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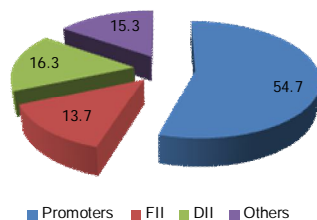
CMP*	Rs116
Target Price	Rs139

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	3,368
52 Week High/Low	246/80
Avg. Daily Volume (3m, '000)	119
Avg. Daily Value (3m, cr)	12.5
Dividend Yield (%)	1.7
Sensex	18,202
Nifty	5,532
BSE Code	524804
NSE Code	AUROPHARMA

Stock Performance

(%)	AUROBINDO	NIFTY
1-week	(3.2)	3.1
1-month	10.5	13.7
1-year	(51.6)	0.9

Shareholding Pattern (%)**Stock Price Chart**

Note: *CMP as on February 15, 2012

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Performance boosts sequentially**Key highlights of the result**

- Better than expected 3QFY2012:** Aurobindo reported better than expected top-line growth of 17.7% yoy (19% qoq) led by low margin ARV API (up 106% yoy) and healthy formulations growth in EU and ROW markets (up 45.1% yoy), partially aided by weak INR. The US formulations grew 14.9% qoq despite the ban on non-betalactum plant, which is commendable. The licensing income remained low at Rs22.8cr.
- Margins improved sequentially:** Despite higher contribution from the low margin ARV tender business, the gross margins improved 60bp qoq to 44.1%. Further, favorable currency led the EBITDA expansion by 400bp at 13.3% qoq as exports remain unhedged.
- APAT up 10.2% qoq:** Aurobindo reported net loss of Rs28.5cr in 3QFY2012, affected by USFDA issues and forex loss of Rs144.5cr on account of loan restatement. Adjusting for the one-time expense, the APAT stood at Rs116cr, above our estimate.
- Concall takeaways:** (1) The Company expects USFDA inspection by March, 2012 for Unit III and by June, 2012 for Unit VI, (2) It has guided for 25 product launches in US out of which 11 from Unit III and 14 through Unit VII post USFDA resolution in FY2013E, (3) AstraZeneca contract is likely to start from October, 2012 and it expects to launch ~80 products (worth US\$30-50mn) by December, 2013, (4) Pfizer contributed Rs67cr in 3QFY2012, expected to double in 4QFY2012, (5) Company guided to improve margins by cost saving of US\$1.5mn per quarter on Unit VI, (6) Capex guided at Rs200cr for the next 2 years, while, tax rate at 20% for FY2013, (7) Gross debt stands at Rs3,360cr, cash at Rs225cr.

Outlook and Valuation

Aurobindo's 3QFY2012 performance reflected strong growth traction on a sequential basis. New launches in EU and ROW markets, gradual improvement in US through shift of products from affected units and favorable currency led to better than expected quarter. Despite management's encouraging picture of strong visibility (US\$2bn sales guidance by 2015) led by new launches in US, ramp up in filings in niche OCs and OTC segments, pick up in Pfizer and AstraZeneca sales and sustained growth in EU and ROW, we believe that the growth would remain under pressure until the USFDA resolution is obtained. We factor in the sequential improvement of the company and revise our EPS to Rs13.3 (Rs11.9 earlier) and Rs14.5 (Rs13.9 earlier) for FY2012E and FY2013E respectively.

The stock has corrected 51% in the last 1 year due to slippages in growth affected by import alert on manufacturing plants and high forex losses. Further, high fixed costs relating to facility up-gradation and import alert on Unit VI impacted its operating performance. CBI raids with regards to financial misdeeds by promoter also added to its woes. **We believe that stock correction is overdone (up by 25% in the last 3 months) and a likely rebound in growth and margins would drive growth. Hence we maintain Hold with a price target of Rs139.**

Risks to the view

- Delay in USFDA resolution and slowdown in the ramp up of Pfizer sales could impact future revenues

Year End	Net Revenues		EBITDA		Net income (adjusted)		RoE	RoCE	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth				%	%
FY2010	3,378	15.1	518	15.3	454	784.7	24.8	17.5	16.3	7.1	6.2
FY2011	4,126	22.1	656	15.9	526	15.9	21.5	16.3	18.1	6.4	5.7
FY2012E	4,484	8.7	556	12.4	388	(26.3)	14.3	8.0	13.3	8.7	9.1
FY2013E	4,952	10.4	723	14.6	421	8.7	13.0	10.5	14.5	8.0	6.7

Exhibit 1: Quarterly Performance (consolidated)

(Rs cr)	3QFY12	3QFY11	% yoy	2QFY12	% qoq	9MFY12	9MFY11	% yoy
Net Sales	1,261.7	1,071.8	17.7	1,060.0	19.0	3,379.7	2,998.1	12.7
Material cost	705.5	570.8	23.6	599.4	17.7	1,878.2	1,584.1	18.6
% of net sales	55.9	53.3		56.5		55.6	52.8	
Staff costs	140.8	108.0	30.3	132.7	6.1	396.6	313.9	26.3
% of net sales	11.2	10.1		12.5		11.7	10.5	
Other expenses	247.1	193.9	27.5	228.6	8.1	692.2	583.6	18.6
% of net sales	19.6	18.1		21.6		20.5	19.5	
Total operating expenditure	1,093.4	872.7	25.3	960.7	13.8	2,967.0	2,481.6	19.6
Operating profit	168.4	199.1	(15.4)	99.3	69.5	412.7	516.5	(20.1)
OPM (%)	13.3	18.6		9.4		12.2	17.2	
Interest	27.4	11.5	138.7	20.7	32.1	62.6	43.7	43.4
Depreciation	55.2	43.4	27.4	46.2	19.5	146.6	124.1	18.1
EBIT	85.8	144.3	(40.5)	32.4	164.8	203.5	348.7	(41.6)
Other Income	27.7	126.3	(78.0)	21.3	30.4	70.8	248.5	(71.5)
PBT	113.5	270.6	(58.0)	53.7	111.5	274.3	597.2	(54.1)
Total tax	(2.4)	78.3	(103.1)	(51.6)	(95.4)	(140.7)	189.7	(174.2)
Tax Rate (%)	(2.1)	28.9		(96.0)		(51.3)	31.8	
Minority Interest	(0.0)	7.8	(100.4)	(0.0)	0.0	(0.1)	7.5	(100.8)
Adjusted PAT	116.0	184.6	(37.2)	105.3	10.2	415.1	399.9	3.8
Net profit margin (%)	9.2	17.2		9.9		12.3	13.3	
Extra-ordi. Items	(144.5)	4.1		(185.4)	(22.1)	(646.6)	38.5	
Forex loss/(gain)	144.5	(4.1)		185.4		326.7	(38.5)	
Others	0.0	0.0	-	0.0		319.9	0.0	
Reported Net profit	(28.5)	188.6	(115.1)	(80.2)	(64.4)	(231.5)	438.4	(152.8)
Reported EPS (Rs)	4.0	6.3		3.6		14.3	13.9	

Source: Company, RSec Research

Key Highlights

US sales reflect sequential improvement, ramp up in Pfizer and AstraZeneca deals to boost growth ahead

US: The import alert of USFDA continued to affect the US sales in 3QFY2012, as it reported flat sales on a yoy basis to Rs325.4cr. However, the performance improved sequentially due to shift of products to other facilities. Aurobindo filed 11 ANDAs and received 6 approvals during the quarter.

Pfizer reported revenues worth Rs67cr in 3QFY2012 (vs. Rs87cr in 3QFY2011) with Rs51cr coming from US, Rs14.5cr from EU and Rs1.8cr from other geographies. The management has guided that they expect a strong pick up in the Pfizer sales, launch of Lipitor in US in Jan 2013 and a recovery in the Cephalosporin in FY2013 post the USFDA resolution.

AstraZeneca contract is likely to start from Oct'2012 and it expects to launch ~80 products (worth US\$30-50mn) by Dec'2013.

USFDA resolution: The Company expects the USFDA to inspect its Cephalosporin (Unit III) plant between February 25, 2012 and March 4, 2012, while the inspection at Unit VI is expected to take place in June-July 2012. The management has guided for 25 product launches in US out of which 11 from Unit III and 14 through Unit VII post USFDA resolution in FY2013E.

Filing details: Aurobindo has a hefty pipeline of 144 ANDAs pending approvals (including 29 tentative approvals) in the US market. Out of which, 17 are in controlled substances, filed from Unit VI (currently under import alert). Besides, it plans to file 6 OTC products in US and expects to launch at least 2 products in 4QFY2012 and 1QFY2013. Oral contraceptive launches are scheduled over the next 2-3 years.

New product launches boosted EU and ROW formulations

EU/Row: The EU/Row market reported growth of 45.1% yoy to Rs204.8cr during the quarter on account of new product launches. Strong growth in UK and healthy performance in new geographies like South Africa, Australia, Canada and Spain boosted the growth.

Exhibit 2: Revenue break-up

Particulars (Rs cr)	3QFY12	3QFY11	% yoy	2QFY12	% qoq
Formulation Sales	738.7	643.8	14.7	591.9	24.8
USA	325.4	328.2	(0.9)	283.3	14.9
EU & ROW	204.8	141.1	45.1	134.2	52.6
ARV	208.5	174.5	19.5	174.4	19.6
API Sales	548.3	455.6	20.3	490.1	11.9
SSP	157.2	136.6	15.1	150.2	4.7
Cephalosporin	193.7	223.2	(13.2)	170.4	13.7
ARV and Others	197.4	95.8	106.1	169.5	16.5
Licensing Income	22.8	120.4	(81.1)	15.3	48.9
Total Gross sales (incl. Licensing income)	1,309.8	1,219.8	7.4	1,097.3	19.4

Source: Company, RSec Research

Dossier licensing income disappointed at Rs22.8cr in 3QFY2012

ARV: The ARV formulations segment grew 19.5% yoy in 3QFY2012, which we believe is not sustainable as the management plans to cut back on the ARV business with focus on improving margins.

Dossier licensing income: The licensing income declined in 3QFY2012 by 81.1% yoy to Rs22.8cr. The managements expects the lumpiness in the dossier income to continue.

API business: The API sales grew 20.3% largely supported by the bulk ARV sales, which derived an astounding 106.1% yoy growth during the quarter. The SSP (Semi Synthetic Penicillin, up 15.1% yoy) and Cephalosporin (down 13.2% yoy) remained a drag.

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Profit & Loss Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Gross sales	3,454	4,225	4,581	5,053
Less: Excise duty	76	100	96	101
Net Sales	3,378	4,126	4,484	4,952
Total Expenditure	2,860	3,469	3,928	4,229
Cost of Materials	1,721	2,189	2,475	2,684
Personnel	327	429	525	555
Others	811	851	928	990
EBITDA	518	656	556	723
% chg	317.8	26.7	(15.3)	30.0
(% of Net Sales)	15.3	15.9	12.4	14.6
Depre. & Amortisation	149	172	201	222
EBIT	369	485	355	501
% chg	-	31.5	(26.7)	40.9
(% of Net Sales)	10.9	11.8	7.9	10.1
Interest & other Chg	68	62	79	75
Other Income	344	329	100	100
(% of PBT)	53.3	43.7	26.6	19.0
Recurring PBT	645	751	376	526
% chg	788.2	16.4	(49.9)	39.9
Minority Interest	(0.3)	(0.4)	(0.4)	(0.5)
PBT	645	751	376	527
Tax	191	225	(11)	105
(% of PBT)	29.7	30.0	(3.0)	20.0
Adjusted PAT	454	526	388	421
Add: Share of earnings of associate	-	-	-	-
Less: Extra. item(EI)	(109.5)	(37.2)	643.4	-
PAT after MI (reported)	563	563	(256)	421
Reported PAT	563	563	(256)	421
% chg	461.9	0.0	(145.4)	(264.8)
(% of Net Sales)	16.7	13.7	(5.7)	8.5
Adjusted EPS (Rs)	16.3	18.1	13.3	14.5
% chg	70.7	11.0	(26.3)	8.7

Cash Flow Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	645	751	376	527
Depreciation	149	172	201	222
Change in Working Capital	134	593	376	92
Interest / Dividend (Net)	68	62	79	75
Direct taxes paid	191	225	(11)	105
Others	(498)	(1,745)	(762)	(209)
Cash Flow from Operations	689	59	259	811
(Inc.)/ Dec. in Fixed Assets	566	164	446	200
(Inc.)/ Dec. in Investments	0	38	10	12
Cash Flow from Investing	(566)	(202)	(456)	(212)
Issue of Equity	100	130	0	0
Inc./(Dec.) in loans	(178)	260	417	(500)
Dividend Paid (Incl. Tax)	32	68	68	68
Interest / Dividend (Net)	68	62	79	75
Cash Flow from Financing	(179)	259	269	(643)
Inc./(Dec.) in Cash	(56)	116	72	(44)
Opening Cash balances	128	73	188	260
Closing Cash balances	73	188	260	216

Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS				
Equity Share Capital	28	29	29	29
Preference Capital	0	0	0	0
Reserves & Surplus	1,801	2,416	2,689	3,213
Shareholders Funds	1,829	2,445	2,718	3,242
Minority Interest	4	9	9	9
Total Loans	2,155	2,414	2,831	2,331
Total Liabilities	3,988	4,868	5,558	5,583
APPLICATION OF FUNDS				
Gross Block	2,408	2,438	2,788	3,088
Less: Acc. Depreciation	697	699	900	1,122
Net Block	1,711	1,739	1,888	1,966
Capital Work-in-Progress	570	704	800	700
Investments	0	39	48	60
Current Assets	2,506	3,392	3,912	4,008
Cash	73	188	260	216
Loans & Advances	371	504	807	792
Other	2,062	2,700	2,845	2,999
Current liabilities	708	886	959	1,007
Net Current Assets	1,798	2,506	2,953	3,001
Net Deferred Tax	(91)	(118)	(131)	(144)
Total Assets	3,988	4,868	5,558	5,583

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2012E
Valuation Ratio (x)				
P/E (on FDEPS)	7.1	6.4	8.7	8.0
P/CEPS	5.4	4.8	5.7	5.3
P/BV	1.8	1.4	1.2	1.0
Dividend yield (%)	0.9	1.7	1.7	1.7
EV/Sales	1.6	1.4	1.3	1.1
EV/EBITDA	6.2	5.7	9.1	6.7
EV / Total Assets	1.3	1.1	1.0	1.0
Per Share Data (Rs)				
Adjusted EPS	16.3	18.1	13.3	14.5
EPS (fully diluted)	16.3	18.1	13.3	14.5
Cash EPS	21.7	24.0	20.2	22.1
DPS	1.0	2.0	2.0	2.0
Book Value	65.6	84.0	93.4	111.4
Returns (%)				
RoCE	17.5	16.3	8.0	10.5
RoIC	15.1	16.0	12.0	15.0
RoE	24.8	21.5	14.3	13.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.4	1.7	1.6	1.6
Inventory / Sales (days)	119	129	132	128
Receivables (days)	103	110	110	105
Payables (days)	83	84	81	79
WCC (days)	186	205	219	205

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