

AUROBINDO - A Washout Result

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Abstracts

Aurobindo's Q2 FY12 result was much below our expectations with almost complete washout on every parameter. While formulation sales, income from dossier, gross and operating margin declined; overheads, interest cost, working capital, capex and total debt continues to grow. On top of this, there is no clarity about the USFDA resolution for its plant – an issue that is more strategic for a company ambitious of growing through contract manufacturing.

We reduce our EBITDA estimate for FY12 by 15% even after allowing some improvement in margin. We continue to remain concerned about slowdown in Pfizer contract, reduction in ARV margin, relentless capex and increasing debt (up by . We reiterate our Underperform with a revised target price of `100 from `120 earlier – reflecting the reduction in our estimates. 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 cashflows in last 8 out of 9 years.

Contents

COMPANIES MENTIONED

AUROBINDO

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