



# Lupin

BSE SENSEX 18,210	S&P CNX 5,488	<b>CMP: INR449</b>	<b>TP: INR514</b>	<b>Buy</b>								
Bloomberg Equity Shares (m)	LPC IN 446.2	<b>YEAR</b>	<b>NET SALES</b>	<b>PAT</b>	<b>EPS</b>	<b>EPS</b>	<b>P/E</b>	<b>P/BY</b>	<b>ROE</b>	<b>ROCE</b>	<b>EY/</b>	<b>EY/</b>
52-Week Range (INR)	520/348	<b>END</b>	<b>(INR M)</b>	<b>(INR M)</b>	<b>(INR)</b>	<b>GR. (%)</b>	<b>(X)</b>	<b>(X)</b>	<b>(%)</b>	<b>(%)</b>	<b>SALES</b>	<b>EBITDA</b>
1,6,12 Rel. Perf. (%)	3/0/16	03/10A	47,405	6,816	15.3	34.8	29.3	7.8	34.1	27.5	4.4	24.6
M.Cap. (INR b)	200.3	03/11A	57,068	8,582	19.3	25.9	23.3	6.1	29.3	25.1	3.6	19.5
M.Cap. (USD b)	4.5	03/12E	64,784	9,913	22.3	15.5	20.1	5.0	27.1	28.2	3.2	16.8
		03/13E	74,127	11,418	25.7	15.2	17.5	4.1	25.7	27.1	2.7	13.8

### Key highlights

- Net sales grew 17.6% YoY to INR15.4b (v/s our estimate of 13.6% YoY growth to INR14.9b). EBITDA grew 3% YoY to INR2.7b (v/s our estimate of INR2.76b) due to absence of generic Lotrel sales in the US, and higher staff and other expenses. Adjusted PAT grew 7% YoY to INR2.1b, in line with our estimate.
- Topline growth was led by 61% growth in emerging market formulations (partly led by low base), 28% increase in Japan revenue and 17% growth for India formulations. As expected, the formulations portfolio in the US and EU regulated markets reported muted performance, with just 7% growth. US generics sales grew just 6.5%, impacted by high base and lack of any major product launches. US branded sales have grown ~9%.
- EBITDA grew 3% to INR2.7b (v/s our estimate of INR2.76b) while EBITDA margin contracted by 250bp to 17.5% (v/s our estimate of 18.5%). EBITDA was impacted by absence of high margin generic Lotrel sales in the US, and higher staff and other expenses.
- Adjusted PAT grew 7% to INR2.1b, in line with our estimate.

Lupin is likely to witness gradual improvement in underlying fundamentals, led by an expanding US generics pipeline, niche/Para-IV opportunities in the US, strong performance in emerging markets (including India), and sustained traction in the Japanese business. We expect Lupin's core operations (excluding one-off upsides) to record 14-15% revenue CAGR over FY11-13 despite the likely generic competition for Suprax in the US. We expect EPS of Rs22.3 for FY12 (up 15.5%) and Rs25.7 for FY13 (up 15.2%). Our estimates do not include potential Para-IV and OC upsides but take into account the likely generic competition for Suprax (thus impacting FY13 EPS). Any out-of-court settlement for Suprax patent litigation is likely to raise our earnings for FY13. The stock trades at 20.1x FY12E and 17.5x FY13E EPS, with sustained RoE of 25-27%. Maintain **Buy** with a target price of Rs514 (20x FY13E EPS).

### Quarterly Performance (Consolidated)

Y/E MARCH	FY11				FY12				(Rs Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY11	FY12E
<b>Net Sales</b>	<b>13,121</b>	<b>14,051</b>	<b>14,672</b>	<b>15,225</b>	<b>15,432</b>	<b>15,647</b>	<b>16,634</b>	<b>17,071</b>	<b>57,068</b>	<b>64,784</b>
YoY Change (%)	20.9	26.0	16.9	18.5	17.6	11.4	13.4	12.1	20.4	13.5
Total Expenditure	10,499	11,353	11,960	12,598	12,734	12,784	13,378	13,694	46,410	52,590
<b>EBITDA</b>	<b>2,622</b>	<b>2,698</b>	<b>2,712</b>	<b>2,627</b>	<b>2,698</b>	<b>2,863</b>	<b>3,255</b>	<b>3,377</b>	<b>10,659</b>	<b>12,194</b>
Margins (%)	20.0	19.2	18.5	17.3	17.5	18.3	19.6	19.8	18.7	18.8
Depreciation	401	435	413	507	471	489	498	496	1,755	1,955
Interest	82	88	78	78	58	79	76	91	325	304
Other Income	230	303	294	514	257	1,260	584	819	1,341	2,921
<b>PBT</b>	<b>2,370</b>	<b>2,478</b>	<b>2,516</b>	<b>2,556</b>	<b>2,426</b>	<b>3,556</b>	<b>3,265</b>	<b>3,609</b>	<b>9,920</b>	<b>12,857</b>
Tax	350	271	237	312	286	533	490	619	1,169	1,928
Rate (%)	14.7	10.9	9.4	12.2	11.8	15.0	15.0	17.2	11.8	15.0
<b>Reported PAT</b>	<b>2,020</b>	<b>2,207</b>	<b>2,278</b>	<b>2,245</b>	<b>2,140</b>	<b>3,304</b>	<b>3,057</b>	<b>3,201</b>	<b>8,750</b>	<b>11,703</b>
Minority Interest	57	57	38	16	39	63	63	86	168	250
<b>Recurring PAT</b>	<b>1,963</b>	<b>2,150</b>	<b>2,240</b>	<b>2,229</b>	<b>2,101</b>	<b>2,195</b>	<b>2,713</b>	<b>2,905</b>	<b>8,582</b>	<b>9,913</b>
YoY Change (%)	40.1	34.1	39.5	1.1	7.0	2.1	21.1	30.3	25.9	15.5
Margins (%)	15.0	15.3	15.3	14.6	13.6	14.0	16.3	17.0	15.0	15.3

E: MOSL Estimates

### Emerging markets and Japan lead growth

Net sales grew 17.6% YoY to INR15.4b (v/s our estimate of 13.6% YoY growth to INR14.9b). EBITDA grew 3% YoY to INR2.7b (v/s our estimate of INR2.76b) due to absence of generic Lotrel sales in the US, and higher staff and other expenses. Adjusted PAT grew 7% YoY to INR2.1b, in line with our estimate.

Topline growth was led by 61% growth in emerging market formulations (partly led by low base), 28% increase in Japan revenue and 17% growth for India formulations. As expected, the formulations portfolio in the US and EU regulated markets reported muted performance, with just 7% growth. US generics sales grew just 6.5%, impacted by high base and lack of any major product launches. US branded sales have grown ~9%.

### Sales mix (INR m)

	1QFY12	1QFY11	YoY (%)	4QFY11	QoQ (%)
<b>Total India Sales</b>	<b>5,556</b>	<b>4,724</b>	<b>17.6</b>	<b>4,101</b>	<b>35.5</b>
% of sales	36.0	35.8		26.5	
APIs	587	482	21.8	676	-13.2
Formulations	4,969	4,242	17.1	3,425	45.1
<b>Total Regulated Market Sales</b>	<b>7,167</b>	<b>6,419</b>	<b>11.6</b>	<b>8,014</b>	<b>-10.6</b>
% of sales	46.4	48.7		51.7	
APIs**	154	154	-0.3	161	-4.6
Formulations	7,013	6,265	11.9	7,853	-10.7
<b>Total Un-regulated Market Sales</b>	<b>2,710</b>	<b>2,048</b>	<b>32.3</b>	<b>3,180</b>	<b>-14.8</b>
% of sales	17.6	15.5		20.5	
APIs**	1,362	1,211	12.4	1,659	-17.9
Formulations**	1,348	837	61.1	1,522	-11.4
Others**	0	0		207.2	N.A.
<b>Gross Sales</b>	<b>15,432</b>	<b>13,191</b>	<b>17.0</b>	<b>15,502</b>	<b>-0.5</b>

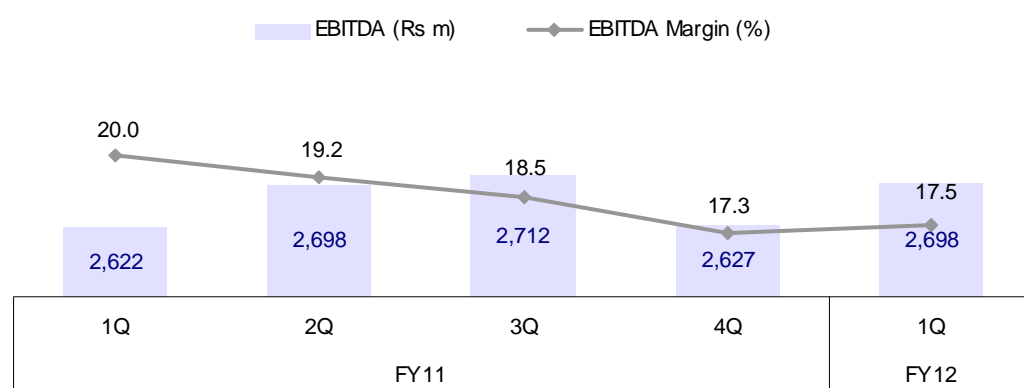
\*\* MOSL estimates

Source: Company/MOSL

### EBITDA in line with estimate

EBITDA grew 3% to INR2.7b (v/s our estimate of INR2.76b) while EBITDA margin contracted by 250bp to 17.5% (v/s our estimate of 18.5%). EBITDA was impacted by absence of high margin generic Lotrel sales in the US, and higher staff and other expenses. Adjusted PAT grew 7% to INR2.1b, in line with our estimate.

### Trend in EBITDA margins



Source: Company/MOSL

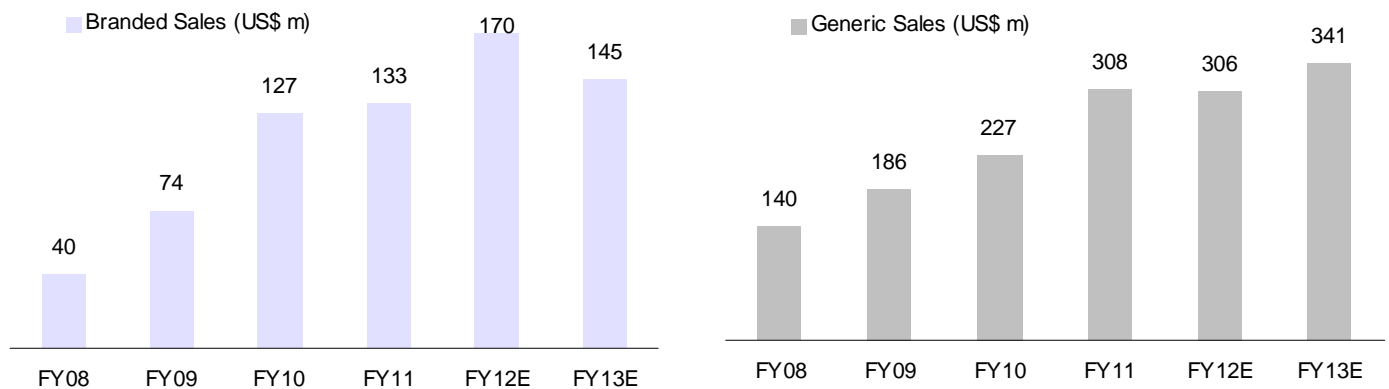
While the management has not given any official guidance, it expects to sustain past growth momentum. In FY11, the company clocked 20% topline and 27% EPS growth. It has guided strong growth in 2HFY12, led by recovery of growth in the US generics business (driven by new launches) and sustained double-digit growth for Japan and India formulations businesses.

### Niche/patent challenge product launches in US to continue

Lupin has differentiated itself from other generic companies by launching at least one low-competition product in the US every year for the past few years. We believe this trend is likely to continue, with the potential launch of 2-3 such products in FY12 (Fortamet, Femcon, and Geodon) and commercialization of its oral contraceptive and ophthalmology products from FY13.

Lupin has already made 25-30 filings in the oral contraceptive segment as a part of its strategy to exploit niche and low-competition segments. To further strengthen this portfolio, it is planning to file products in the ophthalmology and dermatology segments in FY12. Overall, the company has a strong pipeline of 101 ANDAs pending approval, of which 15 are FTFs with four likely to be granted sole 180-day exclusivity while the remaining are eligible for shared 180-day exclusivity.

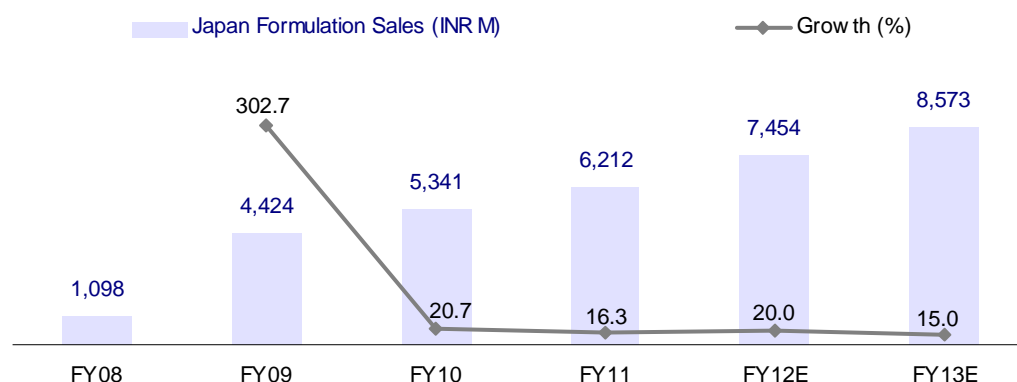
### Lupin: US business ramp-up



Source: Company/MOSL

### Better positioned to exploit the Japanese market

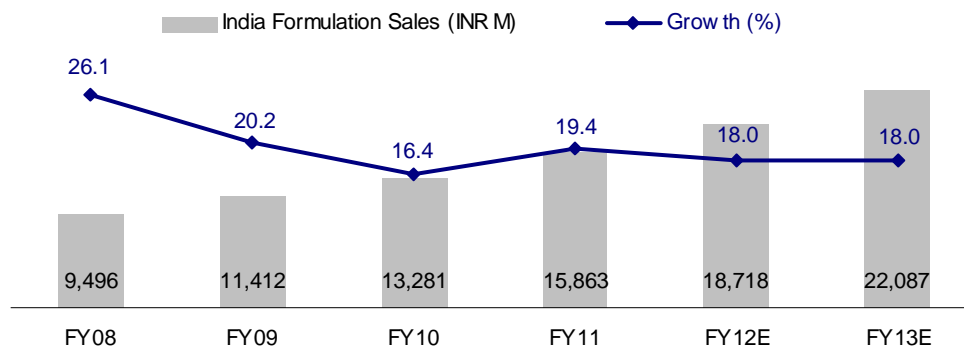
Given its entry in the Japanese generics market through the Kyowa acquisition (in FY08), Lupin is better positioned to exploit the emerging opportunity in this market. It has recorded 18% CAGR in Japan revenues for FY09-11, led mainly by new launches and volume growth, despite the price reductions mandated by the government in FY11. The company expects to launch 6-7 new products in Japan during FY12 as well, of which it has already launched four products in 1QFY12. We forecast a 17% CAGR for Lupin's Japanese business over FY11-13.

**Lupin: US business ramp-up**

Source: Company/MOSL

**Traction in domestic formulations to continue**

Lupin has been driving strong growth in its domestic formulations business in the past three years (18% revenue CAGR for FY09-11), led mainly by entry into new therapeutic segments, expansion of field force and gradually increasing penetration in tier-II towns and rural areas. These initiatives have been supported by aggressive pace of new launches of 40-50 products/line-extensions per year. The company expects to continue with this pace of new launches and has guided for sustaining growth momentum in the coming years as well. We model in 18% CAGR over FY11-13 for Lupin's domestic formulations revenue.

**Lupin: US business ramp-up**

Source: Company/MOSL

**Valuation and view**

Lupin is likely to witness gradual improvement in underlying fundamentals, led by an expanding US generics pipeline, niche/Para-IV opportunities in the US, strong performance in emerging markets (including India), and sustained traction in the Japanese business. We expect Lupin's core operations (excluding one-off upsides) to record 14-15% revenue CAGR over FY11-13 despite the likely generic competition for Suprax in the US. We expect EPS of Rs22.3 for FY12 (up 15.5%) and Rs25.7 for FY13 (up 15.2%). Our estimates do not include potential Para-IV and OC upsides but take into account the likely generic competition for Suprax (thus impacting FY13 EPS). Any out-of-court settlement for Suprax patent litigation is likely to raise our earnings for FY13. The stock trades at 20.1x FY12E and 17.5x FY13E EPS, with sustained RoE of 25-27%. Maintain **Buy** with a target price of Rs514 (20x FY13E EPS).

## Lupin: an investment profile

### Company description

Lupin is one of the second tier Pharma companies that is actively targeting the regulated generics markets. Historically very strong in the anti-TB segment, it has over the years built up expertise in fermentation-based products and segments like cephalosporins, prils and statins. Lupin is now a fully integrated company, with manufacturing capabilities in APIs and formulations and a direct marketing presence in the target markets.

### Key investment arguments

- In the process of building a strong pipeline for the US market through aggressive filings - benefits expected to flow in over the next couple of years.
- Strategy of focusing on niche, low-competition products for the US market likely to benefit in the long run

### Key investment risks

- Imperative to enhance profitability of acquired companies which currently have lower margins

### Recent developments

- Signed licensing agreement with Medicis and settled patent litigation pertaining to Solodyn with Medicis.

### Valuation and view

- Valuations at 20.1x FY11E and 17.5x FY12E EPS with sustainable RoE of 30%+.
- Maintain **Buy** with price target of Rs514 (20x FY13E EPS).

### Sector view

- Regulated markets would remain the key sales and profit drivers in the medium term. Japan is expected to emerge as the next growth driver, particularly for companies with a direct marketing presence.
- We are overweight on companies that are towards the end of the investment phase, with benefits expected to start coming in from the next fiscal.

### Comparative valuations

		Lupin	Sun Pharma	DRL
P/E (x)	FY12E	20.1	29.8	23.1
	FY13E	17.5	24.8	19.6
P/BV (x)	FY12E	5.0	4.9	5.2
	FY13E	4.1	4.3	4.6
EV/Sales (x)	FY12E	3.2	8.7	3.5
	FY13E	2.7	7.4	3.1
EV/EBITDA (x)	FY12E	16.8	25.2	18.6
	FY13E	13.8	23.4	15.7

### EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	22.3	-	-
FY13	25.7	-	-

### Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
449	514	14.4	Buy

### Shareholding Pattern (%)

	Jun-11	Mar-11	Jun-10
Promoter	47.0	47.0	47.1
Domestic Inst	19.1	20.0	22.0
Foreign	23.9	22.3	19.4
Others	10.1	10.8	11.5

### Stock performance (1 year)



## Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
<b>Net Sales</b>	<b>37,759</b>	<b>47,405</b>	<b>57,068</b>	<b>64,784</b>	<b>74,127</b>	
Change (%)	39.5	25.5	20.4	13.5	14.4	
Total Expenditure	31,274	38,869	46,410	52,590	59,521	
<b>EBITDA</b>	<b>6,485</b>	<b>8,536</b>	<b>10,659</b>	<b>12,194</b>	<b>14,605</b>	
Margin (%)	17.2	18.0	18.7	18.8	19.7	
Depreciation	880	1,239	1,755	1,955	2,248	
EBIT	5,605	7,297	8,903	10,239	12,357	
Int. and Finance Charges	499	385	325	304	232	
Other Income - Rec.	954	1,445	1,341	2,921	1,625	
PBT before EO item	6,060	8,357	9,920	12,857	13,750	
<b>PBT after EO item</b>	<b>6,060</b>	<b>8,357</b>	<b>9,920</b>	<b>12,857</b>	<b>13,750</b>	
Tax	983	1,360	1,169	1,928	2,063	
Tax Rate (%)	16.2	16.3	11.8	15.0	15.0	
<b>Reported PAT</b>	<b>5,077</b>	<b>6,997</b>	<b>8,750</b>	<b>10,928</b>	<b>11,688</b>	
<b>PAT Adj for EO items</b>	<b>5,077</b>	<b>6,997</b>	<b>8,750</b>	<b>10,163</b>	<b>11,688</b>	
Change (%)	52.2	37.8	25.1	16.1	15.0	
Margin (%)	13.4	14.8	15.3	15.7	15.8	
Less: Minority Interest	62	180	168	250	270	
<b>Adj Net Profit</b>	<b>5,015</b>	<b>6,816</b>	<b>8,582</b>	<b>9,913</b>	<b>11,418</b>	

Consolidated Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Share Capital	828	889	892	892	892	
Fully Diluted Equity Capital	882	889	889	889	889	
Other Reserves	13,420	24,789	31,918	39,473	47,551	
Total Reserves	13,420	24,789	31,918	39,473	47,551	
<b>Net Worth</b>	<b>14,248</b>	<b>25,678</b>	<b>32,811</b>	<b>40,366</b>	<b>48,444</b>	
Minority Interest	143	255	515	515	515	
Deferred liabilities	1,164	1,435	1,411	1,411	1,411	
Total Loans	12,233	11,399	11,624	8,624	5,624	
<b>Capital Employed</b>	<b>27,788</b>	<b>38,767</b>	<b>46,361</b>	<b>50,916</b>	<b>55,994</b>	
Gross Block	18,200	22,937	26,389	30,889	35,389	
Less: Accum. Deprn.	6,188	7,072	9,075	11,030	13,278	
<b>Net Fixed Assets</b>	<b>12,012</b>	<b>15,865</b>	<b>17,313</b>	<b>19,859</b>	<b>22,110</b>	
Capital WIP	2,240	3,579	5,312	5,312	5,312	
Investments	216	264	32	32	32	
Goodwill & Intangibles	3,174	3,197	3,255	3,255	3,255	
<b>Curr. Assets</b>	<b>23,478</b>	<b>27,755</b>	<b>34,967</b>	<b>39,049</b>	<b>44,034</b>	
Inventory	9,572	9,715	12,000	13,605	15,567	
Account Receivables	10,349	11,266	12,558	14,252	16,308	
Cash and Bank Balance	778	2,015	4,201	4,714	4,747	
Others	2,780	4,759	6,208	6,478	7,413	
<b>Curr. Liability &amp; Prov.</b>	<b>13,331</b>	<b>11,893</b>	<b>14,518</b>	<b>16,591</b>	<b>18,748</b>	
Account Payables	11,504	9,649	11,800	12,957	14,825	
Provisions	1,827	2,243	2,718	3,634	3,923	
<b>Net Current Assets</b>	<b>10,147</b>	<b>15,862</b>	<b>20,449</b>	<b>22,459</b>	<b>25,285</b>	
<b>Appl. of Funds</b>	<b>27,788</b>	<b>38,767</b>	<b>46,361</b>	<b>50,916</b>	<b>55,994</b>	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
<b>Basic (Rs)</b>						
<b>EPS (Fully Diluted)</b>	<b>11.4</b>	<b>15.3</b>	<b>19.3</b>	<b>22.3</b>	<b>25.7</b>	
Cash EPS (Fully Diluted)	13.4	18.1	23.2	26.7	30.7	
BV/Share	34.4	57.7	73.5	90.5	108.6	
DPS	2.5	2.8	3.2	6.0	6.4	
Payout (%)	24.3	21.2	18.9	28.6	28.6	
<b>Valuation (x)</b>						
P/E (Fully Diluted)	39.5	29.3	23.3	20.1	17.5	
Cash P/E (Fully Diluted)	33.6	24.8	19.3	16.8	14.6	
P/BV	13.0	7.8	6.1	5.0	4.1	
EV/Sales	5.6	4.4	3.6	3.2	2.7	
EV/EBITDA	32.7	24.6	19.5	16.8	13.8	
Dividend Yield (%)	0.6	0.6	0.7	1.3	1.4	
<b>Return Ratios (%)</b>						
RoE	37.1	34.1	29.3	27.1	25.7	
RoCE	25.6	27.5	25.1	28.2	27.1	
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	2.3	2.3	2.3	2.3	2.2	
Debtor (Days)	99	90	87	87	85	
Inventory (Days)	93	75	77	77	77	
Wkg. Capital Turnover (Days)	98	122	131	127	125	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.9	0.4	0.4	0.2	0.1	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Oper. Profit(Loss) before Tax	6,485	8,536	10,659	12,194	14,605	
Interest/Dividends Recd.	954	1,445	1,341	2,921	1,625	
Direct Taxes Paid	-925	-1,090	-1,193	-1,928	-2,063	
(Inc)/Dec in WC	860	-4,478	-2,401	-1,497	-2,794	
<b>CF from Op. incl EO Exp</b>	<b>7,374</b>	<b>4,414</b>	<b>8,405</b>	<b>11,690</b>	<b>11,374</b>	
(inc)/dec in FA	-4,007	-6,454	-4,996	-4,500	-4,500	
(Pur)/Sale of Investments	-1,520	-49	233	0	0	
<b>CF from Investments</b>	<b>-5,527</b>	<b>-6,503</b>	<b>-4,763</b>	<b>-4,500</b>	<b>-4,500</b>	
Change in Net Worth	-2,281	6,029	300	-250	-270	
Inc/(Dec) in Debt	204	-834	226	-3,000	-3,000	
Interest Paid	-499	-385	-325	-304	-232	
Dividend Paid	-1,235	-1,483	-1,658	-3,123	-3,340	
<b>CF from Fin. Activity</b>	<b>-3,811</b>	<b>3,327</b>	<b>-1,457</b>	<b>-6,677</b>	<b>-6,841</b>	
<b>Inc/Dec of Cash</b>	<b>-1,964</b>	<b>1,238</b>	<b>2,186</b>	<b>513</b>	<b>33</b>	
Add: Beginning Balance	2,742	778	2,015	4,201	4,714	
<b>Closing Balance</b>	<b>778</b>	<b>2,015</b>	<b>4,201</b>	<b>4,714</b>	<b>4,747</b>	

**N O T E S**

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