

AUROBINDO – Underperform, Great Result, But Still Not Out of Woods

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Abstracts

ARBP Q2 FY13 result was greatly ahead of our expectation largely due to the improvement in margin and robust growth in formulation sales (up 52.5%). EBITDA margin increased by ~600 bps Y-o-Y reflecting the improved mix in favor of formulations. The company remains hopeful of USFDA resolution of Unit VI post its regulatory inspection.

While all this is positive, the debt continues to grow (beyond currency related increase).

With a planned capex of Rs.2.25b in FY13 and a minimum capex of Rs.1b per year, this improvement in sales and margin still does not help company to generate ROE beyond 12-13%. Free cashflow generation too remains a challenge – keeping the company under debt pressures. We thus do not expect the debt to reduce despite a scheduled repayment of Rs.3b in the next 12 months.

Given the low no. of pending approvals from Unit VI, we do not expect significant improvement in sales from this facility post its resolution of warning letter.

We increase our estimates by 35% and derive our new target price of Rs.100. 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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