

Institutional Equities
 India Research

Lupin

MANAGEMENT MEET

 Bloomberg: LPC.IN
 Reuters: LPC.BO

HOLD

Performance pre-requisite for premium valuations

Lupin is very positive on the US business particularly the Oral Contraceptive (OC) business. It remains cautious on the new pricing policy. The key for sustaining premium valuations would be ramp up in US (especially OC), sustenance of Suprax. We revise our earnings downwards and Maintain our HOLD rating on the stock.

Oral Contraceptive Market

The company has launched 3 products and is hoping to launch another 10 in the Q3 and Q4 of the current year. Lupin is confident of launching another 10 products in FY14. The entire basket of 28 products would be launched by CY14.

Suprax and Antara

The company is confident of the Suprax brand remaining intact for the next two years. The Fenofibrate market is not growing while the Antara market is growing at 6-7%. The company does not fear that Antara will face a major problem when Tricor is fully genericised in December 2012 due to product superiority and better efficacy.

Pricing Policy

The company currently has 18% of domestic formulations under price control which will increase to 30% under the new NLEM. The impact on cost based pricing could be as high as 4.5-5% on the earnings.

View and Valuation

We revise our revenue estimates downwards on FY13E and FY14E mainly on account of slower ramp up in the US business mainly on account of lower approvals, lowering Tricor revenues in FY13E and removal of Allernaze revenues for FY14E. We downgrade our EPS estimates for FY13E by 3% to Rs 25.7 and for FY14E by 1.7% to Rs 29.3. We downgrade our price target by 1.6% to Rs 615 based on 21x FY2014E. We maintain our HOLD rating on the stock.

Exhibit 1: Key Financials

Y/ E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	48,376	57,852	70,544	91,285	97,675
EBITDA	9,507	11,442	14,162	19,373	21,606
Net Profit	6,185	7,923	8,173	11,575	13,084
EPS(Rs)	13.9	17.8	18.3	25.9	29.3
EBITDA margin(%)	19.7	19.8	20.1	21.2	22.1
PER(x)	39.8	31.2	30.3	21.4	18.9

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

Recommendation

CMP:	Rs554
Target Price:	Rs615
Previous Target Price:	Rs625
Upside (%)	11%

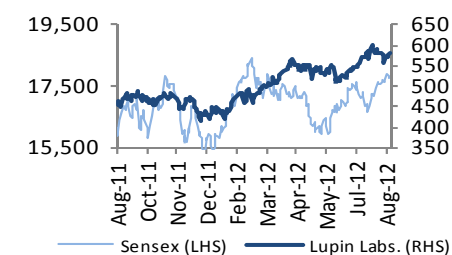
Stock Information

Market Cap. (Rs bn / US\$ mn)	248/4,696
52-week High/Low (Rs)	632/408
3m ADV (Rs mn / US\$ mn)	614/11.6
Beta	0.5
Sensex/ Nifty	18,578/5,648
Share outstanding (mn)	447

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(3.5)	(2.7)	22.1	24.0
Rel. to Sensex	(4.1)	(10.5)	12.3	3.2

Performance



Source: Bloomberg

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Oral Contraceptive Market

The Oral Contraceptive (OC) Space requires a dedicated facility which is a capital intensive. It takes 1.5-2 years to complete the facility. Regulatory aspects are more intricate. It requires two levels of intensity 1) formulations intensity (distribution and packaging) and requires testing and analytical rigours. The company is uniquely placed as it has a full portfolio as against Sun Pharma and Glenmark which have truncated portfolio. Teva and Watson source API from outside.

The positive thing about the OC market is due to big names of products and combination products, these products have become quasi brands. The company has launched 3 products and is hoping to launch another 10 in the Q3 and Q4 of the current year and another 10 products would be launched in FY 14. The entire basket of 28 products would be launched by CY 14. The total OC market size is USD 3.84 bn and the company should do USD 100-125 mn revenues on an annualised basis. We have marginally upgraded our FY 13E and FY 14E OC estimates to USD 32 mn and 82 mn respectively.

Branded prescriptions

This year US branded space should contribute 25-28 % of revenues, the company's endeavour is to increase it to 30% of the total US business. The company is evaluating a couple of opportunities which includes outlicensing the same.

The company is confident of Suprax brand remaining intact for the next two years. The Fenofibrate market is not growing while the Antara market is growing at 6-7 %. The company does not fear that Antara will face a major problem when Tricor is fully genericised in December 2012 as company is of the opinion that despite Omnicef, Augmentin and another brand being present, the company could create a niche in the space and Suprax is among the company's largest brand in the anti-infective space. Positioning and marketing is essential. In case of Antara vis a vis Tricor the product has lower strength, similar bioavailability and smaller size. Promotion at prescription level will help, retailer wont substitute.

Simvastatin

The company has backend, it is a fermentation based product, and the company also makes Lovastatin. It is solely due to this that the company has maintained 30% market share in this product. The company has faced price erosion and prescriptions have declined by 6 % due to genericisation of Atorvastatin.

The company's focus will be on Capital Intensive products, Registration Intensive processes and products which are technical in nature. This would deter the competition.

US business

Yasmin should be launched in the current year while Yaz should be launched next year. Glumetza is a USD 58 mn market, it is a FTF and the same may be launched next year. We have incorporated USD 4 mn and USD 14.5 mn revenues from Yasmin in FY 13E and FY 14E respectively.

Allernaze ; The company had a problem with the device (cap)and the same would have to be re-filed. This would take a minimum of 1.5 years before it is approved. We have removed the upside from this opportunity of USD 36 mn.

In US, the company has leadership status in 20 out of the 42 products. The company has 3 products in the Top 36 products.

Lupin
Drug Pricing norm

Majority of the countries follow market led pricing and discount is offered on pricing for the tender process. The cost based process is very cumbersome and the government is finding it an uphill task to monitor the current 74 drugs under price control. The company currently has 18 % of domestic formulations under price control which will increase to 30 % under the new NLEM. The impact on cost based pricing could be as high as 4.5-5 % on the earnings.

GDUFA

The company will file only those products which are necessary. Our back of the envelope calculations indicate that the impact would be USD 6.5 mn for pending approvals and facility.

Japan

The company had to deal with the challenges and the same has been amply demonstrated with capability. Despite two price cuts the company has maintained margins. The increased capacity of 900 mn units has been expanded to 1400 mn units and is currently operating at full capacity. 4 APIs are currently sourced from Goa. 3 DMFs have been submitted and one is in process.

From is a strategic acquisition and the company is planning to shape up the new venture in line with Kyowa.

ROW

South Africa should clock a 20-25 % growth. They have beaten Ranbaxy in this market and should cross USD 50 mn revenues from Pharma Dynamics in FY 13.

Australia should double the turnover in the current year to USD 25-26 mn. The company has further increased its stake to 87 % from 84 %. Generic Health is the only player in Venlafaxine and Isabella (Yasmin).

They had acquired a full range of OTC brands and should do USD 3-3.5 mn in first full year of operations.

Exhibit 1: Changes in Estimates

in Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
US Branded Formulations	8169	8169	-	8973	10801	(16.9)	Removal of Allernaze from the model
US generics	25780	27651	(6.8)	23317	26186	(11.0)	Lower no of approvals expected
Revenues	91,285	93,227	(2.1)	97,675	102,550	(4.8)	
Raw material costs	33,131	34,004	(2.6)	34,327	37,506	(8.5)	Better gross margins to continue for Suprax, improved gross margin realization in the OC basket.
EBITDA	19,373	19,884	(2.6)	21,606	21,916	(1.4)	Upgrade in EBDITA margins mainly on account
EBITDA margin (in %)	21.2%	21.3%	(0.5)	22.1%	21.4%	N.A	of better gross margins.
Net Profit	11,575	11,942	(3.1)	13,084	13,292	(1.6)	
EPS (in Rs.)	25.9	26.7	(3.1)	29.3	29.8	(1.6)	

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

Exhibit 2: Profit and Loss Statement

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net Revenues	48,376	57,852	70,544	91,285	97,675
Raw Material	19,694	22,379	26,039	33,131	34,327
Staff	5,871	7,677	9,695	12,400	13,888
Other Exps	13,303	16,353	20,647	26,380	27,854
Total Expenditure	38,869	46,410	56,382	71,911	76,069
EBITDA	9,507	11,442	14,162	19,373	21,606
EBITDA margin (%)	19.7	19.8	20.1	21.2	22.1
Other income	159	174	429	506	665
Interest	385	325	355	428	451
Depreciation	1,239	1,712	2,275	2,632	2,933
Profit Before Tax	8,043	9,580	11,961	16,819	18,886
Tax	1,360	1,169	3,086	4,541	5,099
Minority Interest	180	168	199	199	199
Net Profit	6,502	8,242	8,677	12,079	13,588
less Amortisation	317	320	504	504	504
PAT After Amortisation	6,185	7,923	8,173	11,575	13,084
Extraordinaries	373	383	-	-	-
Reported Net Profit	6,557	8,306	8,173	11,575	13,084

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

Exhibit 3: Balance Sheet

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Equity	889	892	893	893	893
Reserves	23,967	30,777	37,589	46,984	57,732
Net worth	24,856	31,669	38,483	47,877	58,625
Deferred Tax Liabilities	1,630	1,792	1,910	1,910	1,910
Short-term Loans	8,050	7,911	10,479	13,556	14,508
Long-term Loans	3,348	2,992	4,330	4,330	4,330
Total Loans	11,399	11,624	14,809	17,885	18,837
Minority Interest	255	515	723	723	723
Liabilities	38,140	45,600	55,924	68,395	80,096
Gross Block	22,937	26,389	33,838	38,712	43,136
Depreciation	7,072	9,075	11,350	13,983	16,916
Net Block	15,865	17,313	22,487	24,729	26,220
Capital work-in-progress	3,579	5,312	4,406	5,033	5,608
Goodwill on Consolidation	3,197	3,255	5,040	5,040	5,040
Less Amortisation	822	1,142	1,646	2,150	2,654
Goodwill	2,375	2,113	3,394	2,890	2,386
Long-term Investments	264	32	28	28	28
Deferred Tax assets	195	381	468	468	468
Inventories	9,715	12,000	17,327	21,297	22,946
Debtors	11,266	12,558	17,318	22,403	23,976
Cash	2,015	4,201	4,025	7,037	14,795
Other Current assets	4,759	6,208	8,241	10,659	11,350
Total Current assets	27,755	34,967	46,911	61,396	73,067
Creditors	7,088	8,965	13,978	17,732	18,757
Other current liabilities	4,804	5,552	7,791	8,416	8,925
Total current liabilities	11,893	14,518	21,770	26,148	27,682
Net current assets	15,862	20,449	25,141	35,248	45,385
Total Assets	38,140	45,600	55,925	68,395	80,096

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

Exhibit 4: Cash Flow

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	7,951	9,411	11,383	16,237	18,168
Change in working capital	(4,478)	(2,401)	(4,868)	(7,095)	(2,380)
Cash flow from operations	3,473	7,010	6,515	9,143	15,789
Other income	159	174	429	506	665
Depreciation and Amortisation	1,556	2,031	2,779	3,136	3,437
Interest paid (-)	(385)	(325)	(355)	(428)	(451)
Dividends paid(-)	(1,436)	(1,575)	(1,661)	(2,180)	(2,336)
Tax paid (-)	(1,360)	(1,169)	(3,086)	(4,541)	(5,099)
Minority interest	(180)	(168)	(199)	(199)	(199)
Extraordinaries	373	383	0	0	0
Goodwill on Consolidation	(23)	(58)	(1,785)	0	0
Deferred tax liabilities	243	161	118	0	0
Deferred tax asset	27	(185)	(87)		
Net cash from operations	2,448	6,279	2,669	5,437	11,806
Capital Expenditure	(6,431)	(4,894)	(6,543)	(5,500)	(5,000)
Free Cash Flow	(3,983)	1,385	(3,875)	(63)	6,806
Change in short-term borrowing	2,050	(139)	2,568	3,077	952
Change in long-term borrowing	(2,884)	(357)	1,338	0	0
Change in borrowings	(834)	(496)	3,906	3,077	952
Change in Investments	(49)	233	4	0	0
Equity issue/buyback	6,097	208	419	0	0
Cash from Financial Activities	5,214	(55)	4,329	3,077	952
Others	7	856	(630)		
Opening cash	778	2,015	4,201	4,025	7,037
Closing cash	2,015	4,201	4,025	7,037	14,795
Change in Cash	1,238	2,186	(177)	3,012	7,758

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

Exhibit 5: Ratios

Ratios	FY10	FY11	FY12	FY13E	FY14E
EV/EBDITA (x)	26.9	22.2	18.2	13.3	11.6
ROE (%)	24.9	25.0	21.2	24.2	22.3
ROCE (%)	25.7	23.7	24.3	27.7	26.0
PE (x)	39.8	31.2	30.3	21.4	18.9
P/S (x)	5.2	4.3	3.6	2.8	2.6
P/BV (x)	9.9	7.8	6.4	5.2	4.2

Source: Company, Karvy Institutional Research, Indian GAAP Consolidated

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

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