

Institutional Equities
 India Research

Lupin

QUARTERLY REVIEW

 Bloomberg: LPC IN
 Reuters: LPC.BO

HOLD
Results In-line– Long-term Outlook Remains Intact

Lupin's revenues grew 43.8% YoY to Rs. 22,537 mn in Q1FY13, in-line with our estimates of Rs. 22,487 mn. The company is confident of launching 120 products in US over next 3-4 years. Launch of additional products in Japan and back-ending of key products inspires confidence about the company's focus in its key markets. We upgrade our EPS but reiterate our HOLD rating on the stock.

- Quarter Details:** The Company's Domestic Formulations (DF) business grew 25.0% YoY to Rs. 6,212 mn primarily due to inclusion of Eli Lilly insulin revenues. Lupin's US revenues rose 62.7% YoY to Rs. 8,024 mn. Its EBITDA was reported at 20.3% in Q1FY13, broadly in-line with our estimate of 20.6%. Other income was aided by translation gain to the tune of Rs.210 mn. Lupin's net profit stood at Rs. 2,804 mn in Q1FY13 – marginally higher than our estimates of Rs. 2,762 mn.
- Positive Outlook:** Lupin has guided for 20-25% y-o-y improvement in the Japanese business (excl- Irom). The domestic business is expected to witness a 20% y-o-y improvement going ahead. The company is looking forward to the launch of Suprax drops by end FY13 and launch of Yazmin and Tricor during FY13.
- Outlook & Valuation:** We upgrade our revenue estimate by 3.4% to Rs.93.2 bn for FY13E and upgrade by 4.0% to Rs. 102.5 bn for FY14E, mainly on higher realization in lieu of forex, upgrade in US, Japan and ROW. We upgrade our EBDITAM from 18.8% to 21.3% for FY13E and from 19.2% to 21.4% for FY14E due to lower other expenses and better gross margins. We upgrade our EPS estimate by 20% in FY13E to Rs. 26.7 and by 17.8% to Rs. 29.8 for FY14E. We value Lupin's core business at 21x FY13E (20% price upgrade) at a price of Rs. 625 and maintain our "HOLD" recommendation on the stock.
- Risks:** Decline in growth estimates in domestic business and delay in OC launches due to regulatory reasons will have negative impact on the Company's profitability.

Key Financials

Y/ E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	48,376	57,852	70,544	93,227	102,550
EBITDA	9,507	11,442	14,162	19,884	21,916
Net Profit	6,185	7,923	8,173	11,942	13,292
EPS(Rs)	13.9	17.8	18.3	26.7	29.8
EBITDA margin(%)	19.7	19.8	20.1	21.3	21.4
PER(x)	42.1	32.9	32.0	21.9	19.7
EV/EBITDA (x)	28.4	23.5	19.2	13.7	12.1
RoCE(%)	25.7	23.7	24.3	28.4	26.1
RoE(%)	24.9	25.0	21.2	24.8	22.5

Source: Company, Karvy Institutional Research

Indian GAAP consolidated

Recommendation

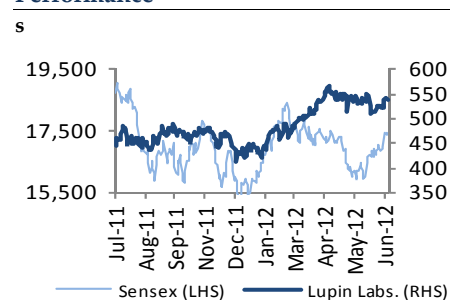
CMP:	Rs586
Target Price:	Rs625
Previous Target Price	Rs520
Upside (%)	7%

Stock Information

Market Cap. (Rs bn / US\$ mn)	262/4,662
52-week High/Low (Rs)	594/408
3m ADV (Rs mn /US\$ mn)	365/6.5
Beta	0.6
Sensex/ Nifty	16,846/5,110
Share outstanding (mn)	447

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	12.2	5.8	28.0	30.8
Rel. to Sensex	12.4	7.7	43.4	20.0

Performance


Source: Bloomberg, Karvy Institutional Research

Earnings Revision

(%)	FY13E	FY14E
Sales	↑ 3.4%	↑ 4.0%
EBITDA	↑ 17.6%	↑ 16.1%
PAT	↑ 20.2%	↑ 17.6%

Source: Karvy Institutional Research

Results Review

Lupin has displayed a higher sequential performance primarily due to additional revenues from Fortamet further aided by higher realization due to currency. EBITDA margins were reported higher due to better gross margins. The Company's net profit has the impact of tax due to unrealized profit on inventories transferred to subsidiaries which will get evened out in the quarters ahead.

Revenue Analysis

The Company's DF business grew 25.0% YoY to Rs. 6,212 mn (incl. Eli Lilly insulin revenues) higher than our estimates. Its US revenues rose 62.7% YoY to Rs. 8,024 mn (our estimates Rs.8,942 mn) due to underperformance witnessed in its generics base business. The branded generics business grew 35.6% y-o-y to Rs.2,006 mn. In Q1FY13, Lupin's Japanese business grew 99.8% YoY to Rs. 3,329 mn – including full impact of I'rom Pharma. Kyowa business grew by 37 % to Rs 2278 mn.

EBITDA Margin

Lupin's EBITDA was reported at 20.3% in Q1FY13, in-line with our estimates of 20.1%. Gross margins were primarily benefited due to exclusive opportunities like Geodon and Fortamet and higher realizations due to currency. R&D expenses were higher due to legal expenses embedded in the same.

Non-Operating Items

Effective tax rate was 29.8% for the quarter (includes impact of deferred taxes on unrealized profits). The company has also lost EOU benefits at two of its facilities i.e Goa and Mandideep. The company is trying to increase capacity utilization at its Indore facility to lower tax rates. The higher tax will get evened out in the quarters ahead. The company has guided for a 26%-27 % tax rate for the current year.

Net Profit Growth

The Company's net profit stood at Rs. 2,804 mn in Q1FY13 – higher than our estimates of Rs. 2,763 mn.

Key highlights during the quarter :

- Lupin's Japanese business which faced 10% price cuts in April, has witnessed the launch of 7 new products in June. The company has shifted API production of Amlodipine and Risperidone while one formulation product has been back ended to India.
- Due to launch of atorvastatin, the decline in the simvastatin market has been to the tune of 16-17%. In Fortamet, the company has a market share of 50% while the balance is with Watson. Mylan may be the other player that can come in. There will be limited competition over the next 12-24 months.
- In OC, the company has filed for 31 products. It currently has launched 3 products, Nor QD, Femocon and Loestrine. It is expected to launch 9-10 products during FY13. Addressable market size for the 31 filings is to the tune of US\$4 bn.

Exhibit 1: Quarterly performance

Year end March (Rsmn)	Q1FY12	Q4FY12	Q1FY13	QoQ %	YoY %
Net Revenues	15,677	19,239	22,537	17.1	43.8
Cost	12,734	15,510	17,961	15.8	41.1
EBITDA	2,944	3,728	4,576	22.8	55.5
EBITDA Margin (%)	19	19	20		
Other Income	12	82	236	185.9	1,896.6
Interest	58	145	101	(30.7)	74.4
Depreciation	471	706	654	(7.4)	38.7
Profit before Tax	2,426	2,960	4,058	37.1	67.2
Tax	286	1,348	1,208	(10.4)	322.1
Tax rate (%)	12	46	30		
Profit After Tax	2,140	1,612	2,850	76.8	33.2
Minority Interest + Shr of asso.	39	56	46	(16.8)	17.3
Net Profit	2,101	1,556	2,804	80.2	33.5

Source: Company, Karvy Institutional Research

Exhibit 2: Changes in Estimates

in Rs. mn	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
India Formulations (Rs. mn)	22,612	22,612	-	26,230	26,230	-	
US Branded Formulations	8,169	7,776	5.1	10,801	10,227	5.6	Primarily due to higher realisation and Suprax franchise
US generics	27,651	27,126	1.9	26,186	25,400	3.1	
Japan	12,823	12,391	3.5	14,362	13,878	3.5	Upgrade in Japanese revenue traction
EU	2,257	2,257	-	2,673	2,673	-	
South Africa	2,705	2,705	-	3,246	3,246	-	
RoW	4,323	4,150	4.2	5,403	4,980	8.5	Higher growth in ROW in Q1FY13
API	9,558	9,558	-	10,221	10,221	-	
Revenues	93,227	90,155	3.4	102,550	98,575	4.0	
EBITDA	19,884	16,907	17.6	21,916	18,878	16.1	Benefits of higher realisation coupled with lower other expenses
EBITDA margin (in %)	21.3%	18.8%	N.A	21.4%	19.2%	N.A	
Net Profit	11,942	9,939	20.2	13,292	11,305	17.6	
EPS (in Rs.)	26.7	22.3	20.2	29.8	25.3	17.6	

Source: Company, Karvy Institutional Research

Exhibit 3: Profit & Loss

Year End march	FY10	FY11	FY12	FY13E	FY14E
Domestic	15,331	18,489	21,507	25,158	28,878
Exports	32,132	37,989	46,697	64,941	70,244
Other Income	913	1,374	2,340	3,128	3,428
Net Revenues	48,376	57,852	70,544	93,227	102,550
% growth					
Raw Material	19,694	22,379	26,039	34,004	37,506
Staff	5,871	7,677	9,695	12,400	13,888
Other Exps	13,303	16,353	20,647	26,940	29,240
Total Expenditure	38,869	46,410	56,382	73,343	80,634
EBITDA	9,507	11,442	14,162	19,884	21,916
EBITDA margin (%)	19.7	19.8	20.1	21.3	21.4
Other income	159	174	429	506	656
Interest	385	325	355	435	468
Gross Profit	9,282	11,292	14,236	19,954	22,103
% growth					
Depreciation	1,239	1,712	2,275	2,632	2,933
Profit Before Tax	8,043	9,580	11,961	17,322	19,170
% growth					
Tax	1,360	1,169	3,086	4,677	5,176
Minority Interest	180	168	199	199	199
Net Profit	6,502	8,242	8,677	12,446	13,796
less Amortisation	317	320	504	504	504
PAT After Amortisation	6,185	7,923	8,173	11,942	13,292
Extraordinaries	373	383	-	-	-
Reported Net Profit	6,557	8,306	8,173	11,942	13,292

Source: Company, Karvy Institutional Research
Indian GAAP Consolidated

Exhibit 4: Balance Sheet

Rsmn	FY10	FY11	FY12	FY13E	FY14E
Equity	889	892	893	893	893
Reserves	23,967	30,777	37,589	47,351	58,307
Net worth	24,856	31,669	38,483	48,245	59,200
Deferred Tax Liabilities	1,630	1,792	1,910	1,910	1,910
Short-term Loans	8,050	7,911	10,479	13,843	15,229
Long-term Loans	3,348	2,992	4,330	4,330	4,330
Total Loans	11,399	11,624	14,809	18,173	19,559
Minority Interest	255	515	723	723	723
Liabilities	38,140	45,600	55,924	69,050	81,392
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	21,615	24,080
Debtors	11,266	12,558	17,318	22,878	25,169
Cash	2,015	4,201	4,025	7,038	14,351
Other Current assets	4,759	6,208	8,241	10,891	11,933
Total Current assets	27,755	34,967	46,911	62,421	75,533
Creditors	7,088	8,965	13,978	18,085	19,882
Other current liabilities	4,804	5,552	7,791	8,434	8,969
Total current liabilities	11,893	14,518	21,770	26,518	28,851
Net current assets	15,862	20,449	25,141	35,903	46,682
Assets	38,140	45,600	55,925	69,050	81,392

Source: Company, Karvy Institutional Research

Indian GAAP Consolidated

Exhibit 5: Cash Flow Statement

Rsmn	FY10	FY11	FY12	FY13E	FY14E
EBIT	7,951	9,411	11,383	16,747	18,479
Change in working capital	(4,478)	(2,401)	(4,868)	(7,749)	(3,465)
Cash flow from operations	3,473	7,010	6,515	8,998	15,013
Other income	159	174	429	506	656
Depreciation and Amortisation	1,556	2,031	2,779	3,136	3,437
Interest paid (-)	(385)	(325)	(355)	(435)	(468)
Dividends paid(-)	(1,436)	(1,575)	(1,661)	(2,180)	(2,336)
Tax paid (-)	(1,360)	(1,169)	(3,086)	(4,677)	(5,176)
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	5,149	10,927
Capital Expenditure	(6,431)	(4,894)	(6,543)	(5,500)	(5,000)
Free Cash Flow	(3,983)	1,385	(3,875)	(351)	5,927
Change in short-term borrowing	2,050	(139)	2,568	3,364	1,386
Change in long-term borrowing	(2,884)	(357)	1,338	0	0
Change in borrowings	(834)	(496)	3,906	3,364	1,386
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	3,364	1,386
Others	7	856	(630)		
Opening cash	778	2,015	4,201	4,025	7,038
Closing cash	2,015	4,201	4,025	7,038	14,351
Change in Cash	1,238	2,186	(177)	3,013	7,314

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

Ratios	FY10	FY11	FY12	FY13E	FY14E
EV/EBDITA(x)	28.3	23.5	19.2	13.7	12.2
ROE (%)	24.9	25.0	21.2	24.8	22.5
ROCE (%)	25.7	23.7	24.3	28.4	26.1
PE (x)	42.1	32.9	32.0	21.9	19.7
P/S (x)	5.4	4.6	3.8	2.9	2.6
P/BV (x)	10.5	8.2	6.8	5.4	4.4

Source: Company, Karvy Institutional Research

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

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