

## Investor's Delight

### Aurobindo Pharma – Possibility of a strong turnaround..

Date	3 <sup>rd</sup> October, 2012
NSE/BSE Code	AUROPHARMA/AUROBINDOP
Promoter's holding	54.76
FV	Re. 1
Equity Share Capital (Rs. in mn)	291.1
Market Capitalization (Rs. in bn)	42.5
52 week high/low	Rs.148 (3 <sup>rd</sup> Oct, 2012)/Rs. 80.35 (18 <sup>th</sup> Nov, 2011)
CMP	Rs. 146
Recommendation	"BUY"
Target Price	202
Upside (%)	38
Horizon	9-12 months

**Non – Betalactam to drive API business growth:** The Company expects the Semi Synthetic Penicillin and Cephalosporin API business to grow by 10%. A major chunk of the API segment growth will come from non betalactam APIs which have grown by 71.3% in Q1FY13. Management has guided for close to 50% and 30% sales growth for non betalactam APIs in FY13E and FY14E, respectively. Semi Synthetic Penicillin and Cephalosporin sterile APIs have been affected due to ban on Unit VI.

**USFDA inspection of injectibles facility – a silver lining:** The company's Unit VI and IV facilities were recently inspected by the USFDA. We expect both the facilities to commence production by Q4FY13. Unit VI was contributing close to US\$ 32mn before the ban and Unit IV is a completely new facility. Currently close to Rs. 700mn of unutilized overhead cost is reflected into the P&L from Unit VI. APL has invested close to Rs. 3bn in Unit IV. Units VI and IV are majorly injectible plants and we believe the recent drug shortage situation in the injectible space will be beneficial to the company if it gets timely approval. Company has filed for 26 ANDAs from these two facilities in the injectibles space.

**US business on strong footing:** Unit VII is currently operating at approximately 50% capacity. The company has done 51 ANDA filings from Unit VII and majority of oral product launches are expected from this plant. Further, Unit VII is currently utilizing only 20% of the available land and there is further scope for expansion in the area available. The Company has also filed for 12 ANDAs in the controlled substances (CS) segment and is currently in the process of launching its first CS product in the US. Management guided 20-25% growth in constant currency terms for the US formulations business.

**Europe and ROW markets doing well:** APL currently has a presence in several European markets like Spain, Portugal, UK, Netherland, Italy and Germany (started bidding for tenders) and other markets like South Africa, Australia and Canada. It will continue to invest further in these markets. Management is targeting sales of US\$125-150mn from these markets by FY16. The management has guided for low double-digit growth in ARV business since the company plans to focus on the quality of sales, going forward, from these segment.

**Valuation and Outlook:** We believe margins would improve as the unutilized overheads get absorbed as facilities start getting approvals combined with niche ANDA launches for the US market. US formulations is set to improve growth from Q1FY13 levels as the pace of ANDA launches is set to improve with facility approvals.

At the CMP of Rs142 the stock is trading at 11.7x FY13E and 7.8x FY14E. We recommend a **“BUY”** rating with a target price of Rs. 202, valuing it at 12x FY14E owing to recent rerating of the peers and because major issues in the stock are coming towards resolution.

#### Standalone Financials (Rs. Mn)

Particulars	FY12	FY13E	FY14E
Sales	46,274	52,724	61,885
Growth (%)	5.6	13.9	17.4
EBITDA	6,101	7,256	9,753
EBITDA (%)	13.2	13.8	15.8
APAT	4,210	3,522	5,279
Growth (%)	(20.0)	(16.3)	49.9
EPS	10.7	10.6	16.8
P/E	14	14	9
EV/EBITDA	11	9	7
EV/Sales	1.4	1.3	1.1
RoE (%)	6.7	7.9	10.8
RoCE (%)	<b>13.0</b>	<b>12.3</b>	<b>16.8</b>

Source: Company, Ajcon Research, Note: FY13E and FY14E are street estimates

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