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## **Aurobindo Pharma Limited—BUY—780—INR**

Sector — Pharmaceuticals  
Regd.Off. — Plot no. 2, Maithrivihar, Ameerpet, Hyderabad - 500038  
Listed — NSE, BSE.

### **Company overview—**

Mr. P.V.Ramaprasad Reddy, Mr. K.Nityananda Reddy and a small group of highly committed professionals founded company in 1986; Aurobindo Pharma became a public company in 1992. Aurobindo Pharma Limited based at Hyderabad, India manufactures generic pharmaceuticals and Active Pharmaceutical Ingredients. Company is one of the world's top 5 manufacturers of semi synthetic penicillin's. Company has Asia's largest sterile API facility. It is one of India's top 5 pharma companies ranked in terms of turnover. It has 12 manufacturing plants conforming to GMP / ISO regulations and an extremely well equipped R&D facility. Company has invested significant resources in building a mega infrastructure for APIs and formulations to emerge as a vertically integrated pharmaceutical company. Aurobindo's 5 units for APIs and 4 units for formulations are designed for the regulated markets. The Company has accelerated the DMF/ANDA filings program in its efforts to build a broad product portfolio for the regulated markets. Company has geared up in the ARV segment by clinching more approvals under the PEPFAR program. The World Health Organization (WHO), Geneva, has also included Aurobindo's products in its list. The Company has made a small beginning under PEPFAR program and it hopes to bag good orders under the program. Company has a large infrastructure for developing innovative technologies, creating an intellectual property knowledge base in chemical synthesis and drug delivery systems. Company's 50% of sales volume contributed through exports out of India to over 100 countries.

### **Products & Services—**

Company is one of the largest Active Pharmaceutical Ingredients or Bulk Actives manufacturers in Asia; Aurobindo Pharma has commercialized over 100 APIs. Company's capabilities grown over 700% in the last seven years and uncompromising product quality underline the core competence of the Company. Company applies high Quality Management in its products manufacturing. Company derives its volume in API from the following segments: ANTI-DEPRESSANTS, ANTI-CONVULSANTS, HYPNOTICS & ANTI-PSYCHOTICS, ANTI-HYPERTENSIVES, BETA BLOCKERS, THIAZIDE DIURETIC, ANTI-THROMBOTIC, STATINS, ANTI-DIABETICS, BPH-TREATMENT, ANTI-EMETICS, ANTI-ULCERANTS, ANTI-RETROVIRALS, ANTI-VIRALS, MACROLIDES, ANTI-FUNGALS, QUINOLONES, ANTI-HISTAMINES, ANTI-CHOLINERGIC, ANTI-OSTEOPOROSIS, ANTI-INFLAMMATORY, MUSCLE RELAXANT, CEPHALOSPORINS, PENICILLINS, ANTI-FUNGALS etc.

### **Research & Development—**

Company's R & D strengths are in developing intellectual property in the area of non-infringing processes and resolving complex chemistry challenges. In the process, Aurobindo Pharma is developing new drug delivery systems, new dosage formulations, applying new

technology for better processes. The APL Research Center, located on the outskirts of Hyderabad, is busy making knowledge intensive initiatives. The Center covers an area of 100,000 square feet, and provides a nurturing environment to a multi-disciplinary team of over 450 scientists striving for excellence. The Center meets CGLP requirements, and is focused on the areas of organic synthesis, analytical research, dosage form development, pharmacology, bio-equivalence studies and drug delivery systems.

## Financials—

Results for 01-oct-2006 to 31-dec-2006

Financial Results	Rs.lakhs
Net Sales	52840.00
Other Income	2633.00
Gross Income	55473.00
Increase/Decrease in Stock	-2229.00
Consumption of Raw Materials	32846.00
Staff Cost	2627.00
Total Expenditure Excluding Other Expenditure	33244.00
Other Expenditure	11749.00
Total Expenditure	44993.00
Interest	1967.00
Profit Before Depreciation & Taxes	8513.00
Depreciation	1629.00
Profit Before Tax	6884.00
Provision for Taxation	872.00
Net Profit	6012.00
Face Value of Share (in Rs.)	5.00
Basic EPS (in Rs.)	11.28
Diluted EPS (in Rs.)	8.79

## Recent developments—

Global giants Novartis and Teva are looking at acquiring a strategic stake in Aurobindo Pharma. The Hyderabad-based manufacturer of oral and sterile antibiotics is in advanced stage of negotiations with the multinational pharma giants. If either company acquires Aurobindo, they would be buying one of the strongest companies in the business of producing low-cost unbranded drugs in India. Aurobindo has 139 patents in US and the European Union. Novartis and Teva have stressed on the importance of India as a market, especially in the unbranded low-cost generic drugs business.

Aurobindo Pharma received another marketing authorization nod from medicines control council (MCC) of South Africa. The council approved lisinopril tablets in 5mg, 10mg and 20mg strengths. The company, by virtue of this approval can now participate in one of the key segments of South African market. Lisinopril is the generic version of Zestril marketed by Astra Zeneca. Lisinopril dihydrate is an effective; long acting orally administered ACE inhibitor. It is

used often in the management of hypertension. Lisinopril belongs to a class of drugs that today commands a market value of USD 27 million in South Africa.

Company is planning around three small acquisitions in Spain and Portugal to expand ownership of approved pharmaceutical products in Europe. The company is primarily interested in acquiring companies with turnovers of Rs 290-580 million and significant product registrations. The company, expecting around 30-40 product approvals in European countries in next one year, is keen on expanding the basket to about 90 products there. The company acquired two European non-patented drug firms, the Netherlands-based Pharmacin International and UK's Milpharm in 2006. Of the USD 200 million raised through foreign currency convertible bonds (FCCBs) last year, USD 130 million still available with the company, that can be used for the proposed overseas acquisitions.

Aurobindo Pharma received the USFDA approval for the Cefpodoxime proxetil tablets in the strengths of 100mg and 200mg. With this the company consolidates itself further in cephalosporin market. Cefpodoxime is the generic version of Pharmacia Upjohn's Vantin. Cefpodoxime Proxetil is mostly used to treat acute otitis media, community acquired pneumoniae, uncomplicated urinary tract infections and also skin infections. Company also received approval from the USFDA for Trandolapril tablets 1 mg, 2 mg & 4 mg. Trandolapril is the Generic equivalent of Abbott's Mavik tablets, indicated for the treatment of hypertension. The USFDA recently approved company's Cefpodoxime proxetil tablets in the strengths of 100mg and 200mg.

#### **Valuation—**

Multinational Companies looking to outsource products and services from India. Aurobindo Pharma gives the customer competitive edge through faster product development and optimised costs. The Company helps to reduce the transition time between drug discovery, development and entry into the market. The customer gains with reproducible, innovative solutions to synthetic chemistry problems. Opportunities in regulated markets, non-regulated markets, MNC outsourcing and intermediate outsourcing will be extremely good in the years to come. But benefits will be only for companies, who could invest in R&D and good manufacturing facilities will benefit and Aurobindo is one of them. Company enjoys world's largest product portfolio in anti-AIDS, and ranks among the top in the world in SSPs and cephalosporins, both oral and sterile. At CMP, Stock is trading at 16.1 X of its FY2008 Estimated EPS and 13.4 X of its FY2009 Estimated EPS. We recommend investors to "BUY" Aurobindo pharma" for medium to long-term investment horizon.

**We invite Readers to send Feedback, stock and subscription queries at E-mail [investment\\_guru1@yahoo.com](mailto:investment_guru1@yahoo.com)**

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