

Buy Aurobindo Pharma on better earnings

BofAML

We retain our 'buy' rating on Aurobindo Pharma and raise price objective to ₹450 per share. We raise our EPS for the company by 5% each for FY14/15e to factor in new launches and market-share ramp-up in existing products. We expect H2FY14 performance to be stronger than H1 and expect momentum to continue in FY15/16, driven by new launches in injectable and limited competition products.

Our price objective is based on 11x FY15e EPS of ₹40.2. With strong growth visibility, improving return ratios and balance sheet, we believe Aurobindo deserves to trade at a higher multiple. Historically, the company has traded at a P/E of 9.6x one-year forward earnings. Our target is still at a 25% discount to midcap peers to factor in lack of branded business, execution-related challenges and the company's relatively higher debt on balance sheet. Given the shift in mix towards higher formulation sales, the stock is less susceptible to changes in commodities prices.

Aurobindo Pharma has secured over 11% market share in duloxetine or gCymbalta (\$4.5 billion market size) two weeks after its launch, according to IMS. ARBP launched this product through its partner (Citron Pharma) with 180-day shared exclusivity along with four other generic drug makers.

Company

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