

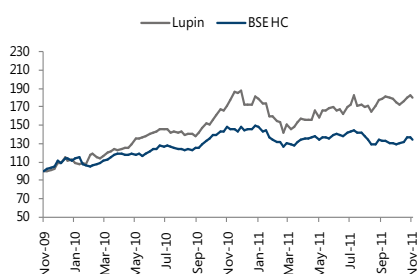
## Result Update – Q2FY12

### Buy

Reco	Maintained
CMP	₹ 475
Target Price	₹ 546
Upside Potential	15%

#### Price Performance

52 wk Hi/Lo	520/363
All time Hi/Lo	520/0.76
6 mnth Average Vol	901936
Stock Beta	0.60



#### Valuation

	FY11	FY12P	FY13P
P/E (x)	24.9	21.1	17.4
EV/EBIDT(x)	6.5	5.2	4.2
RONW (%)	26.3	24.5	23.9
ROCE (%)	20.0	20.9	21.5

#### Peer Valuation

	Sun	Cipla
PE	22.3	18.2
EV/EBIDTA	19.8	14.9

#### Equity Data

Market Cap. (₹ bln)	211
Face value (₹)	2
No of shares o/s (mln)	446

	Sep'10	Sep'11	%ch
Promoters	47.04	46.94	-0.21
DFI's	20.93	17.18	-17.91
FII's	20.61	26.16	26.92
Public	11.42	9.72	-14.8

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## Lupin

### Back in Action- Maintain Buy

Lupin's Q2FY12 results were slightly above our estimates. Net sales grew by 23.6% y-o-y to ₹ 17417mln which was boosted by its performance in US, India, Europe and Japan. EBIDTA grew at 35.3% y-o-y which was aided by licensing income to the tune USD20 mln. However it continues to incur cost related to overheads at new indore facility, addition in field force domestically and site transfer of products for Japan. EBIDTA margin grew by 200 bps and were at 22.8% during quarter. Excluding licensing income, EBIDTA margins stood at 18%. PAT grew by 24.1% y-o-y during the quarter.

#### Advanced markets continues to show better performance

USA formulations grew by 15% y-o-y to ₹ 5520mln aided by branded business which showed strong growth of 19% y-o-y. Suprax portfolio was the major growth driver which grew by 43% y-o-y. However, Aero-chambers & Antara have shown a major decline in this quarter which impacted the overall growth rate of branded business. The generic business grew by 14% y-o-y & its prescription market share has grown to 5.1%. Lupin has launched Metformin ER tablets during the quarter and is entitled to 180 days exclusivity. The company has entered into a licensing agreement with Medicis Pharmaceutical Corporation during the quarter to apply proprietary Lupin formulation technologies under which it received USD 20mln upfront payment. The company has suspended Fortamet sales following a court injunction. Two-three oral contraceptives (OCs) have been launched and started filing for its ophthalmics (7 filings so far with USFDA) which we believe, will lead to the revival in USA generic business.

Japan formulations sales grew by 14% y-o-y in Q2FY12 at ₹ 1780mln. The management expects performance to sustain in the forthcoming quarters. European formulations grew by 25% y-o-y during the quarter.

#### Robust growth in Semi regulated markets

India formulation business grew by 22% to clock in revenues of ₹ 5120mln during the quarter. We believe, tie up with Lilly to distribute Huminsulin range of products would fuel growth in domestic industry. South African business-Pharma Dynamics growth was excellent by 61% y-o-y. Other emerging markets grew by 14% y-o-y. Acquisition of Goanna brand in Australia also contributed to emerging market growth. API business grew by 12.1%.

#### Valuation

We remain positive on Lupin on back of strong pipeline of OCs, Ophthalmics & 20 potential FTFs & domestic segment beating the industry growth rate. At CMP of ₹ 475 the stock is trading at 17.4xFY13P. We maintain Buy with the target Price of ₹ 546 at 20xFY13P.

#### Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Total Income	48499	58195	68334	81561
EBIDTA	9782	11786	14253	17063
APAT	6759	8501	10042	12179
AEPS	15.2	19.1	22.5	27.3
Networth	25679	32811	40925	50891
Debt	11399	11624	8859	7237
Fixed Assets	19444	22626	25295	28002
Net Current Assets	15862	20449	23304	29150

**Exhibit 1: Quarterly Financials**

(in ₹ Mln)	Q2FY12	Q2FY11	y-o-y %	Q1FY12	q-o-q %
Net Sales	17417	14094	23.6	15432	13.0
Other Operating Inc	307	246	25.0	246	25.0
EBIDTA	4040	2987	35.3	2944	37.0
Depreciation	522	435	20.0	471	11.0
Interest cost	664	875	-24.0	577	15.0
Other Income	162	140	16.0	120	35.0
Tax	751	271	199.0	286	163.0
PAT	2669	2150	24.1	2101	27.0
EPS	6.1	4.8	26.3	4.7	27.0

**USA formulations business to remain growth driver**

Company has started launching oral contraceptives (OC) which will boost its generic business. We are expecting OC to generate sales of close to USD 88mln for Lupin in FY13 and expecting 12 OC launches by FY13. Company has also done 7 filings for Ophthalmics which is expected to start contributing to revenues at the end of FY13. Close to 100 ANDA's approval are pending of which 77 are Para IV filings and 20 are potential FTFs. Management has guided for 8-10 ANDA (including 3-4 OCs) launches this year of which 5-6 have already been launched in H1FY12.

As far as branded business is concerned, sales of Suprax have improved y-o-y and we believe that the brand should show better growth in FY12. Company has also launched Suprax chewable tablets which will further add to the sales of the branded business. Lupin is planning to launch Suprax drops in June 2012 to further strengthen Suprax franchisee. Although the launch of Allernaze has got delayed due to changes in manufacturing process but we believe that the company should be able to launch it by Q4FY12.

Looking at the product pipeline of the company we believe that the growth in USA is very much secured and expecting much better performance from the company from H2FY12 onwards.

**Exhibit 2: Revenue by business segment**

Region	Q2FY12	Q2FY11	Gr %	Contribution
A US Sales	5520	4792	15.0	34.0
B EU Sales	461	369	25.0	3.0
C Japan	1780	1567	14.0	11.0
<b>D Advanced Markets Sales (A+B+C)</b>	<b>7761</b>	<b>6728</b>	<b>15.0</b>	<b>47.0</b>
E South Africa	679	422	61.0	4.0
F Others	912	802	14.0	6.0
<b>G Emerging Market Sales (E+F)</b>	<b>1591</b>	<b>1224</b>	<b>30.0</b>	<b>10.0</b>
H India	5120	4191	22.0	31.0
<b>I Formulation (D+G+H)</b>	<b>14472</b>	<b>12143</b>	<b>19.0</b>	<b>88.0</b>
J API	1976	1951	1.0	12.0
<b>K Total Sales (I+J)</b>	<b>16448</b>	<b>14094</b>	<b>17.0</b>	<b>100.0</b>

### **Domestic operations to sustain growth**

Company's domestic formulations business has shown a much improved performance this quarter in comparison to Q1FY12 and has launched 11 products in H1FY12. Company has added 400 employees in its domestic business and taken its field strength to 4000. It has entered into a strategic collaboration with Eli Lilly to promote and distribute Lilly's Huminsulin range of products in India & Nepal. Lupin continues to gain market share in the chronic space and we believe that the current growth rate is sustainable going forward.

### **Japan to be a key growth driver**

Company has shown a growth of 14% in Japan during the quarter and we are expecting the growth to remain strong as there won't be any price cuts in Japan in FY12 and FY13. Majority of the companies in Japan are not vertically integrated and Lupin sees this as an opportunity to supply its APIs to these companies from its manufacturing facilities in India. Also Company's Goa facility has received approval from the Japanese regulatory body and 1<sup>st</sup> product launch is expected in 2012.

### **Outlook**

Management has a vision to become a USD 3bln company by FY14. We remain positive on Lupin on back of strong pipeline of OCs, Ophthalmics & 20 potential FTFs & domestic segment beating the industry growth rate. At CMP of ₹ 475 the stock is trading at 17.4x FY13P. We maintain Buy with target Price of ₹ 546 at 20x FY13P.

## Financial Summary

## Profit &amp; Loss

Particulars (₹ in mln)	FY09	FY10	FY11	FY12P	FY13P
<b>Total Income</b>	<b>38587</b>	<b>48499</b>	<b>58195</b>	<b>68334</b>	<b>81561</b>
Total Expenditure	31016	38717	46410	54080	64498
<b>EBIDTA</b>	<b>7571</b>	<b>9782</b>	<b>11786</b>	<b>14253</b>	<b>17063</b>
<b>EBIDTA %</b>	<b>19.6</b>	<b>20.2</b>	<b>20.3</b>	<b>20.9</b>	<b>20.9</b>
Interest	499	385	325	287	225
OPBDT	7072	9397	11461	13966	16838
Depreciation	880	1239	1712	2040	2365
OPBT	6192	8158	9749	11926	14472
Other Income	46	142	89	98	108
Extraordinary Items	-178	57	125	0	0
PBT	6060	8357	9963	12024	14580
Tax	1211	2155	2643	1804	2187
PAT	4849	6202	7320	10220	12393
<b>APAT</b>	<b>5193</b>	<b>6759</b>	<b>8501</b>	<b>10042</b>	<b>12179</b>
<b>AEPS</b>	<b>12.5</b>	<b>15.2</b>	<b>19.1</b>	<b>22.5</b>	<b>27.3</b>
Sales Growth %	33.4	25.7	20.0	17.4	19.4
Op. Profit Growth %	16.5	29.2	20.5	20.9	19.7
APAT Growth %	19.9	30.2	25.8	18.1	21.3

## Balance Sheet

Particulars (₹ in mln)	FY09	FY10	FY11	FY12P	FY13P
<b>Sources of Funds</b>					
Share Capital	828	889	892	892	892
Reserves & Surplus	13420	24789	31918	40033	49998
Minority Interest	143	255	515	693	907
Secured Loans	7569	8722	7841	6600	5380
Unsecured Loans	4664	2676	3783	2259	1857
Deferred Tax Liability	1387	1630	1792	1792	1792
<b>Total Liabilities</b>	<b>28010</b>	<b>38963</b>	<b>46742</b>	<b>52269</b>	<b>60826</b>
<b>Application of Funds</b>					
Fixed Assets	14252	19444	22626	25295	28002
Goodwill	3173	3198	3255	3255	3255
Investments	216	264	32	35	38
Deferred Tax Asset	223	195	381	381	381
Current Assets	23477	27755	34967	39852	48598
Current Liabilities	13331	11893	14518	16548	19448
<b>Net Current Assets</b>	<b>10146</b>	<b>15862</b>	<b>20449</b>	<b>23304</b>	<b>29150</b>
Misc. Expenses	0	0	0	0	0
<b>Total Assets</b>	<b>28010</b>	<b>38963</b>	<b>46742</b>	<b>52269</b>	<b>60826</b>

**Cash Flow**

Particulars (₹ in mln)	FY09	FY10	FY11	FY12P	FY13P
Internal Accruals	4901	7035	9167	10699	12974
Inc. in Net Current Assets	-861	4478	2401	2504	3752
<b>CF from Operations</b>	<b>5761</b>	<b>2557</b>	<b>6766</b>	<b>8195</b>	<b>9222</b>
Inc. in debt	204	-834	225	-2765	-1622
Inc. in equity	8	61	3	0	0
Other Adj	-865	1848	-1523	-1928	-2214
<b>CF from financing</b>	<b>-653</b>	<b>1076</b>	<b>-1295</b>	<b>-4693</b>	<b>-3836</b>
Fixed asset formation	4617	6076	5185	4710	5072
Inc. in Investments	158	48	-233	3	3
<b>CF from Investing</b>	<b>4775</b>	<b>6124</b>	<b>4952</b>	<b>4713</b>	<b>5076</b>
<b>Change in net cash</b>	<b>333</b>	<b>-2492</b>	<b>519</b>	<b>-1211</b>	<b>310</b>

**Ratio**

Valuation Ratio	FY09	FY10	FY11	FY12P	FY13P
P/E	37.9	31.3	24.9	21.1	17.4
P/BV	13.8	8.2	6.5	5.2	4.2
EV/EBIDTA	27.5	22.6	18.6	15.2	12.5
EV/Sales	5.4	4.5	3.8	3.2	2.6
EPS	12.5	15.2	19.1	22.5	27.3
DPS	0.6	0.6	3.5	4.1	4.7
Book Value	34.4	57.7	73.5	91.7	114.1
ROE	35.2	26.5	26.3	24.5	23.9
ROCE	21.2	19.3	20.0	20.9	21.5

**Solvency Ratio (x)**

Debt/Equity	0.9	0.4	0.4	0.2	0.1
Debt/EBIDTA	1.6	1.2	1.0	0.6	0.4

**Turnover Ratio (x)**

Asset Turnover	1.4	1.2	1.2	1.3	1.3
Fixed Asset Turnover	2.7	2.5	2.6	2.7	2.9
Current Ratio	1.8	2.3	2.4	2.4	2.5
Inventory (days)	112.6	91.6	94.4	93.0	92.2
Debtors (days)	97.9	84.8	78.8	77.0	76.3

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**Key ratings:**

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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