

AUROBINDO - No Visibility of a Turnaround

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Abstracts

We reiterate our Underperform on Aurobindo after its Q1 FY13 result that was in line with our sales estimate, but below EBITDA estimate. Adjusting to the favorable currency, sales growth remained flat. As expected, US sales got impacted due to decline in partnership sales (largely Pfizer). The company now expects reinspection of Unit 6 now between September – December.

On the other hand, increase in capex and borrowings continue with expected FY13 capex of `2.25b and net debt now to `34b – that includes forex related inflation and also fresh borrowing. Lower sales with increase in capex and debt remains the core issue. In addition, the FDA ban on Unit 6 has jeopardized the sales from partners – something that remains crucial for a company that depended on Pfizer's contract. We also remain concerned about company's ability to meet its scheduled repayment of \$80m debt through internal accruals this fiscal.

We largely keep our FY13 earnings unchanged. We reiterate our Underperform rating with a target price of `77 per share. Our target price is derived out of DCF as we believe this to be the only valuation parameter for a company that is generating negative free cash flows in last 8 out of 9 years.

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