# Aurobindo Pharma (ARBN.BO)

## Alert: Takeaways from India Pharma Conf., Dec. 6-7

**Takeaways from Mumbai** — Aurobindo Pharma presented at our India Pharma Mini-Conference in Mumbai. Below are key takeaways.

**Revenues to double by CY13** — Aurobindo Pharma expects to double revenues from current levels to cUS\$2bn by CY13. This would be driven by a combination of higher revenues from licensing deals (Pfizer, Astra Zeneca, etc., to make up cUS\$400-500m revenues.), ramp-up of its own US business and growth from its own injectables business. Incremental revenues from RoW markets and API business will also add to growth.

**EBITDA margin expansion to continue** — Gross margin expansion should continue, as the company will keep deriving higher revenues from formulations and gain economies of scale (as utilisation levels go up). Going forward, R&D cost, as a percentage of sales, will also keep coming down, supporting EBITDA margins.

**Emerging markets key to long-term growth** — The deal with Pfizer includes 60 products to be marketed by Pfizer in around 110 countries. Besides, it also has a smaller deal with Astra and continues to talk to other large pharma companies. The ramp-up is likely to be relatively slow (vis-à-vis the US/EU markets), as filings and approvals of such a large portfolio would take longer. These deals should be a key revenue driver and also drive higher margins.

**Other key takeaways** — 1) Aurobindo expects to be a zero debt company by Mar'2013; 2) FCCBs (maturing in May 2011) liability is at US\$204m - the company expects to pay through internal accruals; 3) Aurobindo is eyeing the controlled substances & Oral contraceptives opportunities in the US, but development is at a nascent stage; 4) it is looking at growing in Europe through its own set-up (Italy, Portugal, Spain) and partnerships (such as France with Pfizer); 5) It has 72 final approvals & 29 tentative approvals out of a total of 128 ANDA filings; 6) In talks for partnerships in Japan - should see some progress in the near term.

**Maintain Buy** — High growth should drive a re-rating in our view and lead to material appreciation over the next 6-12 months.

Aurobindo Pharma (ARBN.BO; Rs1,288.25; 1M)

### ■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Aurobindo Pharma

### Valuation

We value Aurobindo using a sum of the parts approach. Given that pharma is a growth sector, we use P/E as our primary method to value the base business of pharma companies. We value Aurobindo's core earnings on 14x 12m forward FDEPS - a 30% discount to the target multiple of 20x that we use for sector leaders such as Cipla and DRL. We believe that the discount is justified at this point, given the possibility of equity dilution (to redeem FCCBs in case they do not get converted), risk of an appreciating rupee (c20-25% net exposure) and higher customer concentration (the Pfizer deal). At 14x Mar '12E EPS we value Aurobindo's core business at Rs1550/sh. We also value Aurobindo's dossier licensing income at 5x. We believe the lower multiple captures the fact that this income stream may not be recurring, at current levels, over the longer term. At 5x Mar'12 estimates, we value Aurobindo's dossier licensing income at Rs80/sh. Cumulatively, we arrive at our target price of Rs1630/sh.

### Risks

We rate Aurobindo Medium Risk as opposed to the Low Risk assigned by our quantitative risk-rating system, which tracks 260-day historical share price volatility. We maintain Medium Risk as the recent run-up in the stock and convertible bonds maturing in May 2011 could prove to be a technical overhang if the stock continues to rise. Key downside risks that could impede the stock from reaching our target price include (1) Fresh equity dilution if FCCBs do not get converted; (2) Execution hiccups in the supply deal with Pfizer; (3) Currency Risk - an appreciating INR would be structurally negative.

## Appendix A-1

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**Ratings and Target Price History**

**Fundamental Research**

Analyst: Prashant Nair, CFA

Covered since January 19 2010

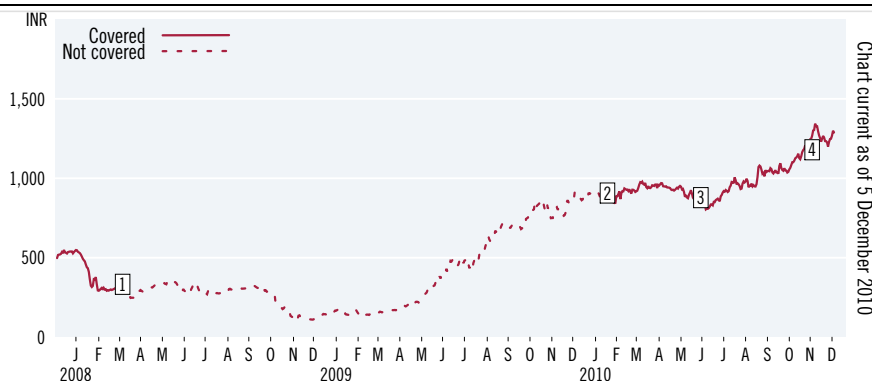


Chart current as of 5 December 2010

	Date	Rating	Target Price	Closing Price
1	6-Mar-08	Coverage terminated		
2	19-Jan-10	*1M	*1,350.00	879.85
3	30-May-10	1M	*1,340.00	839.55
4	3-Nov-10	1M	*1,630.00	1,267.85

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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