

PINC Quick Bite  
 Sector: Pharmaceuticals  
 BSE Sensex : 16,877

**LUPIN**

 Accumulate  
 CMP Rs451  
 TP Rs513

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## Generic Fortamet exclusivity partially lost- no material impact

The District court of Delaware has granted Shionogi Pharma's (Sciele Pharma) motion for preliminary injunction on generic Fortamet thereby prohibiting Lupin from further selling the product in US. We expect this injunction to lead to loss of Lupin's 180-days exclusivity. However, Lupin had partially monetised the opportunity by filling the channels in the two weeks of October 2011 at-risk launch. Further, if Lupin is able to secure favourable judgement in the case then it would receive USD15mn from Shionogi Pharma as part of compensation. As a result, we don't see a material impact of the loss of exclusivity. We are positive on the stock given strong growth across regions (US- OC, India increasing presence in the chronic space and Japan- strong traction expected in the generic pharma space) over the next few years. We maintain 'ACCUMULATE' on the stock with a target price of Rs513.

### Preliminary injunction granted prohibiting generic Fortamet launch

The District court of Delaware has granted Shionogi Pharma's motion for preliminary injunction on generic Fortamet thereby prohibiting Lupin from further selling the product in US, till the outcome of the case. However, the court denied the motion of Shionogi Pharma for recall of Lupin's already distributed generic Fortamet during the two weeks of at-risk launch in October 2011. The court also ordered Shionogi Pharma to deposit a security bond of USD15mn for losses likely to be suffered by Lupin in next one year, pending the outcome of the case. Earlier on Sept 30, 2011, Lupin had launched the generic Fortamet at-risk triggering its 180-days exclusivity. However on October 12, 2011 Shionogi Pharma filed a preliminary injunction in court to prohibit Lupin from further selling of the product. The court on October 17th, 2011 issued an order enforcing standstill agreement whereby Lupin agreed not to sell any generic Fortamet in US until the next court hearing concerning the preliminary injunction.

### Generic Fortamet exclusivity partially monetised

Lupin has already lost one month of exclusivity on account of the standstill agreement and is likely to lose the remaining exclusivity on back of the injunction. Further, Watson and Mylan are also expected to launch the product in CY2012. Generic Fortamet (USD65mn brand sales) was expected to contribute USD14mn in sales and USD10mn (NPV of Rs 1/ share) in profit to Lupin during the exclusivity period of 180-days. However, during the two weeks of at-risk launch in October 2011, Lupin was able to fill the channels for couple of months there by partially monetizing the opportunity. As a result, we don't expect Lupin to be substantially impacted by the grant of preliminary injunction. Further, the denial of recall and security bond of USD15mn by Shionogi Pharma is a bit positive, if the outcome is in Lupin's favour.

### VALUATIONS AND RECOMMENDATION

The stock is trading at 21.2x FY12E and 18.8x FY13E earnings. We are positive on the stock given strong growth across regions (US- OC, India increasing presence in the chronic space and Japan- strong traction expected in the generic pharma space) over the next few years. We maintain 'ACCUMULATE' on the stock with a target price of Rs513.

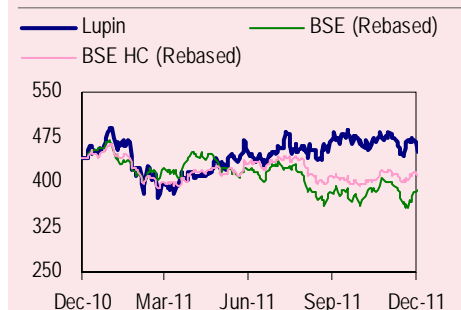
#### KEY FINANCIALS (CONSOLIDATED)

	(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	37,967	47,405	56,477	66,466	76,620
YoY Gr. (%)	40.3	24.9	19.1	17.7	15.3
Recurring EBITDA	6,694	8,536	10,067	11,499	13,792
OPM (%)	17.6	18.0	17.8	17.3	18.0
Reported Net Profit	5,224	6,816	8,624	9,482	10,709
YoY Gr. (%)	28.0	30.5	26.5	9.9	12.9

#### KEY RATIOS

Dil EPS (Rs)	12.6	15.3	19.3	21.3	24.0
ROCE (%)	26.1	26.9	24.8	23.7	23.2
ROE (%)	38.6	34.1	29.5	26.0	24.2
P/E (x)	35.8	29.4	23.3	21.2	18.8
EV/Sales (x)	5.2	4.3	3.6	3.0	2.6
EV/EBITDA (x)	29.2	24.1	20.2	17.4	14.2

#### RELATIVE PERFORMANCE



#### PERFORMANCE (%)

	1M	3M	12M
Absolute	(7.5)	(5.0)	1.7
Relative	(2.8)	(2.4)	17.2

**Consolidated Financials**

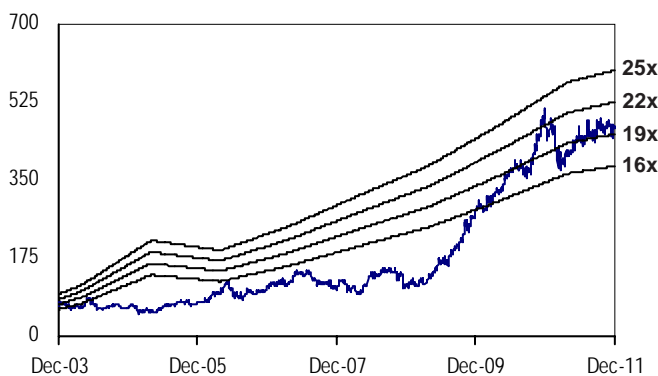
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Sales	37,967	47,405	56,477	66,466	76,620
Growth (%)	40.3	24.9	19.1	17.7	15.3
Gross Profit	21,924	27,711	34,097	39,879	45,972
Growth (%)	42.1	26.4	23.0	17.0	15.3
EBITDA	6,694	8,536	10,067	11,499	13,792
Growth (%)	53.6	27.5	17.9	14.2	19.9
Other Income	954	1,445	1,931	2,045	1,650
Interest expense	499	385	325	344	354
Depreciation	880	1,239	1,712	1,945	2,224
EBT	6,269	8,357	9,962	11,255	12,863
Tax Provision	983	1,360	1,169	1,773	2,154
Tax rate	15.7	16.3	11.7	15.8	16.7
Minority Interest	62	180	168	-	-
Reported Net Profit	5,224	6,816	8,624	9,482	10,709
Growth (%)	28.0	30.5	26.5	9.9	12.9
Reported EPS (Rs)	12.6	15.3	19.3	21.3	24.0
EPS Growth (%)	26.8	21.5	26.1	9.9	12.9

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	6,269	8,357	9,963	11,255	12,863
Depreciation	880	1,239	1,712	1,945	2,224
Total Tax Paid	(1,068)	(1,670)	(2,459)	(1,069)	(1,801)
Chg in working capital	(1,739)	(1,366)	(1,510)	(1,508)	(2,392)
Other operating activities	563	-	-	-	-
Cash flow from oper (a)	4,904	6,560	7,705	10,623	10,894
Capital Expenditure	(3,387)	(6,692)	(4,276)	(4,895)	(4,420)
Chg in investments	(183)	(111)	30	-	-
Other investing activities	(1,527)	(136)	(101)	-	-
Cash flow from inv.(b)	(5,097)	(6,939)	(4,348)	(4,895)	(4,420)
Free cash flow (a+b)	(192)	(379)	3,357	5,728	6,474
Equity raised/(repaid)	54	107	138	-	-
Debt raised/(repaid)	(246)	2,895	1	(284)	948
Dividend (incl. Tax)	(983)	(1,262)	(1,432)	(2,219)	(2,506)
Other financing activities	(496)	-	-	-	-
Cash flow from fin. (c)	(1,672)	1,741	(1,293)	(2,503)	(1,558)
Net chg in cash (a+b+c)	(1,864)	1,361	2,064	3,225	4,916

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	828	889	892	892	892
Reserves & surplus	13,420	24,789	31,918	39,182	47,385
Shareholders' funds	14,248	25,678	32,810	40,074	48,277
Minorities interests	143	255	515	515	515
Total Debt	12,233	11,399	11,624	11,340	12,288
Capital Employed	26,623	37,332	44,950	51,930	61,080
Net fixed assets	17,425	22,640	25,880	28,830	31,026
Cash & Cash Eq.	778	2,015	4,201	7,427	12,344
Other current assets	9,369	13,847	16,248	17,756	20,148
Investments	216	264	32	32	32
Deferred tax Assets	(1,164)	(1,435)	(1,411)	(2,115)	(2,469)
Total Assets	26,623	37,332	44,950	51,930	61,080

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	17.6	18.0	17.8	17.3	18.0
Net Margin (%)	13.8	14.4	15.3	14.3	14.0
Div. Yield (%)	0.5	0.6	0.7	0.9	1.0
Net debt/Equity (x)	0.8	0.4	0.2	0.1	(0.0)
Net Working Capital (days)	90	107	105	98	96
ROCE (%)	26.1	26.9	24.8	23.7	23.2
RoE (%)	38.6	34.1	29.5	26.0	24.2
EV/Net Sales (x)	5.2	4.3	3.6	3.0	2.6
EV/EBITDA (x)	29.2	24.1	20.2	17.4	14.2
PER (x)	35.8	29.4	23.3	21.2	18.8
PCE (x)	32.2	26.2	20.5	18.5	16.4
Price/Book (x)	13.1	7.8	6.1	5.0	4.2

1-Year forward P/E Band



Key Assumptions

	FY2012E	FY2013E	CAGR (FY11-13E)
US	23,830	26,902	15.7%
Japan	7,292	8,913	19.8%
Europe	2,571	3,645	39.3%
RoW	5,426	6,835	22.9%
Domestic	18,668	21,676	17.4%
API	9,052	9,299	5.2%
Total	66,839	77,271	16.6%

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
<b>BUY</b>	<b>More than 15</b>	<b>More than 20</b>
<b>Accumulate</b>	<b>5 to 15</b>	<b>10 to 20</b>
<b>Reduce</b>	<b>(-)5 to +5</b>	<b>0 to 10</b>
<b>Sell</b>	<b>Below (-)5</b>	<b>Less than 0</b>



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