

AUROBINDO - High Operational and Financial Leverage Create Huge Pressure

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Abstracts

Auroindo's sales for Q3 FY12 was in line with our estimates, however, earnings were much below our estimates owing to high overheads. Although Y-o-Y sales grew by 18% EBITDA margin decline of 525 bps ex-dossier income and 1500 bps including dossier resulted into a 40% decline in EBITDA (ex-forex losses). In other words, net capex (net of hive off of China and US facility) of `10b over last 5 years largely funded through debt without any improvement in asset turnover ratio is the core issue. In addition, the USFDA ban on facility has proven to be a big blow for a company that depended on contract manufacturing for growth.

We revise our EBITDA estimate down by 13% for FY12 and 5% for FY13. We reiterate our Underperform rating with a target price of Rs. 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 cashflows in last 8 out of 9 years.

Contents

COMPANIES MENTIONED

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