

# Lupin

3 July 2012

Reuters: LUPN.BO; Bloomberg: LPC IN

## Positive Developments In Oral Contraceptive Space

Lupin has received approval from the USFDA for its generic norgestimate and ethinyl estradiol tablets (brand name: Orthotri-cyclen Lo; dosage: 0.18mg/0.025mg, 0.215mg/0.025mg, 0.25mg/0.025mg; market size: US\$421mn; indication: oral contraceptive). In another development, a US district court has invalidated Teva's '969 patent on generic levonorgestrel and ethinyl estradiol (brand name: Seasonique; market size: US\$60mn; indication: oral contraceptive) and ruled in favour of generic players (Lupin and Mylan). Both these developments, while positive, will not have any immediate financial impact on Lupin. We retain our Buy rating on Lupin with a target price of Rs633.

**No immediate financial impact from generic Orthotri-cyclen Lo approval:** The base patent for Orthotri-cyclen Lo expires in December 2019 (including pediatric marketing exclusivity). Currently, Teva (first to file or FTF) and Watson have settled for a December 2015 launch while the litigation continues between the innovator (Johnson & Johnson) and other generic filers (Lupin/Sandoz/Mylan/Sun Pharma/Haupt Pharma-Ranbaxy). The earliest possible launch by Lupin, in our view, can be along with the FTF (assuming a favourable ruling or a settlement with the innovator) and thus we do not see any near-term financial implication.

**Seasonique could be an extended opportunity:** The favourable ruling in the generic Seasonique case translates into Lupin being able to launch the drug on getting approval from the regulator. Currently, Watson is the only generic player in the market (under the brand Amethia, launched at-risk on July'2011 after a US court of appeals denied Duramed/Teva's request for a temporary injunction) which controls more than one-fourth of the market, while the litigation continues for Lupin and Mylan. Assuming a four-player market (as there are no other generic filers, it can be an extended opportunity), 50% price erosion and 20% market share for Lupin, we believe the product can add US\$6mn annually to revenue for the next two-three years.

**Valuation and outlook:** We believe Lupin is slated for a strong FY13 with more than 20 product launches expected in the US, including oral contraceptives, and consistent growth in the domestic market and Japan. We also believe that increased capacity utilisation at its Indore SEZ on commercialisation of oral contraceptives portfolio and launch of limited competition product opportunities in the US would drive expansion in margins and thereby result in a 30% earnings CAGR over FY12-14E. Our target price of Rs633 values Lupin's base business at Rs620 (18.9x FY14E EPS of Rs32.8), to which we add another Rs13.0 for the company's Para IV pipeline. We retain our Buy rating on the stock.

## BUY

Sector: Pharmaceuticals

CMP: Rs537

Target Price: Rs633

Upside: 18%

Praful Bohra

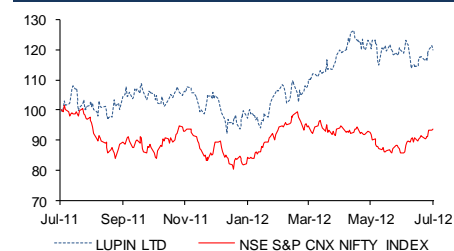
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### Key Data

Current Shares O/S (mn)	446.8
Mkt Cap (Rsbn/US\$bn)	240.1/4.4
52 Wk H / L (Rs)	575/408
Daily Vol. (3M NSE Avg.)	678,731

### One Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
Lupin	(0.2)	23.1	19.7
Nifty Index	9.2	11.0	(6.0)

Source: Bloomberg

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	48,708	58,320	70,829	88,165	97,308
YoY (%)	26.0	19.7	21.4	24.5	10.4
EBITDA	9,839	11,910	14,447	18,675	21,091
EBITDA (%)	20.2	20.4	20.4	21.2	21.7
Adj PAT	6,954	8,665	8,677	12,637	14,640
YoY (%)	36.8	24.6	0.1	45.6	15.9
Fully DEPS	15.3	19.3	19.4	28.3	32.8
RoE (%)	34.8	29.6	23.9	28.2	26.2
RoCE (%)	25.8	24.0	24.4	28.0	26.8
P/E (x)	35.0	27.8	27.6	19.0	16.4
EV/EBITDA (x)	23.8	20.8	17.1	13.2	11.6

Source: Company, Nirmal Bang Institutional Equities Research

## Rating history

Date	Rating	Market Price (Rs)	Target Price (Rs)
4 May 2012	Buy	539	633
11 May 2012	Buy	522	633
16 May 2012	Buy	537	633

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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