

AurobindoPharma
CMP Rs 916.3
P/E 4.9x
FY2012E

BUY

We initiate coverage on Aurobindo as a core BUY with a Price Objective of Rs 1247 over a period of 15-18 months. At CMP of Rs 916.3, the stock is trading at 7.1x and 4.9x its estimated earnings for FY2011E & FY2012E representing a potential upside of ~36.1%. Having established a strong foothold in the bulk drug market, the company is concentrating on the formulations business which is expected to emerge as the mainstay going forward. The Pfizer deal besides offering long term revenue visibility also provides opportunities for similar deals with other multinational companies. In addition commissioning of the high volume SEZ facility is expected to drive revenue growth and profitability, post CY2010.

PRICE TARGET Rs 1247/- (18 Months)
Index Details

| | |
|----------|-----------------|
| Sensex | 17,461 |
| Nifty | 5,237 |
| BSE 200 | 2,224 |
| Industry | Pharmaceuticals |

Scrp Details

| | |
|-----------------------|---------|
| Mkt Cap (Rs in crore) | 5,157 |
| Book Value (Rs) | 87.9 |
| Eq Shares O/s (Cr) | 5.6 |
| Avg Vol | 30,000 |
| 52 Week H/L | 990/406 |
| Dividend Yield (%) | 0.6 |
| Face Value (Rs) | 5.0 |

| | |
|----------|------------|
| BSE Code | 524804 |
| NSE Code | AUROPHARMA |

Shareholding Pattern (31st March, 2010)

| | |
|------------------------|-----------|
| Shareholders | % holding |
| Promoters | 58.9 |
| Indian Institutions | 10.2 |
| FII's | 23.9 |
| Non Promoter Corporate | 2.0 |
| Public | 7.0 |
| Total | 100.0 |

Aurobindo vs. Sensex

Key Investment Highlights
Thrust on formulation to enhance volume growth and profitability

The huge infrastructure investments made in augmenting the formulations capability and the robust profiling base will provide a boost to APL's formulations business and enhance profitability. Accordingly we expect the formulations revenues to grow at a CAGR of 34% to Rs 3344.3 crore by the end of FY12. Consequently, operating margins are also expected to improve.

Dossier licensing and supply arrangement to boost revenue streams

In an extensive licensing agreement with Pfizer, APL will supply a basket of over 100 solid dosage and sterile products which Pfizer will market across US and France (on an exclusive basis) and the rest of EU and RoW (on a nonexclusive basis) for a tenure of 5 -15 years. The Pfizer deal besides providing dossier licensing revenues and firm supply contracts opens up a plethora of opportunities for APL to get into similar deals with other global pharmaceutical corporations.

New SEZ unit - engine for future growth

By the end of CY2010, Aurobindo's new SEZ facility is expected to get operational and more than double its formulations capacity. The unit is specially built keeping in mind the EU market and will cater to a bulk of the requirements of the supply deal with Pfizer. Besides, driving volume growth, the facility will also provide benefits from exemption of excise duty and income tax.

Robust product pipeline to increase revenue visibility

With cumulative filings of 169 ANDA's, APL is ranked the third largest domestic company in terms of filings with the USFDA. Apart from US markets, the company has also filed 1002 dossiers, with multiple registrations, in other key regulated markets. These filings along with its prior database of API's will provide Aurobindo with long term revenue streams, both from the sale of generics as well as from dossier licensing.

Key Financials

| Y/E Mar (Rs Crore) | Net Revenue | EBITDA | PAT | EPS | EPS Growth (%) | ROCE (%) | RONW (%) | P/E (X) | EV/ EBITDA(X) |
|--------------------|-------------|--------|--------|-------|----------------|----------|----------|---------|---------------|
| 2010 | 3575.4 | 823.2 | 560.9 | 102.0 | 0.0 | 30.7 | 27.4 | 8.7 | 1.9 |
| 2011E | 4276.7 | 1138.9 | 714.5 | 129.9 | 27.4 | 27.0 | 30.1 | 6.8 | 1.6 |
| 2012E | 5205.6 | 1525.1 | 1029.8 | 187.2 | 44.1 | 24.1 | 33.9 | 4.7 | 1.3 |

□ Company Background

Aurobindo is a vertically integrated pharmaceutical company involved in the manufacture of generic pharmaceuticals and active pharmaceutical ingredients (API). Established in 1986 by Mr. P.V.Ramaprasad Reddy and Mr. K.Nityananda Reddy, the company started operations as a single unit manufacturing Semi Synthetic Penicillin (SSP) at Pondicherry. Over the years, the company has diversified into manufacture of drugs in the fast growing therapeutic segments of CNS, cardio-vascular, gastroenterology and anti-infectives. Having established a strong foothold in the bulk drug market, the company is concentrating on the formulations business which is expected to emerge as the mainstay, going forward.

Aurobindo's manufacturing facilities

Aurobindo has 15 world class manufacturing facilities spread across India (11), China (1), USA (2) and Brazil (1) which are fully integrated and having regulatory approvals from US FDA, UK's MHRA and Brazil's ANVISA.

Global Manufacturing Facilities



Source: Aurobindo

Besides having acquired Trident Life sciences, which has a presence in the high growth injectables business, the company is setting up a new high volume formulations and liquid injectable facility which is expected to commence operations by the end of Q3 FY2011.

Global distribution network

Aurobindo has a robust marketing and distribution network with 40 subsidiaries spanning across 125 countries. Having established its network in regulated market like US and EU, the company is looking to expand its visibility in emerging markets, which will be the leading factor for future growth. In order to establish strong foothold in global pharma markets, Aurobindo has taken following measures