

Company Flash

7 March 2008 | 5 pages

Aurobindo (ARBN.BO)

Discontinuing Coverage

- We are discontinuing coverage of Aurobindo due to reallocation of research coverage resources.
- The firm's final recommendation for the company is Sell/Low Risk, and our target price is Rs384.
- This is our final rating on Aurobindo; we will not provide updates to our previous research or ratings. You should not rely on this or previous research with respect to this company going forward.

Sell/Low Risk	3L
Price (05 Mar 08)	Rs324.85
Target price	Rs384.00
Expected share price return	18.2%
Expected dividend yield	0.5%
Expected total return	18.7%
Market Cap	Rs17,466M US\$434M

Price Performance (RIC: ARBN.BO, BB: ARBP IN)



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See Appendix A-1 for Analyst Certification and important disclosures.

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Aurobindo

Valuation

We valued Aurobindo on a P/E basis; although trailing ratios would be skewed due to the company's depressed financials, we expected profits to witness sharp growth off a low base over the next two years, thus making it comparable with its peer group. Our target price of Rs384 was based on 17x one-year forward earnings, which was in line with our target range for mid-sized pharma companies. We broadly value mid-sized pharma stocks at a 10-20% discount range (16-18x) to sector leaders to account for the difference in scale, potential execution issues in their efforts to go global and relatively lower liquidity.

Risks

We rated Aurobindo Pharma Low Risk according to our quantitative risk-rating system, which tracks 260-day historical share price volatility. The main downside risks to our target price and estimates included: (1) The generics market in the US is highly competitive, and Aurobindo does not appear to have any niche positioning in products other than cephalosporins; (2) Aurobindo has been a late entrant in the cephalosporins market, having missed being in the first wave of launches for one of the main products, ceftriaxone; (3) Building up its own front-end infrastructure in the US market would involve a sharp scale-up in SG&A costs that may be higher than we have estimated; and (4) Aurobindo's legacy business (Pen-G and Pen-G-based products) remains a commodity one in less regulated markets. The main upside risks to our target price and estimates included: (1) Aurobindo has one of the most aggressive schedules lined up for ANDA and DMF filings in the US market. If the company is able to capture significant market share in certain key products, it could lead to an upside to our estimates; and (2) Any sharp rebound in the fortunes of the legacy Pen-G business could lead to improvements at the operating level, beyond our expectations.

Appendix A-1

Analyst Certification

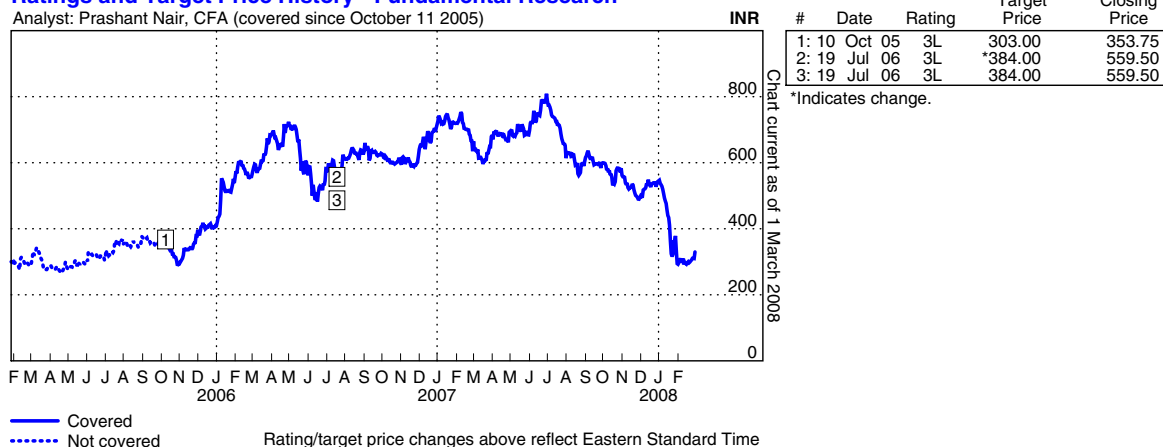
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Aurobindo (ARBN.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Prashant Nair, CFA (covered since October 11 2005)



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Data current as of 31 December 2007

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