

Aurobindo Pharma

Performance Highlights

Y/E march (₹ cr)	3QFY2013	2QFY2013	% chg (qoq)	3QFY2012	% chg (yoy)
Net sales	1,552	1,481	4.8	1,264	22.8
Other income	24	26	(8.5)	26	(8.6)
Operating profit	241	231	4.4	170	41.4
Interest	33	34	-	28	-
Adj. Net profit Profit/(loss)	137	87	58.2	96	42.4

Source: Company, Angel Research

For 3QFY2013, Aurobindo Pharmaceuticals Ltd (APL) posted above-expectation numbers on the top-line front, while the bottom-line came slightly below our expectation. The OPM came mainly lower than our expectation (of 17.0%) at 15.5%. However, on back of lower taxations during the quarter, the net profit came in at ₹137cr, mostly in line with expectations at ₹152cr. On back of the improvement on the financial front and possible clearance of the facilities from USFDA, **we a accumulate view on the stock.**

Sales higher than expected: Net sales grew modestly by 22.8% yoy to ₹1,552cr, led by a robust growth in the formulations and active pharmaceutical ingredient (API) segment. The API segment grew by 21.7% yoy. On the other hand the formulation segment grew by 22.5% yoy. But formulations in the key geographies like the US and Europe & rest of world (RoW) grew by 57.8%, and 9.3% respectively. Gross margin came in at 49.6% (44.2% in 3QFY2012) on back of favourable product mix, thus impacting the OPM, which came in at 15.5% vs 13.5% in 3QFY2012. This led the company to post an adj. net profit of ₹137cr.

Outlook and valuation: The commencement of operations at the Hyderabad SEZ and incremental contribution from the Pfizer deal would boost APL's earnings and provide better growth visibility going forward. We estimate net sales to log a 17.5% CAGR to ₹6,279cr over FY2012–14 on the back of supply agreements in the US and antiretroviral (ARV) formulation contracts. Even after factoring in lower profitability going forward, the stock trades at an attractive valuation. **Hence, we maintain our Accumulate recommendation with a price target of ₹208.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	4,126	4,551	5,463	6,279
% chg	22.4	10.3	20.1	14.9
Net profit	563	198	482	543
% chg	(0.0)	(64.8)	143.7	12.6
Recurring profit	332	141	362	407
% chg	9.2	(57.4)	155.9	12.6
EPS (₹)	19.3	6.8	16.6	18.7
Recurring EPS	11.4	4.9	12.4	14.0
EBITDA margin (%)	17.1	11.7	15.0	15.0
P/E (x)	16.1	37.9	14.8	13.1
RoE (%)	24.6	8.3	18.8	17.8
RoCE (%)	12.7	8.4	10.2	10.7
P/BV (x)	2.2	2.3	1.9	1.6
EV/Sales (x)	1.7	1.8	1.5	1.3
EV/EBITDA (x)	9.7	15.5	10.3	8.9

Source: Company, Angel Research

ACCUMULATE

CMP	₹184
Target Price	₹208

Investment Period	12 months
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Stock Info

Sector	Pharmaceutical
Market Cap (₹ cr)	5,348
Net debt (₹ cr)	3,029
Beta	1.2
52 Week High / Low	205/100
Avg. Daily Volume	268,879
Face Value (₹)	1
BSE Sensex	19,485
Nifty	5,904
Reuters Code	ARBN.BO
Bloomberg Code	ARBP@IN

Shareholding Pattern (%)

Promoters	54.8
MF / Banks / Indian Fls	21.2
FII / NRIs / OCBs	15.1
Indian Public / Others	8.9

Abs. (%)	3m	1yr	3yr
Sensex	3.4	10.0	22.3
Aurobindo	2.9	53.6	1.3

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Exhibit 1: 3QFY2013 performance (Consolidated)

Y/E March (₹ cr)	3QFY2013	2QFY2013	% chg (qoq)	3QFY2012	% chg (yoy)	9MFY2013	9MFY2012	% chg (yoy)
Net sales	1,552	1,481	4.8	1,264	22.8	4,230	3,380	25.2
Other income	24	26	(8.5)	26	(8.6)	69	71	(2.5)
Total income	1,576	1,507	4.6	1,290	22.2	4,299	3,451	24.6
Gross profit	770	725	6.2	558	37.9	2,044	1,502	36.1
Gross margins	49.6	48.9		44.2		48.3	44.4	
Operating profit	241	231	4.4	170	41.4	595	413	44.0
OPM (%)	15.5	15.6		13.5		14.1	12.2	
Interest	33	34	-	28	-	424	389	8.9
Dep & amortisation	61	60	1.6	55	10.1	179	147	22.4
PBT	171	164	4.5	114	-	60	(52)	-
Provision for taxation	6	59	(89.1)	(2)	-	38	(141)	-
Net profit	164	104	-	116	41.8	22	88	(75.1)
Less : Exceptional items	73	(118)		(145)		(162)	(7)	
MI & share in associates	(1)	(0)	-	(0)		(1)	(0)	-
PAT after Exceptional items	92	222	(58.7)	(29)	-	185	82	127.4
Adjusted PAT	137	87	58.2	96	42.4	288	88	226.2
EPS (₹)	4.7	3.0	58.2	3.3	42.4	9.9	3.0	226.2

Source: Company, Angel Research

Exhibit 2: Actual vs Estimate

(₹ cr)	Actuals	Estimate	Variation %
Net sales	1,552	1,392	11.5
Other operating income	23.8	26	(8.5)
Operating profit	241	237	1.6
Tax	6	17	(61.8)
Adj. Net profit	137	152	(9.9)

Source: Company, Angel Research

Revenue up at 22.8% yoy, higher than expectations: Net sales grew robustly by 22.8% yoy to ₹1,552cr, led by robust growth in the formulation and API segment. The API segment grew by 21.7% yoy, mainly on the back of the Cephs segment, which grew by 30.4% yoy. SSP and NPNC segments registered a growth of 35.5% and 2.3% yoy respectively.

On the other hand, formulations grew more strongly at 22.5% yoy, on the back of strong growth in US and Europe & ROW, which grew by 57.8% and 9.3% yoy respectively. The ARV formulation sales de-grew by 18.4% yoy during the period.

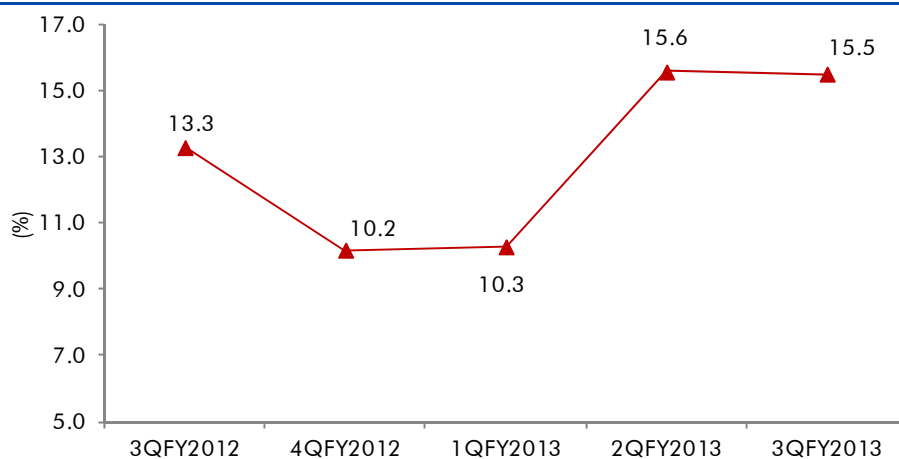
As of December 2012, the company now has 262 approved abbreviated new drug applications (ANDAs) and 171 tentative approvals.

Exhibit 3: Sales break-up (Consolidated)

(₹ cr)	3QFY2013	2QFY2013	% chg (qoq)	3QFY2012	% chg (yoy)	9MFY2013	9MFY2012	% chg
Formulations	912	903	1.0	744	22.5	2469	1959	26.1
US	513	425	20.8	325	57.8	1267	883	43.5
Europe & ROW	223	226	(1.1)	204	9.3	635	465	36.5
ARV	175	252	(30.6)	215	(18.4)	568	611	(7.1)
API	660	622	6.1	543	21.7	1869	1492	25.3
SSP	213	185	15.4	157	35.5	577	464	24.2
Cephs	245	226	8.7	188	30.4	694	553	25.5
NPNC	202	212	(4.7)	197	2.3	599	475	26.1

Source: Company, Angel Research

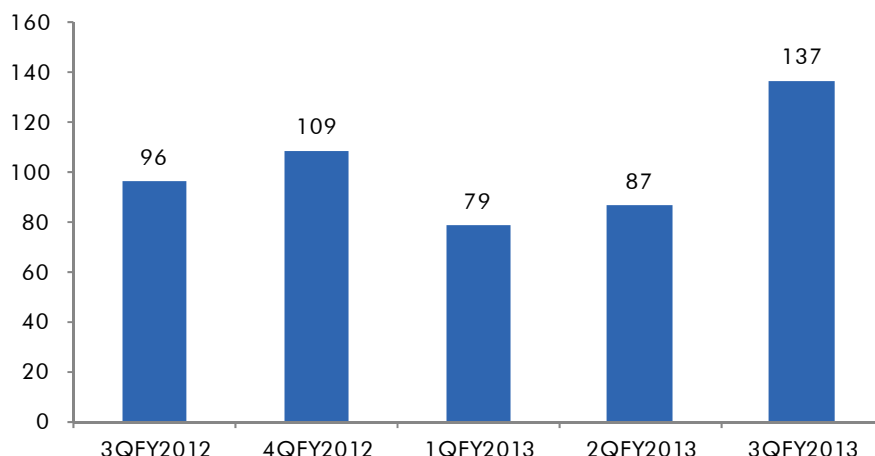
OPM expands to 15.5% for the quarter: Gross margin came in at 49.6% (44.2% in 3QFY2012), on back of favourable product mix, thus impacting the OPM, which came in at 15.5% vs 13.5%.

Exhibit 4: OPM Trend


Source: Company, Angel Research

Net profit slightly lower than estimates: For the quarter, the company posted an Adj. net profit of ₹137cr, much ahead of our expectation of ₹152cr. This was mainly on back of higher-than-expected OPM and lower-than-expected tax outgo.

Exhibit 5: Adj. net profit



Source: Company, Angel Research

Management takeaways

- For FY2013 the company, has guided for double digit growth (in dollar terms).
- The Management has guided for 25 new launches in the US.
- The company guided for improvement in the margins in the coming quarters.
- The tax rate is expected to be around 20% in FY2013.

Recommendation rationale

- **Supply agreements to drive growth:** On the global filings front (ANDAs and dossiers), APL has increased its filing dramatically from 313 in FY2008 to 1,647 in FY2012, as it proposes to scale up from SSP and Cephs to NPNC products. Further, the company’s transformation from being a pure API supplier to becoming a formidable formulations player has increased its cost efficiencies, as 90% of its formulation is now backward integrated. Thus, to leverage on its cost efficiency and strong product filings, APL has entered into long-term supply agreements with Pfizer (March 2009) and AstraZeneca (September 2010), which provide significant revenue visibility going ahead. APL is also in discussion with other MNCs for more supply agreements.

US and ARV formulation segments – the key drivers for base business: APL’s business, excluding the supply agreements, would primarily be driven by the US and ARV segments on the formulation front. APL has been an aggressive filer in the US market, with 239 ANDAs filed until FY2012. Amongst peers, APL is the third-largest ANDA filer. The company has aggressively filed ANDAs in the last three years and is now geared to reap benefits, even though most of the filings are for highly competitive products. APL expects to file 15–20 ANDAs every year going forward. Going ahead, during the next three years in the US with US\$70bn going off-patent, one of the highest in history, we believe APL is well placed to tap this opportunity. APL is one of the largest generic suppliers under ARV contracts, with a 35% market share. The company

enjoys high market share as it is fully integrated in all its products apart from having a larger product basket.

Outlook and valuation

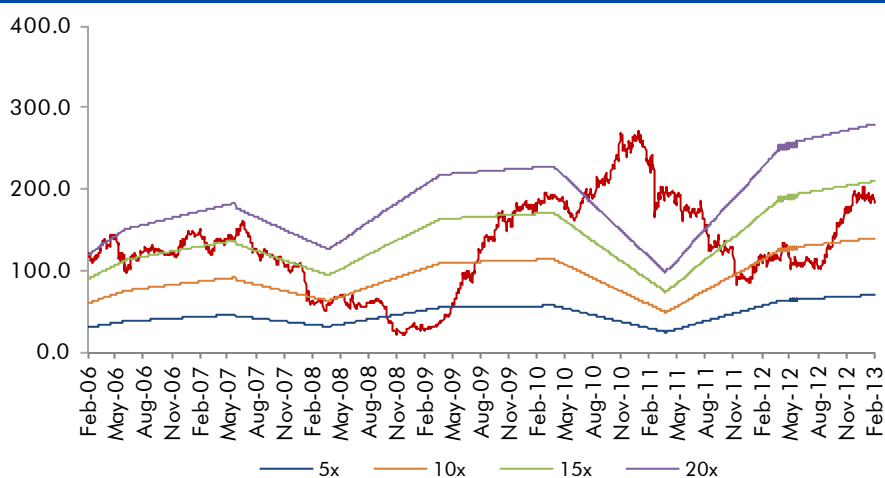
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Exhibit 6: Key assumptions

	FY2013E	FY2014E
Sales Growth (%)	20.1	14.9
Operating Margins (%)	15.0	15.0
Capex (₹cr)	200	250

Source: Company, Angel Research

Exhibit 7: One-year forward PE



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	PE (x)	FY2014E		FY12-14E	FY2014E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	74	95	28.4	7.8	0.9	5.0	17.1	29.4	30.2
Aurobindo Pharma	Accumulate	184	208	13.0	13.1	1.3	8.9	69.7	10.7	17.8
Cadila Healthcare	Neutral	791	-	-	20.0	2.4	13.6	11.5	17.2	24.8
Cipla	Accumulate	381	419	9.9	17.6	3.1	12.6	23.2	19.1	17.6
Dr Reddy's	Neutral	1,857	-	-	20.0	2.8	13.4	2.3	15.1	20.8
Dishman Pharma	Buy	99	145	46.5	7.3	1.1	5.5	26.6	8.7	11.0
GSK Pharma*	Neutral	2,093	-	-	25.4	5.0	16.0	8.7	38.9	29.0
Indoco Remedies	Buy	61	78	27.9	7.8	0.9	6.0	24.8	14.6	15.6
Ipca labs	Accumulate	482	559	15.9	12.9	1.9	9.1	30.6	25.7	26.4
Lupin	Accumulate	598	655	9.5	19.0	2.7	12.4	27.2	24.9	25.2
Ranbaxy*	Neutral	429	-	-	13.3	1.5	9.3	50.3	29.7	16.1
Sanofi India*	Neutral	2,292	-	-	26.1	2.9	17.3	2.7	12.5	14.8
Sun Pharma	Neutral	744	-	-	25.0	5.0	11.7	0.1	27.6	19.2

Source: Company, Angel Research; Note: *December year ending

Company background

Aurobindo Pharma manufactures generic pharmaceuticals and active pharmaceutical ingredients. The company's manufacturing facilities are approved by several leading regulatory agencies like the USFDA, UK MHRA, WHO, Health Canada, MCC South Africa and ANVISA Brazil among others. The company's robust product portfolio is spread over six major therapeutic/product areas encompassing antibiotics, anti-retrovirals, cvs, cns, gastroenterologicals, and anti-allergics.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	3,025	3,446	4,225	4,619	5,543	6,375
Less: Excise duty	90	76	100	69	80	96
Net Sales	2,935	3,370	4,126	4,551	5,463	6,279
Other operating income	142	206	256	77	77	77
Total operating income	3,077	3,575	4,381	4,627	5,540	6,356
% chg	26.1	16.2	22.5	5.6	19.7	14.7
Total Expenditure	2,561	2,752	3,422	4,017	4,644	5,337
Net Raw Materials	1,680	1,777	2,189	2,520	2,841	3,265
Other Mfg costs	301	338	411	475	546	628
Personnel	244	327	429	536	820	942
Other	336	310	804	487	437	502
EBITDA	374	617	704	533	820	942
% chg	9.6	65.1	14.0	(24.3)	53.7	14.9
(% of Net Sales)	12.7	18.3	17.1	11.7	15.0	15.0
Depreciation & Amortisation	128	149	172	201	232	262
EBIT	246	468	532	409	587	679
% chg	2.3	90.0	13.8	(23.2)	43.5	15.7
(% of Net Sales)	8.4	13.9	12.9	9.0	10.7	10.8
Interest & other Charges	93	73	62	103	57	57
Other Income	27	44	25	25	25	25
(% of PBT)	8.4	6.9	3.4	7.5	3.9	3.4
Share in profit of Associates	0.0	-	-	-	-	-
Recurring PBT	323	645	751	331	632	724
% chg	10.5	100.0	16.4	(55.9)	90.8	14.6
Extraordinary Expense/(Inc.)	201.0	(109.5)	(37.2)	544.5	-	-
PBT (reported)	122	754	788	(213)	632	724
Tax	21.4	191.4	225.1	(88.8)	149.4	181.1
(% of PBT)	17.6	25.4	28.6	41.6	23.6	25.0
PAT (reported)	100	563	563	(125)	482	543
Less: Minority interest (MI)	-	(0)	(0)	(1)	-	-
PAT after MI (reported)	100	563	563	(124)	482	543
ADJ. PAT	301	454	526	198	482	543
% chg	26.3	50.7	15.9	(62.4)	144.1	12.6
(% of Net Sales)	3.4	16.7	13.7	(2.7)	8.8	8.7
Basic EPS (₹)	3.7	20.2	19.3	6.8	16.6	18.7
Diluted EPS (₹)	11.2	16.3	18.1	6.8	16.6	18.7
% chg	26.3	45.4	10.9	(62.4)	145.0	12.2

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	27	28	29	29	29	29
Share Application Money	-	-	-	-	-	-
Reserves & Surplus	1,214	1,801	2,416	2,311	2,759	3,269
Shareholders Funds	1,241	1,829	2,445	2,340	2,788	3,298
Minority Interest	3	4	9	10	10	10
Long-term provisions			3	4	4	4
Total Loans	2,333	2,155	1,758	3,096	3,300	3,300
Deferred Tax Liability	77	91	119	2	2	2
Total Liabilities	3,654	4,079	4,334	5,452	6,100	6,609
APPLICATION OF FUNDS						
Gross Block	1,869	2,312	2,387	3,032	3,232	3,482
Less: Acc. Depreciation	575	697	699	892	1,124	1,386
Net Block	1,294	1,615	1,688	2,141	2,108	2,096
Capital Work-in-Progress	536	570	657	645	645	645
Goodwill	105	96	51	54	54	54
Investments	0.3	0.3	39	39	39	39
Long-term loans and adv.			111	108	129	149
Current Assets	2,289	2,506	3,322	3,248	3,908	4,528
Cash	128	73	188	71	93	143
Loans & Advances	394	375	505	1,240	1,489	1,711
Other	1,767	2,058	2,629	1,938	2,326	2,674
Current liabilities	570	708	1,534	784	784	901
Net Current Assets	1,719	1,798	1,788	2,465	3,124	3,627
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,654	4,079	4,334	5,452	6,100	6,609

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	73	752	751	(213)	632	724
Depreciation	128	149	172	201	232	262
(Inc)/Dec in Working Capital	(334)	(261)	236	(796)	(637)	(453)
Less: Other income	(180)	44	25	25	25	25
Direct taxes paid	(30)	(153)	(180)	89	(149)	(181)
Cash Flow from Operations	16	443	952	(745)	53	328
(Inc.)/Dec.in Fixed Assets	(479)	(400)	(470)	(633)	(200)	(250)
(Inc.)/Dec. in Investments	48	(9)	(38)	-	-	-
Other income	(180)	44	25	25	25	25
Cash Flow from Investing	(611)	(365)	(483)	(608)	(175)	(225)
Issue of Equity	-	5	1	-	-	-
Inc./(Dec.) in loans	287	(1)	(389)	1,340	204	-
Dividend Paid (Incl. Tax)	(39)	(29)	(34)	(34)	(34)	(34)
Others	193	(109)	67	(70)	(26)	(19)
Cash Flow from Financing	440	(132)	(354)	1,236	144	(53)
Inc./(Dec.) in Cash	(155)	(54)	115	(117)	22	50
Opening Cash balances	283	128	73	188	71	93
Closing Cash balances	128	73	188	71	93	143

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	16.4	11.3	10.2	27.1	11.1	9.9
P/CEPS	21.7	7.2	7.3	69.9	7.5	6.6
P/BV	4.0	2.8	2.2	2.3	1.9	1.6
Dividend yield (%)	0.5	0.5	0.6	0.5	0.5	0.5
EV/Sales	2.4	2.1	1.7	1.8	1.5	1.3
EV/EBITDA	19.1	11.7	9.7	15.5	10.3	8.9
EV / Total Assets	2.0	1.8	1.6	1.5	1.4	1.3
Per Share Data (₹)						
EPS (Basic)	3.7	20.2	19.3	6.8	16.6	18.7
EPS (fully diluted)	11.2	16.3	18.1	6.8	16.6	18.7
Cash EPS	8.5	25.6	25.2	2.6	24.6	27.7
DPS	0.9	1.0	1.1	1.0	1.0	1.0
Book Value	46.2	65.7	84.0	80.4	95.8	113.3
Dupont Analysis						
EBIT margin	8.4	13.9	12.9	9.0	10.7	10.8
Tax retention ratio	82.4	74.6	71.4	58.4	76.4	75.0
Asset turnover (x)	1.0	0.9	1.1	1.0	1.0	1.0
ROIC (Post-tax)	6.7	9.8	9.9	5.1	8.0	8.3
Cost of Debt (Post Tax)	3.6	2.4	2.3	2.5	1.3	1.3
Leverage (x)	1.6	1.5	0.9	1.0	1.2	1.1
Operating ROE	11.7	20.6	16.7	7.6	16.1	15.6
Returns (%)						
ROCE (Pre-tax)	7.3	12.1	12.7	8.4	10.2	10.7
Angel ROIC (Pre-tax)	9	15	16	10	12	12
ROE	25.5	29.6	24.6	8.3	18.8	17.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.8	1.7	1.9	1.7	1.8	1.9
Inventory / Sales (days)	99	101	107	98	98	99
Receivables (days)	92	94	92	115	129	130
Payables (days)	70	74	118	237	55	55
WC cycle (ex-cash) (days)	169	169	139	158	179	187
Solvency ratios (x)						
Net debt to equity	1.8	1.1	0.6	1.3	1.2	1.0
Net debt to EBITDA	5.9	3.4	2.2	5.7	3.9	3.4
Interest Coverage (EBIT / Int.)	2.6	6.4	8.5	4.0	10.4	12.0

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Disclosure of Interest Statement	Aurobindo Pharma
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	