

Institutional Equities
 India Research

Lupin

RESULT REVIEW

 Bloomberg: LPC IN
 Reuters: LPC.BO

HOLD

Strong performance, Upgrade price target

Lupin's revenues increased by 37.5%YoY to Rs. 25010 mn in Q3FY13, as against our estimates of Rs. 24038mn. Operating margins increased on the back of strong revenue growth, lower other expenses, despite higher R & D expenses. Net Profit has shown growth of 42.6%YoY at Rs 3352mn in Q3FY13. Strong market share gains in key products in US markets and Ceph basket yielded strong revenue growth in US. Better margin and revenue outlook in US, Japan and India enthruse us. We upgrade our price target and maintain HOLD.

- Quarter Details:** The Company's Domestic branded Formulations (DF) business grew 14%YoY to Rs.5708mn (our expectations Rs.6133mn), while its Exports formulations rose 36.4%YoY to Rs. 16598mn. US business grew by 68 % to Rs 10.4 bn for the quarter. EBITDA is at 24.2% in Q3FY13, higher than our estimate of 19.4%. Net profit is at Rs.3352.6mn for the quarter as against our estimate of Rs 2741mn (up by 43%YoY). Tax is at 38.1% compared to 22.6% last year for the Quarter. The performance was commendable as the performance was on back of Rs 350 mn of forex loss which was offset to some extent by Rs 230 mn of forex gain.

Outlook & Valuation:

We upgrade our revenues for US, Japan and India on better outlook for FY 13 and FY 14. We revise our EBDITA margins for FY 13E to 23 % and to FY 14E to 24.8 %. We marginally downgrade our EPS estimates for FY 13E by 2.1 % to Rs 25.4 and increase our FY 14E by 3 % to Rs 30.8. We upgrade our price target by 3.8 % to Rs 650 based on 21x FY 2014E. We maintain our HOLD rating on the stock.

Key Financials

Y/ E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	48,376	57,852	70,544	94,498	104,408
EBITDA	9,507	11,442	14,162	21,795	25,918
Net Profit	6,185	7,923	8,173	11,361	13,753
EPS(Rs)	13.9	17.8	18.3	25.4	30.8
EPS growth (%)	16.7	27.7	3.1	38.9	21.1
EBITDA margin (%)	19.7	19.8	20.1	23.1	24.8
PER (x)	43.4	34.0	33.0	23.8	19.6
EV/EBITDA (x)	29.4	24.2	19.8	12.7	10.4
P/S (x)	5.6	4.7	4.0	2.9	2.7
RoCE (%)	25.7	23.7	24.3	31.1	30.8
RoE (%)	24.9	25.0	21.2	23.8	23.3

Source: Karvy Institutional Research, Company.....Indian GAAP Consolidated

Recommendation

CMP:	Rs604
Target Price:	Rs650
Upside (%)	8%

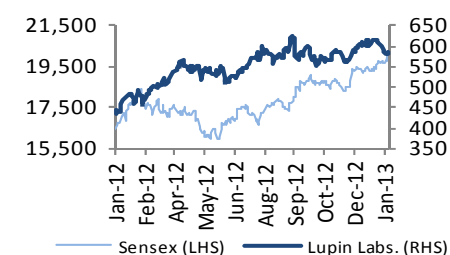
Stock Information

Market Cap. (Rs bn / US\$ mn)	270/5,075
52-week High/Low (Rs)	632/412
3m ADV (Rs mn /US\$ mn)	449/8.4
Beta	0.5
Sensex/ Nifty	19,895/6,035
Share outstanding (mn)	447

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(1.7)	6.7	26.3	(1.6)
Rel. to Sensex	(3.2)	(0.4)	9.8	(3.9)

Performance



Source: Bloomberg

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Results Review

Lupin's revenues have grown 37.5%YoY to Rs.25011mn on the back of excellent performance in US market. Domestic Formulation business has also grown 14% to Rs.5708mn in Q3FY13. EBITDA margins are at 24.2% in Q3FY13, higher than Q3FY12 by 370bps. Net Profit has increased 42.6%YoY to Rs. 3352.6mn.

Revenue Analysis

In Q3FY13, US business has shown high growth of 68%YoY in revenue, which has grown to Rs. 10390mn (our expectation Rs 9205mn) compared to Rs. 6188mn in Q3FY12. Lupin Japan sales (Kyowa+l'rom) increased by 48%YoY with revenues of Rs 3658mn during the Quarter compared to Rs 2468.9mn in Q3FY12. Lupin's South Africa business, Pharma dynamics have grown 43%YoY to Rs.831mn as against our estimation of Rs750mn. API sales (incl. domestic and exports) have grown 19%YoY to Rs 2353mn compared to Rs 1981mn in Q3FY12. Overall Revenue has reported growth of 37.5%YoY.

EBIDTA Margin

Lupin's EBITDA Margins was reported at 24.2% for the quarter which was higher than 20.5% in Q3FY12. Lower other expenses have contributed to higher margin for this quarter.

Non-Operating Items

- Other income was reported at Rs.265.1mn, higher than Rs.33.1mn during the Q3FY12. This included Rs 230 mn of forex gain for the quarter.
- The company had a forex loss of Rs 350mn in Q3FY13 which is adjusted through various line items including sales and materials cost.
- Effective tax rate was 38.1% for the quarter, much higher than 22.6% in Q3FY12. There has been sale to US subsidiary. They have raised the tax guidance to 34-35 % for FY 13E and FY 14E.

Net Profit Growth

The Company's net profit stood at Rs.3352.6mn in Q3FY13 – higher than our estimates of Rs. 2741mn.

Key highlights:

Lupin filed 8 ANDAs and received 3 approvals from the US FDA during the quarter. The Company withdrew 16ANDA's which were pending for approval with the US FDA due to the new GDUFA norms. Cumulative ANDA filings with the US FDA as of December'12 stood at 168, with the company having received 68 approvals to date. Out of remaining 100, Around 20 ANDAs are FTF with market coverage of USD 1.5bn. Overall Market coverage of all the filings is around USD 32 bn.

In Q4FY13, Lupin is expected to launch 2-3 new products. Going forward, Company also expects to launch more than 20 products every year.

Management also clarifies that it has not launched Yasmin in the market till date. The company is evaluating the risk profile of the product as the company does not want to have huge penalty. There is no timeline given by company when they are going to bring it to the market.

Lupin's effective tax rate for 9m has been around 34% of PBT. It also expects to report tax rate of 34-35% for FY'13.

Exhibit 1: Quarterly performance

Y/E Mar (Rsmn)	Q3FY12	Q2FY13	Q3FY13	QoQ %	YoY %
Net Revenues	18189	23007	25011	8.7	37.5
Cost	14454	17848	18961	6.2	31.2
EBITDA	3735	5159	6050	17.3	62.0
EBITDA Margin (%)	20.5	22.4	24.2		
Other Income	33	43	265	513.7	700.9
Interest	86	101	77	-24.0	-10.6
Depreciation	576	690	688	-0.3	19.4
Profit before Tax	3106	4412	5550	25.8	78.7
Tax	701	1438	2116	47.1	201.9
Tax rate (%)	22.6	32.6	38.1		
Profit After Tax	2406	2974	3434	15.5	42.8
Minority Interest + Shr of asso.	55	69	82	18.1	48.5
Net Profit	2351	2905	3353	15.4	42.6

Source: Karvy Institutional Research, Company

Exhibit 2: Change in Estimates

Y/E Mar (Rsmn)	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
India Formulations (Rs. Mn)	22,360	22,612	(1.1)	26,384	26,230	0.6	Marginal downgrade in line with 9mth nos
US	36,232	35,266	2.7	37,094	35,117	5.6	Better traction in corebusiness, Tricor and generic Geodon
Japan	13,988	13,355	4.7	15,667	14,958	4.7	New products launched in Q3 FY 13
EU	2,197	2,445	(10.2)	2,636	2,895	(8.9)	Lower traction
South Africa	3,164	3,020	4.8	3,955	3,624	9.1	
RoW	4,798	4,668	2.8	6,237	5,835	6.9	
API	9,223	9,558	(3.5)	9,784	10,221	(4.3)	
Revenues	94,498	93,437	1.1	104,408	101,480	2.9	
Raw material costs	34,963	33,967	2.9	37,637	35,833	5.0	in line with 9 mth trend
Other expense	25,340	26,732	(5.2)	26,965	28,873	(6.6)	Savings on Six sigma implemented in consultation with Accenture
EBITDA	21,795	20,338	7.2	25,918	22,886	13.2	
EBITDA margin (%)	23.1	21.8	6.0	24.8	22.6	10.1	
Other Income	410	340	20.5	431	433	(0.4)	Income without forex gain
Depreciation	2,762	2,729	1.2	3,077	3,041	1.2	
Interest	363	438	(17.3)	478	468	2.3	
PBT	19,081	17,511	9.0	22,794	19,811	15.1	
Tax	6,678	4,903	36.2	7,978	5,448	46.4	Higher tax guidance of 34-35 % for FY 13 and FY 14.
Tax rate	35.0	28.0	25.0	35.0	27.5	27.3	
Net Profit	11,361	11,606	(2.1)	13,753	13,360	2.9	
EPS (Rs.)	25.4	26.0	(2.1)	30.8	29.9	2.9	

Source: Karvy Institutional Research, Company

Exhibit 3: Profit & Loss

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net Revenues	48,376	57,852	70,544	94,498	104,408
Raw Material	19,694	22,379	26,039	34,963	37,637
Staff	5,871	7,677	9,695	12,400	13,888
Other Exps	13,303	16,353	20,647	25,340	26,965
Total Expenditure	38,869	46,410	56,382	72,703	78,491
EBITDA	9,507	11,442	14,162	21,795	25,918
EBITDA margin (%)	19.7	19.8	20.1	23.1	24.8
Other income	159	174	429	410	431
Interest	385	325	355	363	478
Gross Profit	9,282	11,292	14,236	21,842	25,871
Depreciation	1,239	1,712	2,275	2,762	3,077
Profit Before Tax	8,043	9,580	11,961	19,081	22,794
Tax	1,360	1,169	3,086	6,678	7,978
Minority Interest	180	168	199	279	300
Net Profit	6,502	8,242	8,677	12,124	14,516
less Amortisation	317	320	504	762	762
PAT After Amortisation	6,185	7,923	8,173	11,361	13,753
Extraordinaries	373	383	-	-	-
Reported Net Profit	6,557	8,306	8,173	11,361	13,753

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Equity	889	892	893	894	894
Reserves	23,967	30,777	37,589	46,769	58,184
Net worth	24,856	31,669	38,483	47,663	59,078
Deferred Tax Liabilities	1,630	1,792	1,910	2,280	2,280
Short-term Loans	8,050	7,911	10,479	14,129	15,634
Long-term Loans	3,348	2,992	4,330	4,330	4,330
Total Loans	11,399	11,624	14,809	18,459	19,964
Minority Interest	255	515	723	806	806
Liabilities	38,140	45,600	55,924	69,208	82,128
Gross Block	22,937	26,389	33,838	38,712	43,136
Depreciation	7,072	9,075	11,350	14,112	17,189
Net Block	15,865	17,313	22,487	24,600	25,947
Capital work-in-progress	3,579	5,312	4,406	5,033	5,608
Goodwill on Consolidation	3,197	3,255	5,040	7,623	7,623
Less: Amortisation	822	1,142	1,646	2,408	3,170
Goodwill	2,375	2,113	3,394	5,215	4,453
Long-term Investments	264	32	28	28	28
Deferred Tax assets	195	381	468	601	601
Inventories	9,715	12,000	17,327	18,890	20,777
Debtors	11,266	12,558	17,318	20,138	22,283
Cash	2,015	4,201	4,025	11,807	20,566
Other Current assets	4,759	6,208	8,241	9,271	10,208
Total Current assets	27,755	34,967	46,911	60,106	73,834
Creditors	7,088	8,965	13,978	17,927	19,354
Other current liabilities	4,804	5,552	7,791	8,447	8,987
Total current liabilities	11,893	14,518	21,770	26,374	28,341
Net current assets	15,862	20,449	25,141	33,732	45,492
Total Assets	38,140	45,600	55,925	69,208	82,128

Source: Company, Karvy Institutional Research

Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	7,951	9,411	11,383	18,271	22,078
Change in working capital	(4,478)	(2,401)	(4,868)	(809)	(3,002)
Cash flow from operations	3,473	7,010	6,515	17,463	19,076
Other income	159	174	429	410	431
Depreciation and Amortisation	1,556	2,031	2,779	3,524	3,840
Interest paid (-)	(385)	(325)	(355)	(363)	(478)
Dividends paid(-)	(1,436)	(1,575)	(1,661)	(2,182)	(2,338)
Tax paid (-)	(1,360)	(1,169)	(3,086)	(6,678)	(7,978)
Minority interest	(180)	(168)	(199)	(279)	(300)
Extra ordinaries	373	383	0	0	0
Goodwill on Consolidation	(23)	(58)	(1,785)	(2,583)	0
Deferred tax liabilities	243	161	118	370	0
Deferred tax asset	27	(185)	(87)	0	0
Net cash from operations	2,448	6,279	2,669	9,682	12,253
Capital Expenditure	(6,431)	(4,894)	(6,543)	(5,500)	(5,000)
Free Cash Flow	(3,983)	1,385	(3,875)	4,182	7,253
Change in short-term borrowing	2,050	(139)	2,568	3,650	1,505
Change in long-term borrowing	(2,884)	(357)	1,338	0	0
Change in borrowings	(834)	(496)	3,906	3,650	1,505
Change in Investments	(49)	233	4	0	0
Equity issue/buyback	6,097	208	419	1	0
Cash from Financial Activities	5,214	(55)	4,329	3,651	1,505
Others	7	856	(630)	(50)	0
Opening cash	778	2,015	4,201	4,025	11,807
Closing cash	2,015	4,201	4,025	11,807	20,566
Change in Cash	1,238	2,186	(177)	7,783	8,758

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Ratios	FY10	FY11	FY12	FY13E	FY14E
EV/EBDITA(x)	29.2	24.2	19.8	12.7	10.4
ROE (%)	24.9	25.0	21.2	23.8	23.3
ROCE(%)	25.7	23.7	24.3	31.1	30.8
PE(x)	43.4	34.0	33.0	23.8	19.6
P/S(x)	5.6	4.7	4.0	2.9	2.7
P/BV(x)	10.8	8.5	7.0	5.7	4.6

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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