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MID CAP | AUROBINDO PHARMA

Co Eyes US, Europe with New Products

Investors can pick the Aurobindo stock with a long-term horizon hoping the worst is over

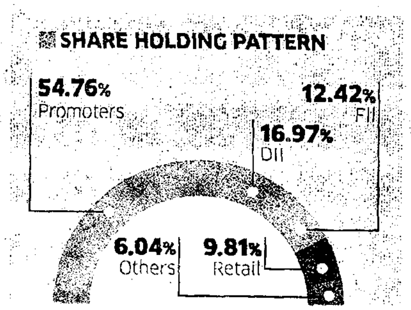
COMPANY P/E **NA**

INDUSTRY P/E **30.71**

52-WK HIGH/LOW

80.35 — 112.25 CMP — 188.85

LOW 18 Nov 11 — HIGH 27 Jul 11



BROKERS' POLL

BUY 247 | SELL 73

After depreciating by 69% in 2011, the stock of Hyderabad-based pharma company Aurobindo Pharma has recovered 40% since last November. It had taken a beating due to factors, like US FDA's import ban on one of its manufacturing plants and the CBI chargesheet against the company and its managing director, involving Jagan Mohan Reddy's disproportionate assets case.

BUSINESS

The company manufactures active pharmaceutical ingredients (APIs) and formulations. The company is an established supplier of generic antiretroviral (ARV) drugs. Aurobindo has strategic marketing alliances with companies like Pfizer and AstraZeneca.

GROWTH DRIVERS

Aurobindo is looking at launching limited competition products in oral contraceptives and controlled substances in the US. These products will act as a long-term growth driver for the company. It is expecting injectables and new product launches in Europe and other countries to grow its business. In APIs, the company is banking on its non-betalactam business to show good traction.

FINANCIALS

The company posted a loss for the first time in 11 fiscals due to factors, like USFDA's import ban on one of its facilities, destocking by customers, muted demand from its in-licensing partner Pfizer and high interest costs. It still managed to redeem its outstanding FCCBs worth $139 million.

The company has a history of paying dividends. It expects the high-margin formulations business to grow faster than the low-margin API business. It expects its margins to be around the historical run rate of 18%. The company expects to repay ₹500-crore debt during this fiscal through internal accruals.

CONCERNS

Scaling up of the in-licensing deal with Pfizer is impacted due to the USFDA issue. While the company expects the USFDA to reinspect its unit in the second quarter of the current fiscal, the business will remain impacted till such resolution. Most of the company's debt is in dollar terms. The rupee depreciation has an adverse impact on the company's interest cost, thereby impacting the bottom line.

VALUATIONS

Most established pharma companies are valued at over twice their revenues. The company is valued at ₹3,244 crore—less than its consolidated FY12 revenues of ₹4,550 crore. For Aurobindo, FY13 is a determinant year with respect to resolution of the USFDA issue, product launches and debt repayment. While the company is not looking attractive in the short term, investors can look at picking up shares with a long-term horizon assuming that the worst is over.

Kiran Kabtta Somvanshi

Industry.