

Aurobindo - Feeling The Heat of USFDA and Debt

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Abstracts

We reiterate our Underperform rating on Aurobindo after Q1 FY12 result that remained below our earnings estimates, but above our sales estimate. The gross margin reduced by 230 bps. The company blamed it on higher ARV sales (up by 39% and 20% of total sales) that included a Government of India tender where ARBP did not earn any profit. As expected, operating expenses related to Unit VI (USFDA banned facility) also impacted the margin. Additionally, income from dossiers (largely from Pfizer) reduced to half possibly reflecting Pfizer's slow down after the USFDA import alert. Interestingly, the company is evaluating the option of demerging its API business from the formulation business to 'unlock' value for share holders. We find this strange given that an integrated facility (with API and formulations) remain at the core of 'India advantage'. We reduce our target price to Rs.120

Contents

COMPANIES MENTIONED

Aurobindo

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