

Key data

Sector	Pharma
Market Cap	Rs31.3bn / US\$0.7bn
52 Wk H/L (Rs)	820/526
Avg. daily vol. (6 month)	210,325

BSE Code	524804
NSE Code	AUROPHARMA
Bloomberg	ARBP IN
Reuters	ARBN .BO

Sensex	19,838
Nifty	5,901

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	30.7	27.9
MFs and institutions	7.8	9.7
Promoters	55.7	55.7
Others	5.8	6.8

Absolute returns (%)

	1mth	3mth	12mth
Aurobindo	(3.0)	(10.5)	(4.2)
Sensex	14.7	27.6	53.0
BSE Pharma	3.8	5.7	7.9

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Aurobindo Pharma

Reduce
Current Price: Rs583
Target price: Rs642
Results were above in line with our estimates
Figure 1: Actual Vs Religare Estimates

(Rs mn)	Q2FY08A	Q2FY08E	Difference (%)	Consensus
Net sales	6,284	6,012	4.5	-
EBITDA	934	966	(3.3)	-
EBITDA margins (%)	14.9	16.1	(121bps)	-
Adj. PAT	621	599	3.7	-
Adj. PAT margins (%)	9.9	10.0	(8bps)	-

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

The quarterly numbers are not comparable as consolidated numbers are available from Q1FY08 only.

- **Net sales** for Q2FY08 increased by 30.9%YoY driven by 44.7%YoY growth in the exports business. The contribution of exports increased to 63% of sales in Q2FY08 (vs 58% of sales in Q2FY07)
- **EBITDA** increased by 35.2%YoY. EBITDA margins expanded by just 47bpsYoY and 181bpsQoQ. The margin expansion on a QoQ basis was driven by lower other expenditure (down 100bps) and lower staff costs (down 50bps).
- **Depreciation** increased by 66.4%YoY and **Interest** payment declined by 42.6%YoY. However, **Tax** outgo increased by 263.3%YoY and 206%QoQ.
- **Adj. PAT** grew by 13.6%YoY. Adj. PAT margin contracted by 151bpsYoY and 172bps QoQ to 9.9%. Adj PAT growth is lower than the EBITDA growth on the back of higher depreciation and higher tax outgo.

Valuations and Recommendation

 The stock is trading at a PER of 13.5x one-year forward earnings. The stock is down 6% (vs Snsex gain of 22%) since our initiating coverage report. The company will continue to have a weak front end and will find it difficult to capitalize on its filing pipeline. Hence the derating of the stock will continue. We reduce our two-year forward target multiple to 14x (from 15x earlier) and target price to Rs642 (from Rs678 earlier) and maintain our **Reduce** rating.

Figure 2: Quarterly Performance

Y/e March	FY07				FY08		(Rs mn)	
	1Q#	2Q#	3Q#	4Q#	1Q	2QA	FY07	FY08E
Net Sales	4,141	4,800	5,284	5,328	5,323	6,284	21,229	25,726
Change %	47.6	50.2	29.2	15.1	28.5	30.9	33.2	21.2
EBITDA	659	691	785	652	695	934	3,019	4,218
EBITDA margin (%)	15.9	14.4	14.9	12.2	13.1	14.9	14.2	16.4
Change (%)	185.8	221.6	34.8	(9.0)	5.5	35.2	70.1	39.7
Depreciation	143	150	163	263	234	250	997	1,107
Other Income	60	267	263	152	335	270	496	744
Interest exp/(inc)	70	202	197	30	106	116	454	461
PBT	506	606	688	511	690	838	2,064	3,394
PBT margin (%)	12.2	12.6	13.0	9.6	13.0	13.3	9.7	13.2
PBT growth (%)	3,734.8	2,303.2	89.1	(2.9)	36.4	38.4	109.6	64.4
Extraordinary exp/(Inc)	-	-	-	-	-	-	-	-
Tax	144	59	87	(270)	70	215	44	475
Effective tax rate (%)	28.5	9.8	12.7	(52.7)	10.2	25.7	2.1	14.0
PAT reported	362	546	601	781	617	621	2,010	2,919
Adjusted PAT *	362	546	601	781	617	621	2,010	2,919
Adj PAT margin (%)	8.7	11.4	11.4	14.7	11.6	9.9	9.5	11.3
Change (%)	1,701.5	1,401.1	129.6	108.1	70.5	13.6	419.3	45.2
Equity Capital (Rs mn)	266	266	266	266	267	267	266	267
Adj EPS (Rs)	6.8	10.3	11.3	14.7	11.6	11.6	37.7	54.7

*Excluding extraordinary, # standalone, rest all are consolidated numbers - not comparable

Other business highlights

- At the end of Q2FY08, the Aurobindo cumulative filing for the US market is: 106 ANDAs and 117 DMFs.
- The company has reported Rs270mn other income which include Rs220mn forex gains. Considering higher than estimated other income, we are revising our FY08E estimates.

Figure 3: Earnings revision table - consolidated

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Net Sales	21,229	25,726	29,525	21,229	25,726	29,525	-	-	-
EBITDA	3,019	4,218	4,560	3,019	4,218	4,560	-	-	-
EBITDA margin (%)	14.2	16.4	15.4	14.2	16.4	15.4	-	-	-
PBT	2,064	3,148	3,370	2,064	3,394	3,385	-	7.8	0.5
Adj PAT	2,010	2,708	2,898	2,010	2,919	2,911	-	7.8	0.5
Adj PAT margin (%)	9.5	10.5	9.8	9.5	11.3	9.9	-	80bps	0.5
Adj EPS (Rs)	31.9	40.1	42.9	31.9	43.2	43.1	-	7.8	0.5

Future outlook

- Aurobindo Pharma Ltd (APL) is largely a bulk drug company; its move into formulations is positive, but its formulations are also largely generics. Its margin expansion in the future will be muted because of the need to create a front end for its generics business. Earnings growth in FY08E is mainly driven by the rise in Pen-G prices, which is not sustainable.
- APL will remain an EVA negative company over the next two years.
- Its lower margin Anti Retroviral (ARV) business and a depreciating dollar are other negatives.
- The FY08E earnings growth will be driven by higher Pen-G prices and higher other income. The growth will slow down in FY09E and even in FY10E, it will be subdued. We believe that Aurobindo has a strong manufacturing and filing capability but lack a strong front end. Hence, the derating is likely to continue.

Figure 4: Valuation summary – Pharmaceuticals

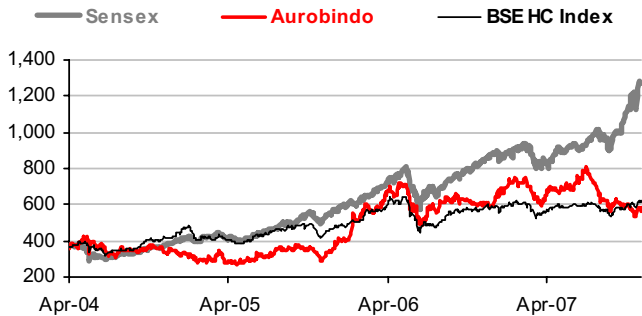
Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs mn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08 (Rs mn)	YoY (%)	Q2FY08 (Rs mn)	YoY (%)	Q2FY08 (Rs mn)	YoY (%)	Q2FY08 (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Aurobindo*	583	Reduce	642	31,169	6284	30.9	934	35.2	621	13.6	11.6	13.6	43.2	13.5	43.1	13.5
Biocon	506	Reduce	512	50,600	2,820	13.3	840	27.3	540	20.0	5.4	20.0	22.2	22.8	27.6	18.4
Cipla	185	Reduce	198	143,799	10,984	22.6	2,240	(1.6)	1,906	5.7	2.5	5.7	7.6	24.5	9.0	20.6
Dr Reddy's	615	Hold	737	103,315	12,670	(36.8)	1,462	(65.4)	1,170	(58.2)	7.0	(58.2)	34.5	17.8	42.6	14.4
Glenmark	430	Accumulate	422	104,896	3,554	43.9	1,042	73.3	639	59.0	2.7	59.0	21.2	20.2	26.3	16.3
GSK Pharma	1064	Reduce	1,357	90,124	4,208	5.4	1,366	6.5	1,091	10.1	12.9	10.1	46.3	23.0	51.2	20.8
Sun Pharma	1016	Buy	1,265	202,359	6,528	24.8	2,309	35.2	2,140	14.8	11.1	14.8	45.9	22.1	55.5	18.3
Sector				726,262	46,776	(2.5)	10,225	(10.7)	8,085	(8.7)			20.2		16.9	

Source: Religare Institutional Equity Research, Bloomberg.

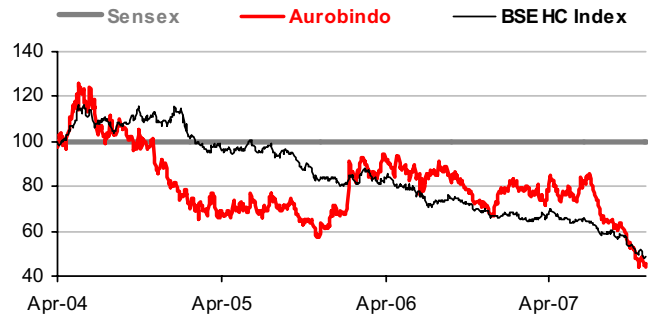
Stock performance

Aurobindo

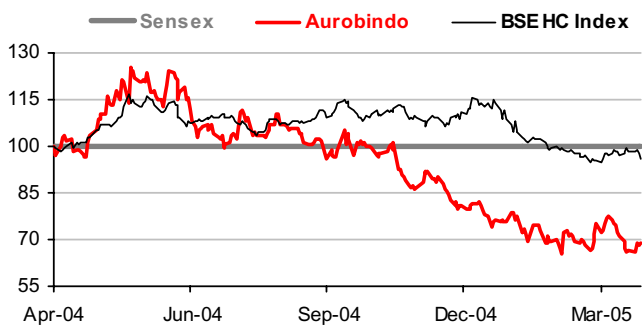
Absolute Perf. From Apr 04



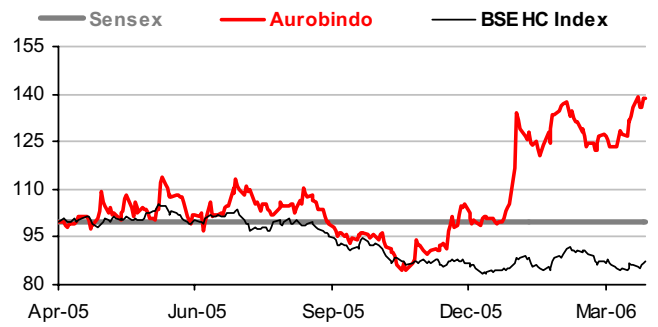
Relative Perf. From Apr 04



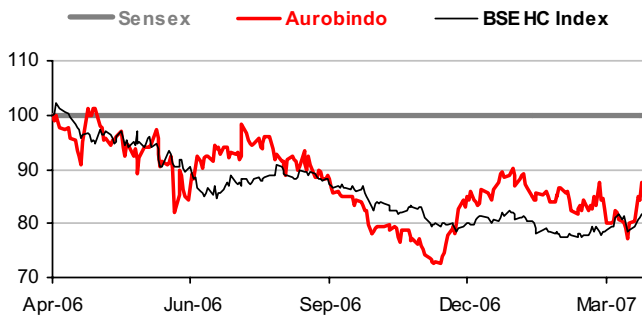
Relative Perf. From Apr 04 to Mar 05



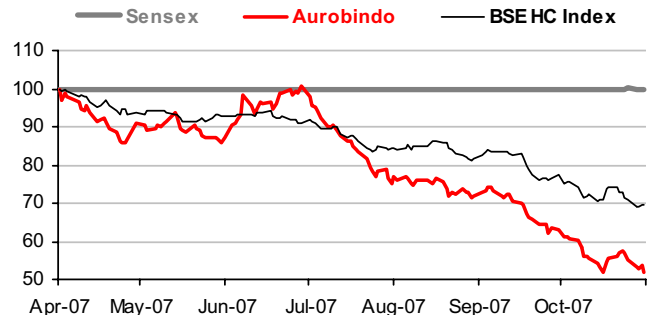
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

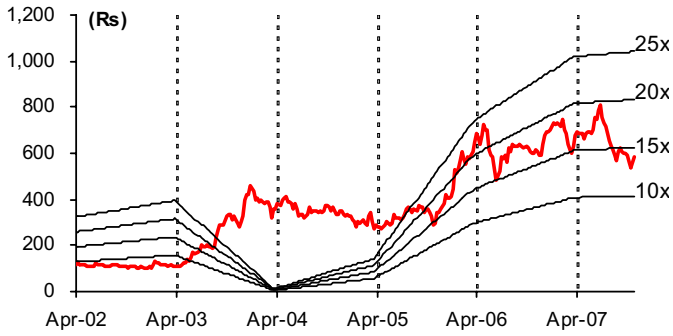


Source: Bloomberg, Religare Institutional Equity Research

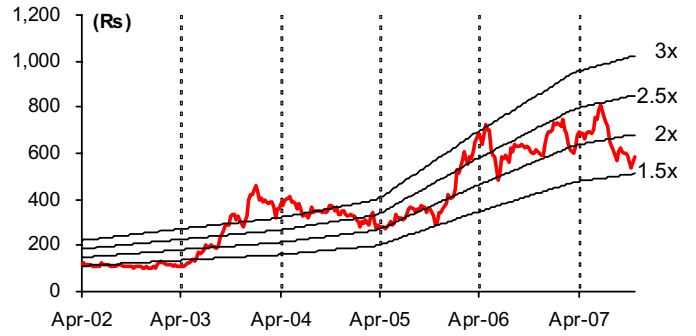
12 month forward rolling band charts

Aurobindo

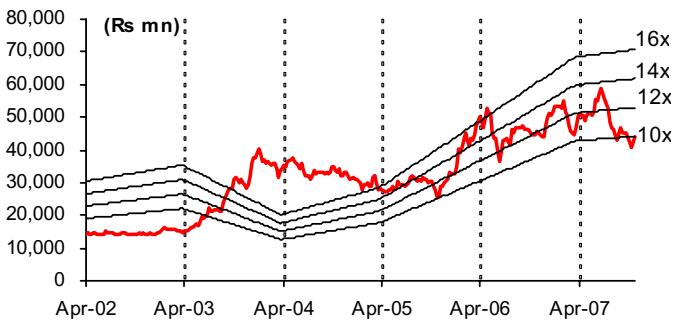
P/E Band



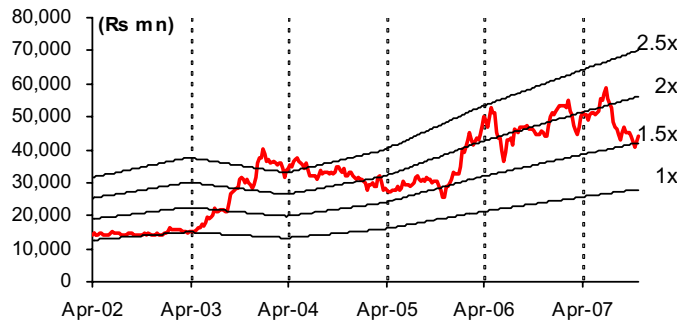
P/BV Band



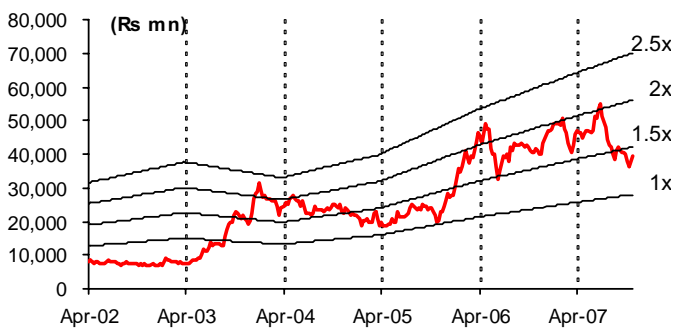
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Net sales	15,936	21,229	25,726	29,525	34,255
EBITDA	1,775	3,019	4,218	4,560	5,080
EBITDA margin (%)	11.1	14.2	16.4	15.4	14.8
Depreciation	721	997	1,107	1,208	1,303
EBIT	1,054	2,022	3,111	3,352	3,777
Other income	225	496	744	516	516
Interest Exp/(Inc)	454	461	484	472	-
PBT (operating)	675	2,064	3,394	3,385	3,822
PBT margin (%)	4.2	9.7	13.2	11.5	11.2
Extra ord (inc)/exp	(310)	-	-	-	-
Taxes	274	44	475	474	535
Minority interest	(14)	(11)	(9)	(7)	(6)
PAT (Reported)	697	2,010	2,919	2,911	3,287
Less: Extra ordinary income / Others	(310.0)	-	-	-	-
Adj PAT	387	2,010	2,919	2,911	3,287
Adj PAT margin (%)	2.4	9.5	11.3	9.9	9.6

Quarterly – Financials

(Rs mn)

Y/E, 31st March	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	4,800	5,284	5,328	5,323	6,284
Changes (%)	50.2	29.2	15.1	28.5	30.9
EBITDA	690.9	784.7	651.6	694.8	933.8
Changes (%)	221.6	34.8	(9.0)	5.5	35.2
Margin (%)	14.4	14.9	12.2	13.1	14.9
PAT	546.4	601.2	781.1	617.3	620.5
PAT adj	546.4	601.2	781.1	617.3	620.5
Changes (%)	1,401.1	129.6	108.1	70.5	13.6
Margin (%)	11.4	11.4	14.7	11.6	9.9
EPS adj (Rs)	10.3	11.3	14.7	11.6	11.6
EPS dil (Rs)	8.1	8.9	11.6	9.1	9.2

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Growth					
Net sales (%)	20.6	33.2	21.2	14.8	16.0
EBITDA (%)	40.6	70.1	39.7	8.1	11.4
PAT adjusted (%)	1,090.8	419.3	45.2	(0.3)	12.9
EPS adjusted (%)	1,090.8	395.1	45.0	(0.3)	12.9
EPS diluted (%)	1,006.6	350.0	35.5	(0.3)	12.9
EPS Consl and diluted (%)	1,006.6	350.0	35.5	(0.3)	12.9

Valuations

	FY06	FY07	FY08E	FY09E	FY010E
P/E (x)	82.3	18.3	13.5	13.5	12.0
P/BV (x)	3.8	2.5	1.8	1.6	1.4
EV/EBITDA (x)	24.3	14.3	10.3	9.6	8.5
EV/Sales (x)	2.7	2.0	1.7	1.5	1.3

Profitability

	FY06	FY07	FY08E	FY09E	FY010E
EBITDA margin (%)	11.1	14.2	16.4	15.4	14.8
Adj PAT margin (%)	2.4	9.5	11.3	9.9	9.6
RoE (%)	4.3	13.0	13.6	12.0	12.1
RoCE (%)	6.3	9.5	12.1	11.2	11.4
RoIC (%)	4.0	8.8	10.2	9.8	10.1

B/S ratios

	FY06	FY07	FY08E	FY09E	FY010E
Inventory days	108.1	112.5	115.0	115.0	115.0
Creditor days	93.7	76.2	76.2	76.2	76.2
Debtor days	133.4	107.6	110.0	110.0	110.0
Working Capital days	147.7	143.9	148.8	148.8	148.8
Net debt/equity	0.8	0.2	0.2	0.2	0.1

* RoIC is calculated on post tax basis

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Liabilities					
Equity share capital	266	267	267	267	267
Total Res. & Surplus	7,882	8,593	11,356	14,111	17,242
Total Shareholders' fund	8,148	8,860	11,623	14,378	17,508
Convertible Debt	2,677	11,274	11,274	11,274	11,274
Others Debt	11,054	9,482	9,482	9,482	9,482
Total Loans	13,731	20,756	20,756	20,756	20,756
Deferred tax liability (net)	726	683	750	825	908
Total liabilities	22,629	30,359	33,193	36,027	39,244
Assets					
Net fixed assets & others	10,838	11,526	11,919	12,211	12,409
Capital WIP & others	1,497	2,187	2,187	2,187	2,187
Total non-current assets	12,335	13,713	14,106	14,398	14,596
Total investments – non current	3	3	3	3	3
Current assets					
Inventories	4,718	6,544	8,260	9,913	11,399
Sundry debtors	5,822	6,261	7,901	9,482	10,904
Cash & cash equivalents	2,019	5,825	5,376	5,177	5,729
Cash	808	2,330	2,150	2,071	2,292
Liquid investments	1,212	3,495	3,226	3,106	3,437
Other current assets	1,997	2,719	3,358	4,029	4,634
Total current assets	14,557	21,349	24,896	28,601	32,667
Total current liabilities	4,090	4,435	5,477	6,572	7,558
Total provisions	175	272	336	403	463
Net current assets	10,292	16,643	19,084	21,627	24,646
Misc. expenditure	-	-	-	-	-
Total assets	22,629	30,359	33,193	36,027	39,244

Cash flow

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Cash from operations					
PBT	985	2,064	3,394	3,385	3,822
Tax paid	(274)	(44)	(475)	(474)	(535)
Dep & amortization	721	997	1,107	1,208	1,303
Working capital changes	(1,879)	(2,546)	(2,819)	(2,663)	(2,380)
Others	(118)	(106)	0	0	0
Net cash from operations	(565)	365	1,207	1,456	2,209
Cash from investments					
Capital expenditure	(1,807)	(1,810)	(1,500)	(1,500)	(1,500)
Sale/purchase of inv & others	(0)	0	0	0	0
Net cash from investments	(1,807)	(1,809)	(1,500)	(1,500)	(1,500)
Cash from financing					
Issue of shares & share premium	588	28	0	0	0
Dividend paid	(91)	(152)	(156)	(156)	(156)
Debt change	3,390	7,025	0	0	0
Others	(90)	(1,652)	0	0	0
Net cash from financing	3,797	5,249	(156)	(156)	(156)
Net change in cash	1,426	3,805	(449)	(200)	553

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
EPS adjusted	7.6	37.7	54.7	54.6	61.6
EPS diluted - wtd	7.1	31.9	43.2	43.1	48.6
EPS Consl and diluted	7.1	31.9	43.2	43.1	48.6
CEPS	18.9	44.5	59.6	60.9	67.9
Book value	153.5	229.2	318.6	359.5	403.0
Dividend	1.5	2.5	2.5	2.5	2.5
O/s shs.-actual (mn)	50.8	53.3	53.3	53.3	53.3
O/s shs.-diluted (mn)	58.5	67.6	67.6	67.6	67.6
O/s shs wtd / diluted (mn)	54.6	63.1	67.6	67.6	67.6

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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