

July 27, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs448	Rs501
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,547
Sensex	18,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	7	(4)	15
Rel. to Nifty	0	13	(2)	12

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	LPC@IN
Equity Capital (Rs mn)	879
Face Value(Rs)	10
No of shares o/s (mn)	88
52 Week H/L	440/232
Market Cap (Rs bn/USD mn)	200/4,223
Daily Avg Volume (No of sh)	36612
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	47.0	47.0	47.0
FII/NRI	23.9	22.3	23.5
Institutions	19.1	20.0	18.7
Private Corp	1.0	1.0	1.4
Public	9.0	9.8	9.4

Source: Capitaline

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- Lupin's Q1FY12 results were in-line with expectations. Revenues at Rs15.7bn (up 17%YoY), b) EBITDA at Rs2.9bn (up 4% YoY), and c) APAT at Rs2.1bn (up 7% YoY)
- Revenues were largely driven by robust growth momentum in India, Japan and other emerging markets. US business grew at a lower rate of 7% due to pricing pressure in Lotrel
- Going forward, launch of 10 ANDA's including 3-4 OCs and 2 FTFs in US, 40 new launches in India and 7 new launches in Japan imparts good revenue visibility
- Maintain Buy recommendation with a target price of Rs501

Q1FY12 revenues grew 17% led by growth across business segments

- 17% growth in domestic business vis-à-vis 14% industry growth
- 28% growth in its Japanese subsidiary, due to 4 new launches this quarter & 5 launches in Q4FY11
- 47% growth in SRM markets due to new product launches and deeper penetration
- 7% growth in US due to no new product launch this quarter & pricing pressure in Lotrel, even though there was 23% growth in volume in existing products

Cost pressure dented operating profitability

- EBITDA margins contracted 254bps to 19% led by
 - Pricing pressure in US business
 - Higher employee cost led by increased filed force for its US branded market, R&D team and Indore SEZ plant
 - Higher other expenses due to commissioning of Indore facility
- APAT was up 7% YoY to Rs2.1bn

Going forward, US business to gain momentum in H2FY12 led by

- Launch of 10 new ANDAs by the end of Q2FY12
- FTF Fortamet (US\$83mn, likely launch in H2FY12) – Company is still evaluating its strategy for launch
- Launch of 3-4 OC's in Q3FY12 (addressable market US\$300-500mn)
- FTF Ziprasidone (US1.2bn, likely launch Mar'12)
- Launch of AllerNaze in FY13 – Approval pending due to manufacturing issues

Operating margins are expected to increase to 20% with launch of new products in US & increase in capacity utilization in new plant at Indore.

Valuations

Management has guided for 20-25% growth in top-line and EBITDA margins of 20%+ for FY12. We expect Lupin to report 20% revenue growth in FY12E and 15% growth in FY13E. We expect EBITDA margins to move from 20.4% in FY11 to 19.6% in FY12 and 20% in FY13. Earnings will grow by 14% CAGR over FY11-13E. We maintain our target price on the stock at Rs501 with Buy rating. At CMP, the stock is trading at 21x FY12E and 18x FY13E earnings.

Financials

(Rs mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	48,359	9,728	20.1	6,845	15.4	20.0	34.0	29.1	21.0	7.8
FY11	58,320	11,911	20.4	8,625	19.3	25.6	30.1	23.2	17.6	6.1
FY12E	69,979	13,747	19.6	9,372	21.0	8.7	25.5	21.3	14.8	4.8
FY13E	80,462	16,061	20.0	11,169	25.0	19.2	24.3	17.9	12.5	3.9

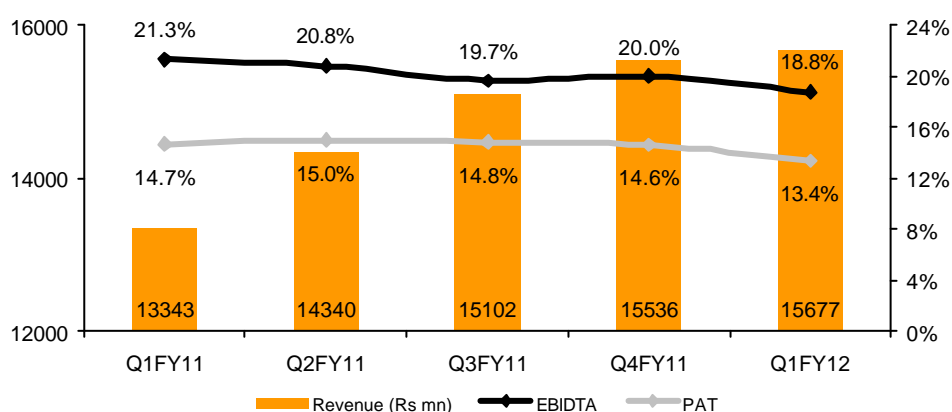
Key Financials – Quarterly

Rs mn

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	13,343	14,340	15,102	15,536	15,677	17.5	0.9	58,320	48,359	20.6
Expenditure	10,499	11,353	12,130	12,428	12,734	21.3	2.5	46,410	38,631	20.1
<i>as % of sales</i>	78.7	79.2	80.3	80.0	81.2	3.2	122.7	79.6	79.9	(30.6)
Consumption of RM	5,036	5,494	5,700	6,150	6,169	22.5	0.3	22,379	19,694	13.6
<i>as % of sales</i>	37.7	38.3	37.7	39.6	39.4	427.0	(23.5)	38.4	40.7	(235.2)
Employee Cost	1,781	1,916	1,977	2,004	2,193	23.1	9.4	7,677	5,872	30.8
<i>as % of sales</i>	13.3	13.4	13.1	12.9	14.0	480.2	108.5	13.2	12.1	102.2
Other expenditure	3,683	3,943	4,453	4,274	4,372	18.7	2.3	16,353	13,065	25.2
<i>as % of sales</i>	27.6	27.5	29.5	27.5	27.9	103.3	37.7	28.0	27.0	102.4
EBITDA	2,844	2,986	2,973	3,108	2,944	3.5	(5.3)	11,911	9,728	22.4
Depreciation	401	435	413	463	471	17.6	1.8	1,712	1,239	38.1
EBIT	2,443	2,551	2,559	2,645	2,472	1.2	(6.5)	11,910	9,727	22.4
Other Income	8	14	34	33	12	42.2	(64.0)	89	282	(68.4)
Interest	82	88	78	78	58	(29.2)	(26.0)	325	385	(15.7)
PBT	2,370	2,478	2,516	2,600	2,426	2.4	(6.7)	9,963	8,148	22.3
Total Tax	350	271	237	312	286	(18.1)	(8.2)	1,169	1,360	(14.0)
Adjusted PAT	2,020	2,207	2,279	2,288	2,140	5.9	(6.5)	8,457	6,665	26.9
(Profit)/loss from JV's/Ass/MI	57.4	56.7	38.3	16.0	39.4	(31.4)	146.3	-168	-180	
APAT after MI	1,963	2,150	2,240	2,272	2,101	7.0	(7.5)	8,625	6,845	26.0
Extra ordinary items								0	-238	
Reported PAT	1,963	2,150	2,240	2,272	2,101	7.0	(7.5)	8,625	6,607	30.5
FD EPS	4.4	4.8	5.0	5.1	4.7	7.0	(7.5)	19.4	15.4	26.0

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	21.3	20.8	19.7	20.0	18.8	-254	-123	20.4	20.1	31	
EBIT	18.3	17.8	16.9	17.0	15.8	-254	-125	20.4	20.1	31	
EBT	17.8	17.3	16.7	16.7	15.5	-229	-126	17.1	16.8	24	
PAT	14.7	15.0	14.8	14.6	13.4	-131	-122	14.8	13.7	113	
Effective Tax rate	14.7	10.9	9.4	12.0	11.8	-296	-19	11.7	16.7	(496)	

Quarterly trend



Quarterly Revenue Break-up

(Rs mn)	1Q'11A	2Q'11A	3Q'11A	4Q'11A	1Q'12A	YoY %	QoQ %	FY11	FY10	YoY %
US - formulations	4,610	4,792	5,000	5,799	4,930	7%	-15%	20,201	16,496	22%
Europe - formulations	356	369	655	436	417	17%	-4%	1,816	1,397	30%
US + Europe - formulations	4,966	5,161	5,655	6,235	5,347	8%	-14%	22,017	17,893	23%
Japan - Kyowa	1,299	1,567	1,727	1,619	1,666	28%	3%	6,212	5,340	16%
South Africa+ANZ+others	738	1,181	1,011	867	1,085	47%	25%	4,741	1,655	187%
India - formulations (Net Sales)	4,242	4,191	4,005	3,907	4,969	17%	27%	15,509	13,303	17%
Total Formulations	11,245	12,100	12,398	12,627	13,067	16%	3%	48,479	38,191	27%
Total API (Net Sales)	1,876	1,951	2,273	2,489	2,102	12%	-16%	8,589	9,546	-10%
Total Sales	13,121	14,051	14,672	15,115	15,169	16%	0%	57,068	47,736	20%

Lupin and Medics enter into US\$58mn Joint R&D Agreement

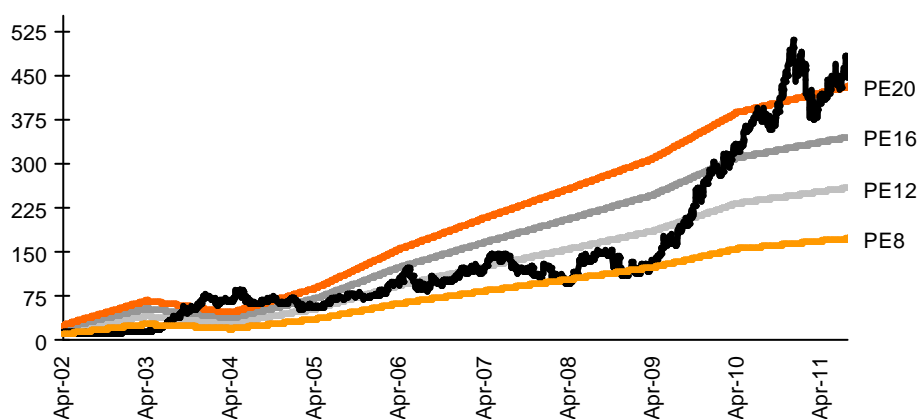
Lupin has entered into a R&D agreement with Medics Pharma to apply proprietary formulation technologies to multiple therapeutic compounds. Lupin has already got upfront payment of US\$20mn from Medics. Further development and commercialization of the licensed products will be carried out by Medics.

Medics will have global exclusive rights (excluding India) for the products developed under the agreement. Lupin will be eligible for future research, development, regulatory and other milestones of up to \$38 million, as well as a single digit royalty on sales by Medics.

Valuations

Management has guided for 20-25% growth in top-line and EBITDA margins of 20%+ for FY12. We expect Lupin to report 20% revenue growth in FY12E and 15% growth in FY13E. We expect EBITDA margins to move from 20.4% in FY11 to 19.6% in FY12 and 20% in FY13. Earnings will grow by 14% CAGR over FY11-13E. We maintain our target price on the stock at Rs501 with Buy rating. At CMP, the stock is trading at 21x FY12E and 18x FY13E earnings.

One-year forward PE Band



Lupin's – Domestic Metrics

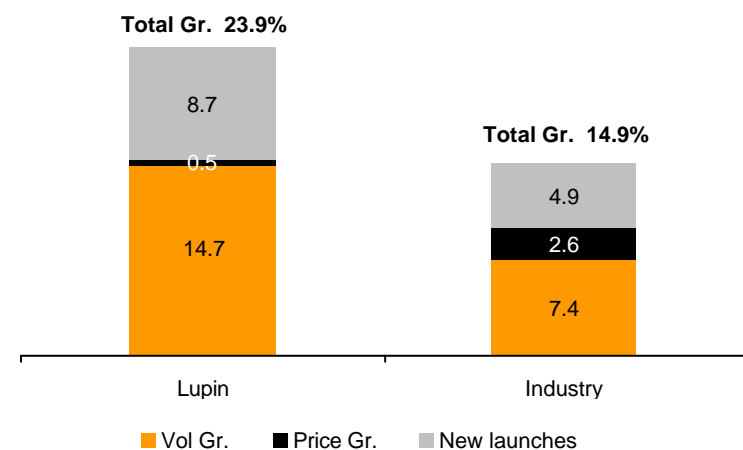
Lupin's therapeutic growth

Rs Cr	FY11 % Contribution	MAT Jun'11	MAT Jun'10	YoY Gr. %
Gastro	6.8%	113.8	93.2	22.1%
CVS	23.6%	396.9	305.7	29.8%
Pain Mgmt	3.2%	54.1	38.6	40.0%
Anti-infective	18.8%	316.1	293.0	7.9%
Anti-diabetic	7.4%	124.8	94.3	32.4%
Respiratory	11.7%	195.9	161.5	21.3%
Dermatology	0.4%	7.2	9.2	-21.7%
Gynecology	0.4%	7.5	4.6	62.8%
CNS	5.3%	89.9	69.7	28.9%
Others	22.3%	374.6	286.9	30.6%
Acute	53.1%	892.5	748.1	19.3%
Chronic	46.9%	788.3	608.6	29.5%
Total Sales	100.0%	1680.9	1356.7	23.9%

Jun'11 MAT growth for Dr. Reddy has been lower at 10%

- Acute segment which contributes 53% grew by 19%
- Chronic segment which contributes 47% grew by 30%

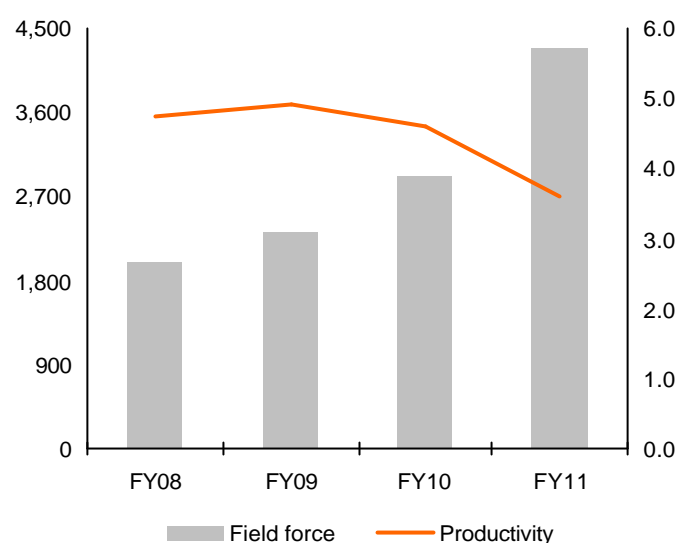
Growth drivers - Volume/ Price/ New launches



- Lupin's out-performance to the industry was due to strong volume uptake in existing brands and 9% growth from new launches during MAT Jun'11
- However, price growth was muted during the same period

Source: AIOCD, Emkay Research

Field force productivity



- The company has hired ~1400 people during FY11
- MR productivity declined due to higher MR additions which are yet to contribute meaningfully to the top line

Top 10 brand performance

Rs Cr	MAT Jun'10	MAT Jun'11	YoY Gr.
Tonact	50.8	63.8	25.7%
Gluconorm G	25.0	37.1	48.7%
Ramistar	29.1	35.2	20.8%
R-Cinex	27.5	33.9	23.1%
Budamet	25.6	33.4	30.7%
Lupenox	28.5	31.4	10.2%
L Cin	29.5	31.1	5.7%
Besiflo	24.0	28.3	18.3%
Tazar	24.7	28.3	14.6%
Rablet	23.3	27.3	17.5%
Total	287.7	349.9	21.6%

- Top 10 brands contribute 21% to the domestic formulation sales
- Top 5 products continue to register strong growth in excess of 20-25%

Financial Snapshot

(Rs mn)	FY11	YoY %	FY12E	YoY %	FY13E	YoY %
Formulations	48479	18.2%	60086	23.9%	69647	15.9%
Domestic	15509	14.9%	18456	19.0%	21778	18.0%
US	20201	20.1%	26261	30.0%	29544	12.5%
Europe	1816	-16.5%	2361	30.0%	2951	25.0%
Japan	6212	16.3%	7082	14.0%	8144	15.0%
SRM	4741	49.3%	5926	25.0%	7230	22.0%
API's	8589	10.5%	9756	13.6%	10749	10.2%
Domestic - API	2431	10.0%	2674	10.0%	2888	8.0%
Export - API	6158	10.7%	7082	15.0%	7861	11.0%
Others	1252		137.5	-89.0%	66.2	-51.9%
Total Sales	58320	19.6%	69979	20.0%	80462	15.0%
EBITDA	11,911	22.4%	13,747	15.4%	16,061	16.8%
EBITDA %	20.4%		19.6%		20.0%	
PAT	8,625	26.0%	9,372	8.7%	11,169	19.2%
PAT%	14.8%		13.4%		13.9%	
EPS	19.3	25.6%	21.0	8.7%	25.0	19.2%
PE @ CMP	23.2		21.3		17.9	

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	48,359	58,320	69,979	80,462
<i>Growth (%)</i>	25.5	20.6	20.0	15.0
Expenditure	38,631	46,410	56,232	64,401
Raw Materials	19,694	22,379	28,357	32,478
SGA	11,830	16,353	16,904	19,296
Employee Cost	5,872	7,677	9,659	11,117
Other Exp	1,236	0	1,311	1,509
EBITDA	9,728	11,911	13,747	16,061
<i>Growth (%)</i>	29.4	19.9	18.3	17.0
EBITDA margin (%)	20.1	20.4	19.6	20.0
Depreciation	1,239	1,712	2,046	2,169
EBIT	8,489	10,199	11,701	13,892
EBIT margin (%)	17.6	17.5	16.7	17.3
Other Income	282	89	447	552
Interest expenses	385	325	255	270
PBT	8,148	9,963	11,893	14,174
Tax	1,360	1,169	2,379	2,835
<i>Effective tax rate (%)</i>	16.7	11.7	20.0	20.0
Adjusted PAT	6,665	8,457	9,229	10,999
(Profit)/loss from JV's/Ass/MI	-180	-168	-143	-170
Adjusted PAT after MI	6,845	8,625	9,372	11,169
<i>Growth (%)</i>	28.9	26.0	8.7	19.2
Net Margin (%)	14.2	14.8	13.4	13.9
E/O items	-238	0	0	0
Reported PAT	6,607	8,625	9,372	11,169
<i>Growth (%)</i>	31.7	30.5	8.7	19.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	7,866	9,874	11,446	13,622
Depreciation	1,239	1,712	2,046	2,169
Interest Provided	385	325	255	270
Other Non-Cash items	0	0	0	0
Chg in working cap	-4,478	-2,401	-4,302	-2,544
Tax paid	-1,360	-1,169	-2,379	-2,835
Operating Cashflow	3,652	8,340	7,066	10,683
Capital expenditure	-6,431	-4,894	-4,810	-5,000
Free Cash Flow	-2,779	3,446	2,256	5,683
Other income	282	89	447	552
Investments	-72	175	-645	0
Investing Cashflow	-6,221	-4,630	-5,008	-4,448
Equity Capital Raised	3,506	138	0	0
Loans Taken / (Repaid)	-834	226	-1,500	-2,000
Interest Paid	-385	-325	-255	-270
Dividend paid (incl tax)	-1,483	-1,658	-448	-1,306
Income from investments	0	0	0	0
Others	3,003	95	0	1
Financing Cashflow	3,806	-1,524	-2,203	-3,576
Net chg in cash	1,238	2,186	-144	2,659
Opening cash position	778	2,015	4,201	4,057
Closing cash position	2,015	4,201	4,057	6,716

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	889	892	892	892
Reserves & surplus	24,784	31,918	40,855	50,718
Net worth	25,673	32,811	41,748	51,610
Minority Interest	255	515	658	781
Secured Loans	2,848	3,348	2,848	2,348
Unsecured Loans	8,551	8,277	7,277	5,777
Loan Funds	11,399	11,624	10,124	8,124
Net deferred tax liability	1,435	1,411	1,411	1,458
Total Liabilities	38,761	46,361	53,941	61,974
Gross Block	26,134	26,389	34,143	39,143
Less: Depreciation	7,072	9,075	10,812	12,981
Net block	19,062	17,313	23,332	26,163
Capital work in progress	3,579	8,567	5,325	5,325
Investment	264	32	676	676
Current Assets	27,755	34,967	46,835	55,234
Inventories	9,715	12,000	17,456	20,090
Sundry debtors	11,266	12,558	18,767	21,599
Cash & bank balance	2,015	4,201	4,057	6,715
Loans & advances	4,759	6,208	6,555	6,829
Other current assets	0	0	0	0
Current lia & Prov	11,898	14,518	22,227	25,425
Current liabilities	9,649	11,800	19,319	22,234
Provisions	2,249	2,718	2,908	3,190
Net current assets	15,857	20,449	24,607	29,809
Total Assets	38,761	46,361	53,941	61,974

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	20.1	20.4	19.6	20.0
Net Margin	14.2	14.8	13.4	13.9
ROCE	26.2	24.0	24.0	24.8
ROE	34.0	30.1	25.5	24.3
RoIC	30.3	29.3	29.8	30.8
Per Share Data (Rs)				
EPS	15.4	19.3	21.0	25.0
CEPS	88.5	116.2	139.6	139.6
BVPS	57.7	73.6	93.6	115.7
DPS	2.9	3.7	4.3	5.1
Valuations (x)				
PER	29.1	23.2	21.3	17.9
P/CEPS	4.7	3.6	3.0	3.0
P/BV	7.8	6.1	4.8	3.9
EV / Sales	4.1	3.3	2.8	0.0
EV / EBITDA	21.0	17.6	14.8	12.5
Dividend Yield (%)	0.6	0.8	1.0	1.1
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.2	0.1	0.0
Net Debt/EBIDTA	0.9	0.6	0.4	0.1
Working Cap Cycle (days)	121	119	122	119

Recommendation History: Lupin Pharma – LPC IN

Date	Reports	Reco	CMP	Target
13/05/2011	Lupin Q4FY11 Result Update	Buy	424	501
28/01/2011	Lupin Q3FY11 Result Update	Accumulate	420	496
15/11/2010	Lupin Pharma Q2FY11 Result Update	Accumulate	469	496
29/07/2010	Lupin Q1FY11 Result Update	Accumulate	1,920	2,111

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2011	Glenmark Pharma Q1FY12 Result Update	Buy	338	401
20/07/2011	Dr Reddys Lab Q1FY12 Result Update	Accumulate	1,567	1,750
19/07/2011	Cadila Healthcare Q1FY12 Result Update	Accumulate	952	1,021
24/06/2011	Jubilant Life Sciences Company Update	Accumulate	163	208

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