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Aurobindo Pharma Doubles Investor Wealth in 3 Months

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Shares of Aurobindo Pharma have rallied over 100% or doubled investors' wealth since October, led by a sharp depreciation in the rupee, attractive valuations compared to its peers and strong export show.

The stock rallied as much as 5.4% to touch its fresh 52-week high of ₹404.75 on the National Stock Exchange.

The stock has rallied from ₹202.35 recorded on September 30 to ₹404.75 on 24 December, which translates into a gain of 100%. Most analysts see Aurobindo Pharma hitting fresh highs in near future and advise investors to hold on to the stock for better returns.

Investors with long-term horizon should remain invested, while those who are looking for a quick gain can sell the stock.

"Over the past five years, Aurobindo Pharma has transformed from an API (Active Pharmaceutical Ingredient) company to a formulation maker, but its valuations have yet to catch up," BofA-ML said in a report.

The global brokerage firm expects the US business to grow 34% CAGR over FY13-16E, driven by a large pipeline and incremental focus on differentiated products.

With strong growth visibility, improving returns ratios and B/S, BofA-ML believes that the pharma major warrants a higher multiple compared to what it is trading at now, which is at 50% discount to mid-cap peers.

Better cash flow from the launches of high margin and limited competition drugs is likely to help reduce capital gearing ratio and trigger higher valuation multiples to reduce gap, say analysts.

Pharmaceutical stocks have been in favour due to the defensive nature of the business because they are least affected by an economic slowdown, healthy export performance and benefits of a weaker rupee.

The recent market rally in the pharma sector has materially reduced the valuation gap that existed between the historical multi-year average valuation multiple and current valuation.

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"In our pharma universe, we find Ipca Laboratories, Aurobindo Pharma (Aurobindo), Sun Pharmaceutical Industries and Glenmark Pharmaceuticals (Glenmark) breached their respective three-year and five-year historical average multiples on the back of a strong show in the export markets," Sharekhan said in a report.

Most analysts prefer Aurobindo Pharma over other midcap pharma names as most of them expect strong growth in the coming quarters as well as chances of re-rating. "I prefer Aurobindo to Wockhardt, because Wockhardt has got a lot of problems regarding regulatory issues for their manufacturing facilities. Whereas in case of Aurobindo, there is a steady flow of news on the launch of their generic products and they are going to do well," said Ranjit Kapadia, Senior vice-president, Pharma, Centrum Broking.

"Their latest launch has been generic Cymbalta this week and this is going to give a good upside for Aurobindo and at the same time, the rupee has also stabilised," he added. Kapadia is of the view that the mark to market losses, which were about ₹68 crore in the last quarter, are likely to be positive this quarter. So you will see some mark to market gains and this will definitely re-rate the stock going ahead, he said.

Analysts at top brokerage firms believe that the main drivers for Aurobindo are going to be a) Business mix improvement with more formulation sales, b) Scaling up of Aurolife's control substances sales c) Scale-up of injectable business and d) higher operating cash flow to reduce debt. IndiaNivesh expects the company to achieve $1.5-billion revenue by the end of FY15E from current the level of $1.1 billion in FY13, which translates to 15.2% CAGR.

Accordingly, they expect the company's total formulation business (excluding Dossier income) to grow at 19% CAGR & API business at 10.5% CAGR over FY12E-15E.

The company expects European business to grow between 20% -25% in FY14E. Management has also guided to achieve $30 mn revenue from Injectable business in FY14E & $45-50 mn in FY15E.

Company.