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IndiaNivesh Securities Private Limited

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NiveshMonthly

March 2013

MONTHLY RECOMMENDATIONS

	CMP	RATING	TP
Aurobindo Pharma Ltd.	Rs.165	BUY	Rs.196
LIC Housing Finance Ltd.	Rs.240	BUY	Rs.294

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Current	Previous
CMP : Rs.165	
Rating : BUY	Rating : HOLD
Target : Rs.196	Target : Rs.196

Aurobindo Pharma Ltd (APL) is an integrated pharmaceuticals company with major focus on exports. Predominantly being the API supplier, company has increased its revenue contribution from formulation business by more than 60% in the last 5-6 years. Apart from majorly focused in USA formulation & API business, company has healthy presence in Europe & African markets also. In Africa, APL is focused in ARV formulations.

Investment Rationale

Expect healthy revenue growth from US market given ramp up in existing products & new launches:

We expect Aurobindo's US business to report healthy revenue growth of ~28% CAGR over FY12-15E given strong pipeline of the company i.e ~171 ANDAs are awaiting approvals out of cumulative 262 filings. Key positives going forward would be company's filings & approvals in complex products including injectables from AuroMedicis, where company has launched ~5 products including Ampicillin, Ampicillin + Sulbactam & Piperacillin + Tazobactam. Company expect this business to ramp up post USFDA approval of unit IV, where company has filed 21 ANDAs & has received 2 ANDAs approvals. Management expects injectable business to contribute ~\$10-12 million in FY13E & ~\$30 million in FY14E. Another 25-30 ANDA filings from unit IV & Myriad facility's ANDAs approvals in 2015-16 would propel the growth going forwards.

Rs/mn	FY12A	FY13E	FY14E	FY15E
Sales	45,506	58,957	68,213	77,910
Adj EBITDA	6,101	9,985	11,023	12,260
EBITDA Margin (%)	13.4	16.9	16.2	15.7
Adj PAT	4,203	5,111	5,712	6,664
PAT Margin (%)	9.2	8.7	8.4	8.6
EPS	14.4	17.6	19.6	22.9
ROE (%)	18.0	18.3	17.2	17.0
P/E (X)	7.8	9.4	8.4	7.2

Source: IndiaNivesh Research

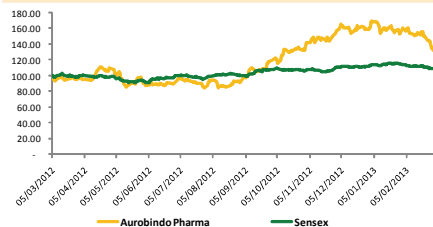
Shareholding Pattern (%)

	Dec-12
Promoters	54.76
FII's	14.66
DII's	16.76
Public & Others	14.82

Source: BSE

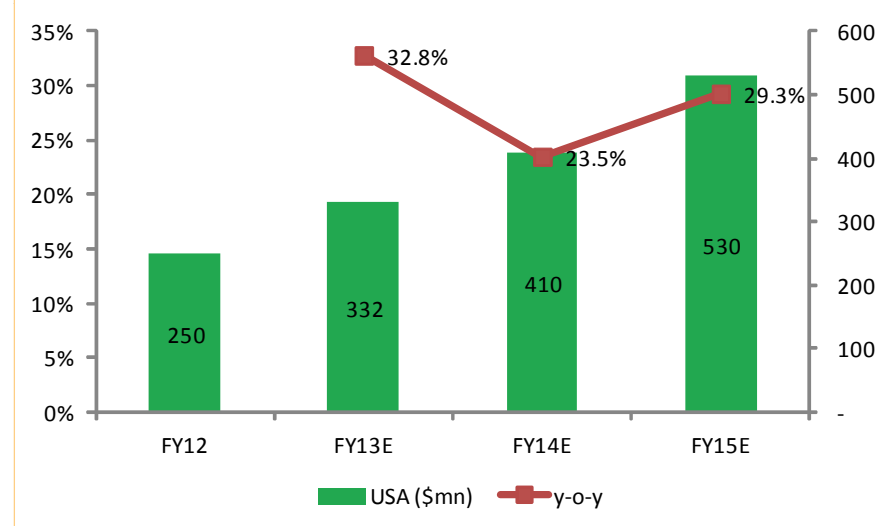
Additionally, AuroLife (US based Subsidiary) has launched schedule III controlled Substance i.e Hydrocodone Bitartrate+ Acetaminophen in US market in Q2FY13. The company expects to launch 3-4 more controlled release launches in near term. AuroLife has filed 18 ANDAs with USFDA & likely to file another 4-5 products. Annual approval of 20-25 ANDAs & recent launches like Pioglitazone, Escitalopram, Modafinil, Clopidogril, Seroquel & Montelukast would improve company's base business going forward.

AUROBINDO PHARMA v/s SENSEX



Source: Capitaline; IndiaNivesh Research

Expected revenue from US business:



Source: Company Filings; IndiaNivesh Research

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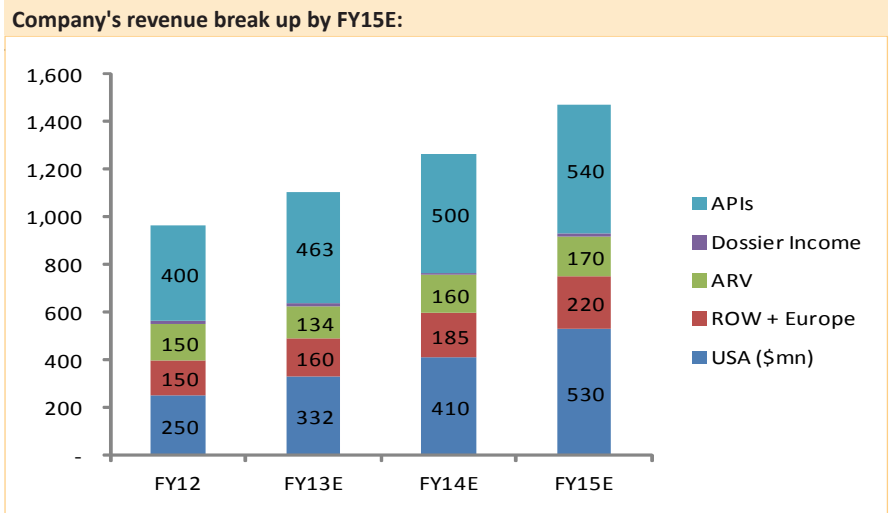
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Company likely to reach ~\$1.5 billion turnover by FY15E.

We expect company to achieve ~\$1.5 billion revenue by the end of FY15E from current level of ~\$1 billion in FY12, which translate at conservative 15.2% CAGR against Management guidance of achieving ~\$2 billion by the end of FY16E. Our conservative approach is mainly due to uncertainty looming over unit VI clearance from USFDA & lower growth in Europe & ROW business. While, inline with

management guidance, we expect ARV business & dossier income growth to be subdued.

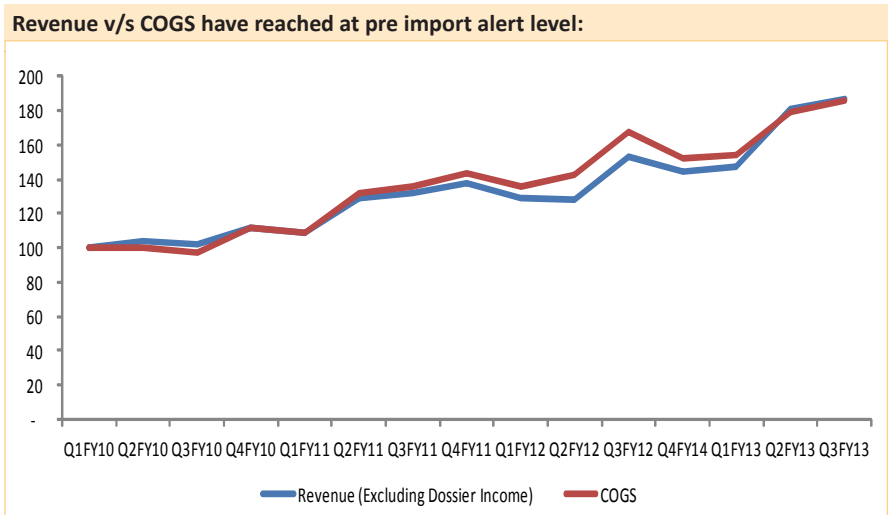
Accordingly, we expect company's total formulation business (*excluding Dossier income*) to grow at 19% CAGR & API business at 10.5% CAGR over FY12E-15E. For ARV formulations, management has guided to participate in high margin tenders rather than focusing on top line.



Source: Company Filings; IndiaNivesh Research

Margins are likely to be in healthy range going forward:

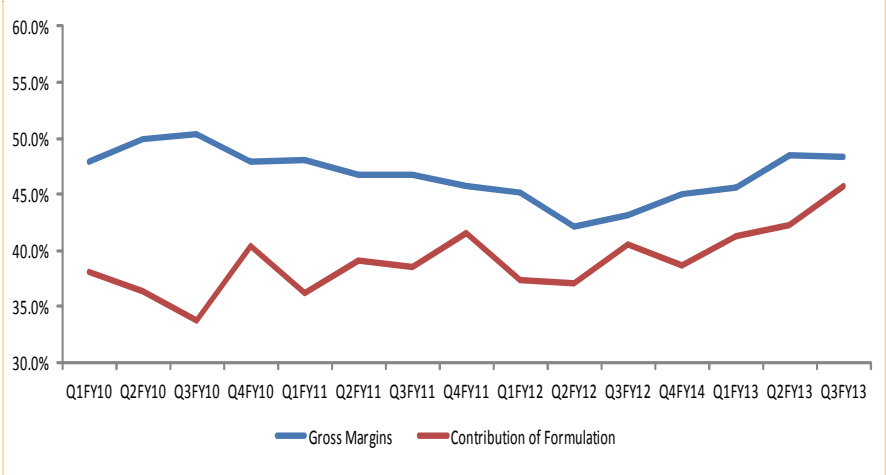
Due to import alert for Unit VI of the company in FY11, company's EBITDA margins (*adjusting for dossier income*) declined to 12% level in FY12 from 17-18% level in FY10 & FY11. Since than continuous efforts & increase in contribution from formulations, particularly from US market, company's EBITDA margins has turned back to 15-16% level in the previous two quarters.



Source: Company Filings; IndiaNivesh Research

The graph given above shows that after import alert for Unit VI, growth in COGS was higher than revenue, which has returned to almost the same level in the previous two quarters.

Contribution of Formulation v/s Gross Margin

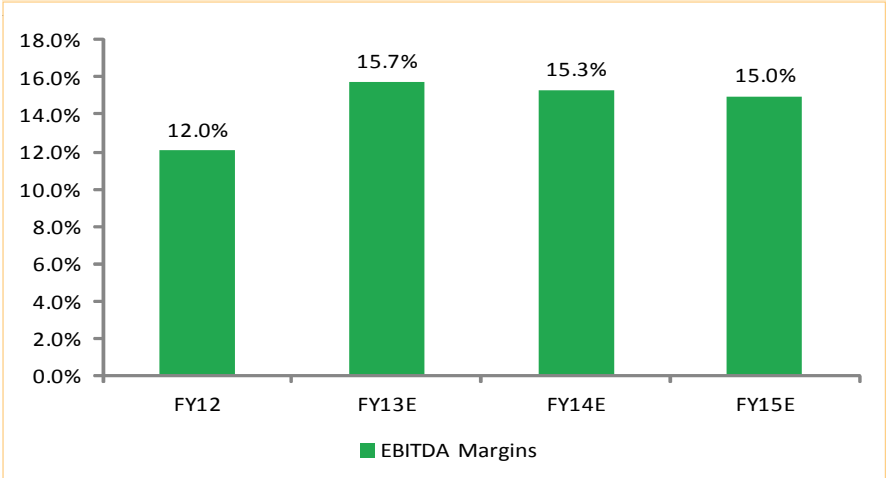


Source: Company Filings; IndiaNivesh Research

Accordingly, graph given above represents improvement in company’s gross margins linked with increase in contribution from formulation business.

However, according to management company is investing in Europe, USA & other markets to build up front end marketing teams, which may keep company’s other expenses on the higher side in near to medium term. Despite that Management has guided for EBITDA margins to be between 15-16% levels going forward. Conservatively, we expect EBITDA margins to be around 15% level.

EBITDA margins trend:



Source: Company Filings; IndiaNivesh Research

Resolution of USFDA issue for unit VI, if any, would be positive surprise:

Aurobindo Pharma’s formulation Cephalosporin unit VI was inspected in Sep 2012, which was having import alert from USFDA since Dec 2010, linked with certain cGMP issues. Before import alert, this unit was contributing ~\$35 million revenue (~4% of total revenue of FY10). Post inspection in Sep 2012, company was awaiting response from USFDA. Recently, company announced that it has received EIR for the same, which basically means, inspection conclusion report & according to USFDA this report may have three kinds of conclusions, a) NIA – No Indication Indicated b) CI- Correction Indicated c) RTC- Referred to Centre. Currently, in our model, we have not build up any revenue contribution from unit VI, however any positive out-come for the same would be positive surprise of ~\$15-20 mn annual revenue from the same unit.

Our Take & Valuations

We are of the view that company's operational efficiencies are likely to improve going forward from here onwards mainly on the back of positive measures taken by management in the past, incremental revenue growth from US business, increase in asset turnover linked with higher capacity utilization which would lead to improvement in ROCE.

At CMP of Rs 165, the stock is trading at P/E multiple of 9.4x of FY13E & 8.4x of FY14E earnings estimates. Earlier at market price of Rs 113 (for details refer "Management Meet Update" released as on 9th April 2012) we had recommend buy on the stock with target price of Rs 150 & further upgraded to Rs 196, which has been achieved in Dec 2012. However, due to negative news flow like, seize of ~96 acres of land of Aurobindo's Research Centre and fixed deposit of Rs 30 million by ED in connection to a case related to AP based politician & delay in unit VI clearance from USFDA, the stock has corrected from ~Rs 200 level to current level. We believe that current price correction is over done. In our opinion the stock is offering a good entry point. From current level of Rs 165, the stock has upside potential of ~19%. Hence, we revise our rating from Hold to BUY with the target price of Rs 196 (valuing at 10x of FY14E).

Current	Previous
CMP : Rs.240	
Rating : BUY	Rating : BUY
Target : Rs.294	Target : Rs.327

Rs mn	FY12	FY13E	FY14E
Net Interest Income	13,916	15,262	19,441
Pre-Provisioning Profit	13,870	14,666	18,492
Profit Before Tax	12,310	13,431	16,995
Profit After Tax	9,142	10,168	12,747
EPS (Rs)	18.1	20.1	25.3
ABV (Rs)	111	127	147
ROE (%)	18.6	1,663.5	18.1
ROA (%)	1.5	1.4	1.5
P/ABV	2.2x	1.9x	1.6x

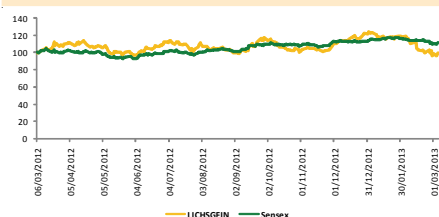
Source: Company Filings; IndiaNivesh Research

Shareholding Pattern (%)

	Dec-12
Promoter	40
FII	34
DII	11
Others	14

Source: BSE

LICHSGFIN v/s SENSEX



Source: Capitaline; IndiaNivesh Research

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Healthy loan book growth, NIMs expansion = positive FY14E outlook

Investment Rationale

Loan growth to remain healthy

Over last 3-4 years, LIC Housing has consistently outperformed the industry on loan book growth front. LIC Housing reported 32% CAGR loan growth during FY 09-12. Owing to challenging macro environment, loan book growth slightly slowed-down (23.8% y-o-y loan book growth rate seen at Q3FY13-end). This slow-down is mainly on a/c of ~20.0% decline in y-o-y loans made to Builders segment (to Rs 28.1 bn).

Loan book & Disbursal (Rs mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Disbursements	51,480	47,220	66,190	51,122	58,370	60,050
-Builders	4,120	1,540	2,740	3,211	1,210	4,970
-Individuals	47,360	45,680	63,450	47,911	57,160	55,080
Loan book	560,980	587,070	630,801	656,440	691,188	727,040
-Builders	40,000	35,350	31,855	30,419	26,604	28,190
-Individuals	520,980	551,720	598,946	626,021	664,584	698,850

Source: Company Filings

Last 2 quarters have seen lowest share of Developer loans to total loan book (3.8% in Q2FY13 and 3.9% in Q3FY13). We sense that this ratio would improve significantly from here, as loans made to builders would catch-up from here-on, as builders are likely to benefit from lower interest rates, faster pace of approvals seen across Delhi & Mumbai real estate markets. Also, we expect the loan book growth momentum to be maintained, as LIC Housing continues to penetrate in smaller cities across Eastern & Central India. On a whole, we expect the overall loan book of LIC Housing to grow at 21.2% CAGR during FY12-14E to Rs 927.1 bn.

NIMs to expand marginally

Against our expectations of improvement in the NIMs, we were disappointed by 1 bp sequential decline in Q3FY13 NIMs to 2.09%. Q3FY13 NIMs movement was mostly impacted due to interest reversals on builder loan NPAs. Whereas, re-pricing of individual home loans yields- mainly the teaser loans product "fix-o-floaty", supported in maintaining the NIMs.

We sense LIC Housing would benefit from ~Rs 30 bn (in Q4FY13) & ~Rs 27 bn (in Q1FY14) of teaser loan re-pricings, going forward. LICs thrust to raise funds through ECBs (External Commercial Borrowings) route, coupled with their strategy to reduce dependency on bank borrowings, give them some more room to expand their NIMs. We highlight that LIC has still not passed on the Feb-12 base rate cut announcement. We sense that NIMs expansion could be possible, going forward.

We have revised downwards our NIM's expectations for FY13E by 6 bps to 2.17%. We also are of the view that worst is behind, from NIMs perspective (2.09% for Q3FY13). We sense that increased disbursements to builder segment in FY14E coupled with more and more loans getting converted from fixed rate to floating rate (fixed rate loans of 8% continue to be below current floating rates), would help the LIC Housing's NIM's improvement. We expect FY14E NIMs to improve to 2.29% (vs. earlier expectations of 2.32%).

Yield / Margin (%)	FY11	FY12	FY13E	FY14E
Yield on Funds	10.0	10.5	10.6	10.6
Cost of Funds	8.0	9.1	9.5	9.2
Interest Spread	2.0	1.4	1.1	1.3
Net Interest Margin	2.7	2.4	2.2	2.3

Source: Company Filings; IndiaNivesh Research

NPAs still under control

LIC Housing has been one of the few players in industry, which has been able to keep control over its NPAs. The recent quarter (i.e. Q3FY13) witnessed 30% sequential increase in gross NPAs (to Rs 5.4 bn), as loans to builders worth Rs 1.65 bn turned NPAs. Management expects to recover this amount in next 1-2 quarters.

Given that LIC Housing follows the policy of lending to Builders on the basis of the Collateral and not on basis of Balance sheet, when coupled with the fact that they have shifted their lending strategy towards individual loans (loans to builders segment have reduced over the last few quarters), comforts us that the NPA scenario won't worsen from here-on.

This when coupled with their prudent a/c'ing (makes additional provisioning than required by RBI) methodology, comforts us about our expectations of Net NPAs to be at 0.2% by FY14E-end.

Valuation

Given their strong market positioning and FY14E growth prospects, we remain positively biased towards the stock. Also factors such as expectations of healthy loan book growth, NIMs expansion in FY14E, NPAs well under control comfort us about the strong fundamentals of the LIC Housing.

Even though NIMs have fallen down in the last 2 quarters to 2.09% in Q3FY13, we are of the view that fall in the NIMs has bottomed-out and there exists scope for NIMs improvement. Our view of expansion in the NIMs is on the basis of (1) repricing of Rs 57 bn of teaser loans in next 2 quarters, (2) increasing dependency on the low cost ECBs, (3) pick-up in lending to builders segment, which usually has higher yields (vs. individual home buyers).

Higher loan growth in FY14E, when coupled with factors such as, better NIMs, containment of NPAs would translate to ~18% net profit CAGR during FY12-14E.

At CMP of Rs 240, LIC Housing is trading at FY13E & FY14E, P/ABV of 1.9x and 1.6x, respectively. Even though we expect FY13 RoEs to decline to 16.6% (from 18.6% in FY12), pick up across the metrics mentioned above should help the company report improved ROEs of 18.1% in FY14E. After revising our estimates and assigning P/ABV multiple of 2.0x, we have arrived at revised price target of Rs 294 (earlier target of Rs 327).

Past Recommendations Review (CMP as on March 5, 2013)

February 2013	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Sterlite Ind. (India) Ltd.	95	February 5, 2013	108	Buy	110	145	Hold
Alembic Pharma. Ltd.	92	February 5, 2013	76	Buy	85	99	Hold
December 2012	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Exide Industries Ltd.	126	December 4, 2012	145	Buy	151	171	Hold
Ajanta Pharma Ltd.	623	December 4, 2012	379	Buy	675	452	Achieved
October 2012	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
BASF India Ltd.	581	October 1, 2012	658	Buy	770	779	Hold
IL&FS Transp. Networks Ltd.	199	October 1, 2012	194	Buy	227	230	Hold
September 2012	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Tech Mahindra Ltd.	1,071	September 4, 2012	821	Buy	1,043	1,018	Achieved
LIC Housing Finance Ltd.	240	September 4, 2012	240	Buy	300	291	Achieved
July 2012	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
**^Bharat Heavy Elect. Ltd.	199	July 3, 2012	231	Buy	272	274	Hold
Jaiprakash Associates Ltd.	70	July 3, 2012	75	Buy	107	95	Achieved
May 2012	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Mahindra & Mahindra Ltd.	896	May 4, 2012	705	Buy	975	804	Achieved
Orient Paper & Ind. Ltd.	71	May 4, 2012	56	Buy	102	80	Achieved

Note: **Revised Target Price; ^Revised Rating.

Please refer our past monthly reports for reviewing the earlier mentioned recommendations.



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