

Lupin

Performance Highlights

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg qoq	2QFY2012	% chg yoy
Net sales	2,239	2,219	0.9	1,742	28.6
Other income	66	58	13.0	32	103.1
Operating profit	454	423	7.3	373	21.6
Interest	10	10	0.4	7	52.1
Net profit	290	280	3.4	267	8.6

Source: Company, Angel Research

For 2QFY2013, Lupin's net sales grew by 28.6% yoy to ₹2,239cr, above our expectation of ₹2,058cr. However, the OPM for the quarter stood at 20.3%, higher than our estimate of 19.1%. The net profit came in at ₹290cr, higher than our expectation of ₹270cr. **We continue to maintain our Buy view on the stock.**

Better than expected numbers: Lupin reported net sales of ₹2,239cr, up 28.6% yoy, higher than our estimate. The company's gross margin came in lower at 60.3%, ie lower than the last corresponding period (65.7%). However, inspite of the same, on the back of lower R&D expenses, the OPM came in at 20.3%, higher than our expectation of 19.1% (but lower than 21.4% in 2QFY2012). Inspite of the robust operating profit growth the net profit grew only by 8.6% yoy on account of higher taxation and interest expenditure; the net profit for the quarter stood at ₹290cr.

Outlook and valuation: We expect Lupin's net sales to post a 19.3% CAGR to ₹10,082cr and earnings to report a 26.5% CAGR to ₹31.1/share over FY2012–14E. Currently, the stock is trading at 21.6x and 18.1x FY2013E and FY2014E earnings, respectively. **We maintain our Buy recommendation on the stock with a target price of ₹647.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	5,832	7,083	8,426	10,082
% chg	23.0	21.4	19.0	19.7
Net profit	863	868	1,167	1,388
% chg	26.5	0.6	34.4	19.0
EPS (₹)	19.3	19.4	26.1	31.1
EBITDA margin (%)	18.7	19.8	19.7	20.0
P/E (x)	29.1	29.0	21.6	18.1
RoE (%)	29.5	23.8	25.8	24.7
RoCE (%)	21.0	21.8	21.4	22.5
P/BV (x)	7.8	6.4	5.1	4.1
EV/sales (x)	4.5	3.8	3.2	2.6
EV/EBITDA (x)	24.3	19.0	16.0	12.9

Source: Company, Angel Research

BUY

CMP	₹563
Target Price	₹647

Investment Period	12 Months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	25,164
Net Debt (₹ cr)	685
Beta	0.2
52 Week High / Low	632 / 410
Avg. Daily Volume	72,173
Face Value (₹)	2
BSE Sensex	18,710
Nifty	5,691
Reuters Code	LUPN.BO
Bloomberg Code	LPC@IN

Shareholding Pattern (%)	
Promoters	46.9
MF / Banks / Indian Fls	16.2
FII / NRIs / OCBs	28.3
Indian Public / Others	8.6

Abs. (%)	3m	1yr	3yr
Sensex	10.9	11.5	11.3
Lupin	(1.3)	20.8	124.6

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Exhibit 1: 2QFY2013 – Consolidated performance

Y/E March (₹ cr)	2QFY2013	1QFY2013	% chg (qoq)	2QFY2012	% chg (yoy)	1HFY2013	1HFY2012	% chg
Net sales	2,239	2,219	0.9	1,742	28.6	4,458	3,285	36
Other income	66	58	13.0	32	103.1	108	58	85
Total income	2,305	2,277	1.2	1,774	29.9	4,566	3,343	37
Gross profit	1,349	1,400	(3.6)	1,144	18.0	2,750	2,070	33
Gross margin	60.3	63.1		65.7		61.7	63.0	
Operating profit	454.1	423.0	7.3	373	21.6	894	643	39
OPM (%)	20.3	19.1		21.4		20.1	19.6	
Interest	10	10	0.4	7	52.1	20	12	61
Dep. & amortisation	69	65	5.7	52	32.4	134	99	35
PBT	441	406	8.6	347	27.0	847	589	44
Provision for taxation	144	121	19.1	75	91.6	265	104	155
Reported net profit	297	285	4.1	272	9.2	582	486	20
Less : exceptional items	-	-		-		-	-	
MI & share in associates	7	5	49.4	5	41.4	12	9	31
PAT after exceptional items	290	280	3.4	267	8.6	571	477	20
EPS (₹)	6.5	6.3		6.0		12.8	10.7	

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – Actual vs Angel estimates

₹ cr	Actual	Estimates	Variation
Net Sales	2,239	2,058	9
Other Income	66	32	103
Operating Profit	454	393	16
Deprecation	69	65	6
Tax	144	75	92
Net Profit	290	270	7.2

Source: Company, Angel Research

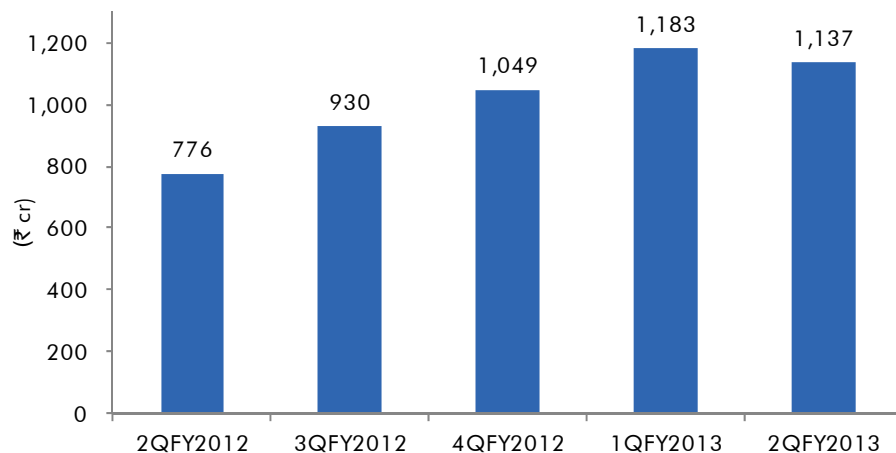
Revenue growth continues, up 28.6% yoy: Lupin reported net sales of ₹2,239cr, registering a growth of 28.6% yoy, which is above our estimate. Export formulation sales grew by 30% yoy to ₹2,000cr during the quarter. Indian formulations on the other hand grew by 18% yoy to ₹606cr for the quarter.

The company's key markets, the US, grew strongly during the quarter, registering a 20.0% yoy sales growth. On the other hand, Japan, Lupin's second most important market, grew by 85% yoy aided by the Irom acquisition. On an organic basis, the region posted a yoy growth of 10% during the period.

On the domestic front, India formulation sales grew by 18% yoy to ₹606cr, contributing 27.0% to the company's overall sales.

On the regulatory front, Lupin filed 2 abbreviated new drug applications (ANDAs) taking the cumulative ANDA filings to 178, with the company having received 65 approvals till date. Further, 2 marketing authorization applications (MAAs) were also filed with European Authorities during 2QFY2013.

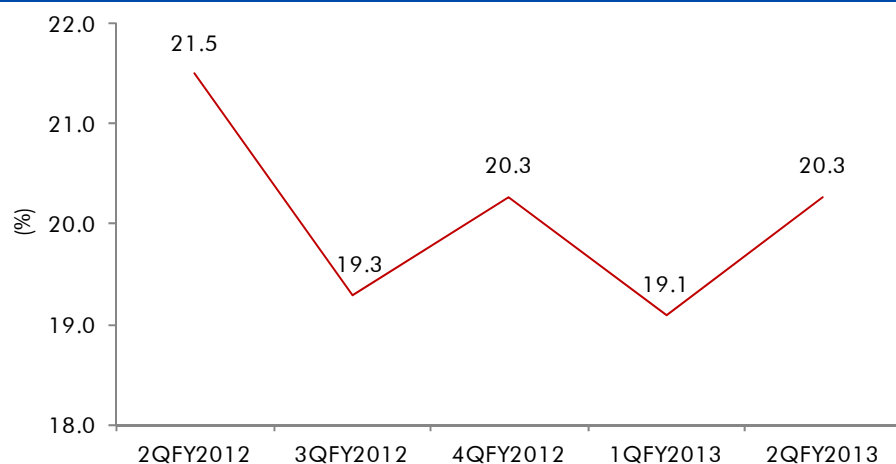
Exhibit 3: Advanced markets – Sales trend



Source: Company, Angel Research

OPM better than expected at 20.3% : The company’s gross margin came in lower at 60.3%, lower than in the last corresponding period (65.7%). However, in spite of the same, on the back of lower R&D expenses, the OPM came in at 20.3%, higher than our expectation of 19.1% (but lower than 21.4% in 2QFY2012).

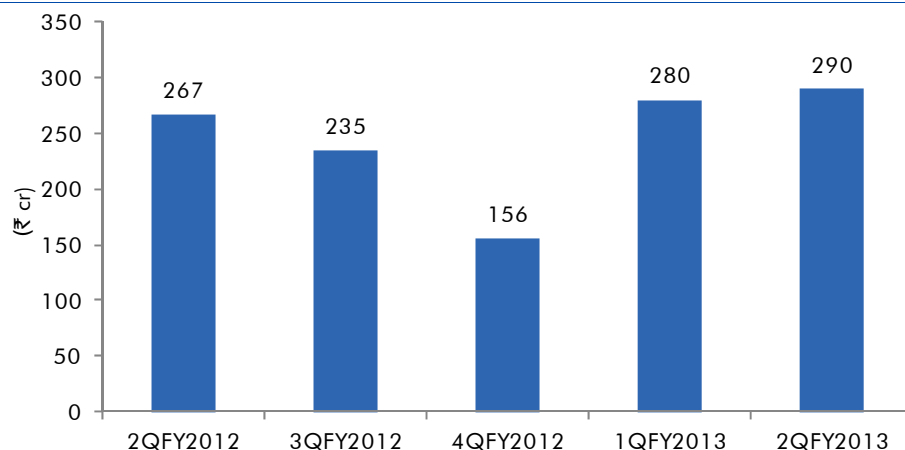
Exhibit 4: OPM trend



Source: Company, Angel Research

Net profit growth higher than our estimates: In spite of the robust operating profit growth, the net profit grew only by 8.6% yoy on account of higher taxation and interest expenditure; the net profit for the quarter stood at ₹290cr.

Exhibit 5: Net profit trends

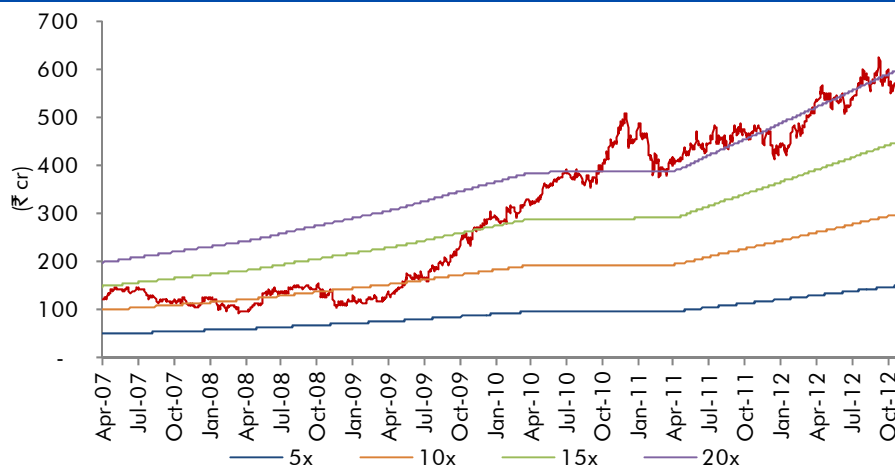


Source: Company, Angel Research

Conference call takeaways

- Management maintains its revenue guidance of US\$3bn by FY2015.
- The share of US branded sales to be ~10% of its sales in FY2015
- For FY2013-FY2014, the management has reinforced ~20% growth in the Indian market.
- In the US market, for FY2013, the company plans to file over 30 ANDAs. It plans to launch around 20 ANDAs in FY2013, including 10 oral contraceptives (OCs). The company plans to launch 120 products over the next three years, addressing a market opportunity of US\$48bn.
- Sales of OCs will pick up after the successful USFDA visit of its Indore facility.
- R&D expenditure is expected to be around 6% of sales for FY2013 from 7-8% guided earlier.
- Capex during FY2013 is expected to be around US\$100-110mn.
- Tax rate is expected to be around 28-29% of PBT in FY2013.

Exhibit 6: One-year forward P/E band



Source: Company, Angel Research

Recommendation rationale

- **US market – the key driver:** The high-margin branded generic business has been the key differentiator for Lupin in the Indian pharma space. The company has further cemented its position in the segment by acquiring rights for the *Antara* product.

On the generic turf, Lupin is currently the fifth largest generic player in the US in terms of prescriptions.

Currently, the company's cumulative filings stand at 173, of which 64 have been approved. Lupin plans to launch 20 products in the US in FY2013 and another 80 products over the next three years. As of FY2012, Lupin had 86 Para IV, of which 21 are first to file (FTFs), addressing a market size of US\$10bn. In the OC segment, the company plans to launch 10 ANDAs in FY2013. As per the management, OCs could contribute US\$100mn to the company's top-line over the next two to three years.

- **Domestic formulations on a strong footing:** Lupin continues to make strides in the Indian market. Currently, Lupin ranks no. 5, climbing up from being no. 11 seven years ago. Lupin has been the fastest growing company among the top five companies in the domestic formulation space, registering a strong CAGR of 20.0% over the last four years. Six of Lupin's products are among the top 300 brands in the country. Lupin introduced 30 new products in the Indian market in FY2012 and has a strong field force of 4,800 medical representatives (MRs).
- **First-mover advantage in Japan:** Lupin figures among the few Indian companies with a formidable presence in the world's second largest pharma market. The Japanese government has introduced a new policy and regulatory reforms to increase generic drugs' contribution from a relatively low 17% in CY2007 to 30% of prescriptions by CY2012. This is estimated to open up a US\$10bn opportunity for global generic players.

Valuations

We expect Lupin's net sales to post a 19.3% CAGR to ₹10,082cr and earnings to report a 26.5% CAGR to ₹31.1/share over FY2012–14E. Currently, the stock is trading at 21.6x and 18.1x FY2013E and FY2014E earnings, respectively. **We maintain our Buy recommendation on the stock with a target price of ₹647.**

Exhibit 7: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside		FY2014E		FY12-14E	FY2014E	
				%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	71	91	28.5	7.8	0.8	5.0	14.8	29.4	30.0
Aurobindo Pharma	Neutral	160	-	-	12.7	1.2	8.0	61.1	10.4	16.4
Sanofi India *	Neutral	2,249	-	-	21.5	2.8	18.1	12.0	16.1	17.0
Cadila Healthcare	Accumulate	864	953	10.3	18.8	2.5	12.7	20.5	20.2	26.8
Cipla	Accumulate	365	399	9.3	18.3	3.1	13.7	18.4	16.8	16.6
Dr Reddy's	Accumulate	1,731	1,859	7.4	18.6	2.6	12.5	2.3	15.1	20.8
Dishman Pharma	Neutral	96	-	-	8.5	1.1	5.9	26.6	8.9	10.0
GSK Pharma*	Neutral	1,989	-	-	24.1	4.7	15.1	8.7	38.9	29.0
Indoco Remedies	Buy	65	92	42.5	7.3	0.9	5.9	32.8	15.5	17.0
Ipca labs	Neutral	463	-	-	12.6	1.8	8.7	29.5	26.1	26.0
Lupin	Buy	563	647	14.9	18.1	2.5	12.7	26.5	22.5	24.7
Orchid Chemicals	Neutral	108	-	-	4.9	0.8	5.6	27.8	11.5	7.9
Ranbaxy*	Neutral	540	-	-	18.1	1.9	11.8	44.8	15.8	28.9
Sun Pharma	Neutral	699	-	-	24.7	4.7	11.4	0.1	26.7	18.8

Source: Company, Angel Research; Note: * December year ending

Background

Lupin, established in 1968, is primarily engaged in the manufacture and global distribution of active pharmaceutical ingredients (APIs) and finished dosages. Over the years, the company forayed into US markets through a differentiated export strategy of tapping the branded generics and consequently gaining a large share of the US prescription market. Further to expand its foot-print in the global market, Lupin has prudently adopted the inorganic growth route. In line with this, over the last two years, the company made small acquisitions across geographies, the prominent among these being the acquisition of Kyowa in the growing Japanese market.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	3,824	4,768	5,742	7,072	8,357	10,029
Less: Excise duty	48	27	35	42	85	100
Net sales	3,776	4,741	5,707	7,030	8,272	9,929
Other operating income	84	130	125	53	154	154
Total operating income	3,860	4,871	5,832	7,083	8,426	10,082
% chg	34.4	26.2	19.7	21.4	19.0	19.7
Total expenditure	3,127	3,887	4,641	5,638	6,643	7,947
Net raw materials	1,604	1,969	2,238	2,604	3,168	3,803
Other mfg costs	288	401	526	906	703	844
Personnel	487	587	768	970	1,158	1,365
Other	747	929	1,109	1,159	1,613	1,936
EBITDA	648	854	1,066	1,392	1,630	1,981
% chg	48.8	31.6	24.9	30.6	17.1	21.6
(% of Net Sales)	17.2	18.0	18.7	19.8	19.7	20.0
Depreciation & amortisation	88	124	171	228	233	263
EBIT	560	730	895	1,165	1,397	1,719
% chg	51.0	30.2	22.6	30.2	20.0	23.0
(% of Net Sales)	14.8	15.4	15.7	16.6	16.9	17.3
Interest & other charges	50	38	32	35	82	82
Other Income	11	14	9	14	14	14
(% of PBT)	2	2	1	1	1	1
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	606	836	996	1,196	1,483	1,805
% chg	12.2	37.9	19.2	20.0	24.0	21.7
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	606	836	996	1,196	1,483	1,805
Tax	98	136	117	309	297	397
(% of PBT)	16.2	16.3	11.7	25.8	20.0	22.0
PAT (reported)	507.7	700	879	888	1,186	1,408
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	6	18	17	20	20	20
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	502	682	863	868	1,167	1,388
ADJ. PAT	502	682	863	868	1,167	1,388
% chg	22.8	35.9	26.5	0.6	34.4	19.0
(% of Net Sales)	13.3	14.4	15.1	12.3	14.1	14.0
Basic EPS (₹)	12.1	15.3	19.3	19.4	26.1	31.1
Fully Diluted EPS (₹)	12.1	15.3	19.3	19.4	26.1	31.1
% chg	21.7	26.6	26.1	0.5	34.4	19.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity share capital	83	89	89	89	89	89
Reserves & surplus	1,342	2,479	3,192	3,924	4,925	6,147
Shareholders funds	1,425	2,568	3,281	4,013	5,014	6,237
Minority interest	14	25	52	72	92	112
Total loans	1,223	1,140	1,090	1,640	1,640	1,640
Other Long-Term Liabilities	-	-	56	73	73	73
Long-Term Provisions	-	-	37	67	67	67
Deferred tax liability	116	144	141	144	144	144
Total liabilities	2,779	3,877	4,657	6,010	7,031	8,273
APPLICATION OF FUNDS						
Gross block	1,820	2,294	2,583	3,627	4,127	4,627
Less: Acc. depreciation	619	707	908	1,442	1,675	1,937
Net block	1,201	1,586	1,676	2,185	2,453	2,690
Capital work-in-progress	224	358	490	444	444	444
Goodwill	317	320	381	564	564	564
Investments	22	26	3	3	3	3
Long-Term Loans and Advances			314	394	463	556
Current assets	2,348	2,775	3,222	4,297	5,313	6,667
Cash	78	202	420	402	730	1,167
Loans & advances	278	476	621	309	364	437
Other	1,992	2,098	2,181	3,586	4,219	5,064
Current liabilities	1,333	1,189	1,429	1,878	2,209	2,652
Net current assets	1,015	1,586	1,792	2,420	3,104	4,016
Total assets	2,779	3,877	4,657	6,010	7,031	8,273

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	606	836	996	1,196	1,483	1,805
Depreciation	88	124	171	228	233	263
(Inc)/Dec in working capital	(174)	(448)	(302)	(645)	(356)	(475)
Direct taxes paid	(107)	(136)	(110)	(309)	(297)	(397)
Cash Flow from Operations	413	376	756	470	1,063	1,195
(Inc.)/Dec.in Fixed Assets	(339)	(608)	(422)	(997)	(500)	(500)
(Inc.)/Dec. in Investments	(18)	-	23	-	-	-
Cash Flow from Investing	(357)	(608)	(399)	(997)	(500)	(500)
Issue of equity	5	6	0	-	-	-
Inc./Dec.) in loans	(25)	(83)	(50)	550	-	-
Dividend Paid (Incl. Tax)	(98)	(164)	(166)	(165)	(165)	(165)
Others	(135)	597	77	125	(70)	(93)
Cash Flow from Financing	(253)	356	(138)	510	(235)	(258)
Inc./Dec.) in Cash	(196)	124	219	(18)	327	437
Opening Cash balances	275	78	202	420	402	730
Closing Cash balances	78	202	420	402	730	1,167

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	46.5	36.7	29.1	29.0	21.6	18.1
P/CEPS	39.5	31.1	24.3	22.9	18.0	15.2
P/BV	16.4	9.8	7.7	6.3	5.0	4.0
Dividend yield (%)	0.5	0.6	0.7	0.5	1.1	1.1
EV/Sales	6.5	5.5	4.5	3.7	3.1	2.5
EV/EBITDA	37.7	30.4	24.0	18.8	15.8	12.7
EV / Total Assets	8.8	6.7	5.5	4.3	3.7	3.0
Per Share Data (₹)						
EPS (Basic)	12.1	15.3	19.3	19.4	26.1	31.1
EPS (fully diluted)	12.1	15.3	19.3	19.4	26.1	31.1
Cash EPS	14.2	18.1	23.2	24.5	31.4	37.0
DPS	2.6	3.1	3.9	3.0	5.9	6.2
Book Value	34.4	57.7	73.5	89.9	112.4	139.8
Dupont Analysis						
EBIT margin	14.8	15.4	15.7	16.6	16.9	17.3
Tax retention ratio	83.8	83.7	88.3	74.2	80.0	78.0
Asset turnover (x)	1.5	1.5	1.5	1.4	1.4	1.5
ROIC (Post-tax)	19.1	19.7	20.4	17.7	19.1	20.3
Cost of Debt (Post Tax)	3.4	2.7	2.6	1.9	4.0	3.9
Leverage (x)	0.8	0.6	0.3	0.3	0.0	0.0
Operating ROE	31.1	29.6	25.5	21.7	19.1	20.3
Returns (%)						
ROCE (Pre-tax)	20.8	21.9	21.0	21.8	21.4	22.5
Angel ROIC (Pre-tax)	26.7	28.3	28.1	29.2	28.2	30.2
ROE	37.1	34.1	29.5	23.8	25.8	24.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	2.4	2.4	2.3	2.2	2.3
Inventory / Sales (days)	83	79	73	76	71	76
Receivables (days)	84	85	78	77	80	83
Payables (days)	66	75	116	156	89	88
WC cycle (ex-cash) (days)	93	87	86	87	95	95
Solvency ratios (x)						
Net debt to equity	0.8	0.4	0.2	0.3	0.2	0.1
Net debt to EBITDA	1.8	1.1	0.6	0.9	0.6	0.2
Interest Coverage	11.2	19.0	27.6	32.8	17.0	21.0

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Disclosure of Interest Statement	Lupin
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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