

Brands stabilizing, generics pipeline scaling up

- Sales and margins ahead of estimates:** Lupin's 4QFY11 adjusted net profit at ₹2.3bn is up 3% YoY and ahead of ₹1.8bn JMFe. Adjusted EBIDTA at ₹3.1bn (6.3% YoY) is higher than ₹2.6bn JMFe driven by higher sales and better than expected margins. EBITDA margins at 20% are ahead of 18% JMFe with lower staff costs (12.9% vs 13.9%) and other expenses (27.5% vs 29.6%) more than offsetting higher raw material expenses (39.6% vs 38.3%). R&D expense for the quarter is higher at ₹1.5bn (9.4% of sales vs 8.3% for FY11). Net sales at ₹15.5bn (17% YoY) are 7% ahead of ₹14.6bn JMFe driven by higher sales in RoW, US and API. EBIDTA beat is driven by higher sales even as overheads in absolute terms were in line with estimates and RM/sales was a bit higher.
- FY11 brand sales at 30% of US total:** US sales at ₹5.8bn (7% YoY) came in ahead of expectations. US brand business for 4Q11 is likely to have contributed c.40% to total US revenues. Management indicated that Antara has turned around with sequential growth in both prescriptions and sales. Suprax tablets grew Rx at 60% YoY and currently constitute 1/3rd of the product sales. The USFDA PDUFA for the Suprax drops formulation is in Sept'11. Company expects US brands to continue to grow steadily in FY12. Domestic formulations grew by 16% YoY at c.₹3.3bn. Chronic segments (70% of portfolio) continue to grow at 25-30% while the company has shifted focus from lower margins business which has slowed the acute segment growth.
- \$3bn sales target by FY13; remain optimistic on US generic pipeline:** Lupin filed for 21 ANDAs (6 in 4Q11) during FY11 and expects to file over 30 in FY12. It plans to launch 10 products in the US – Fortamet (sole FTF), Oral Contraceptives (3-4 in 2HFY12) and Ziprasidone (shared FTF in end-FY12). We remain positive on the US generic pipeline in the medium-term. Competition in OC products may be higher than anticipated earlier. Company plans to launch 7/40 products in Japan (FY11:5) and India (FY11: 40) for FY12. R&D is expected to be around 8.5% of sales due to investments in basic research (1/4th), biologics and generics. Lupin also indicated that it is targeting larger acquisitions going forward. It targets to achieve \$3bn in sales by FY13/14.
- Maintain BUY and TP at ₹500:** We increase FY12E EPS by 8% on higher margins and maintain FY13 estimates. Maintain BUY. Our target price of ₹500 is based on 20x Mar'13 EPS. Risks to our call include delay in USFDA approvals and generic threat to the branded business.

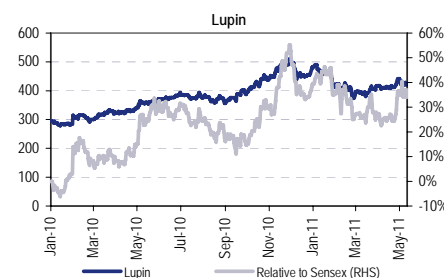
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Key Data

Market cap (bn)	₹ 189.3 / US\$ 4.2
Shares in issue (mn)	444.5
Diluted share (mn)	444.5
3-mon avg daily val (mn)	₹ 402.9/US\$ 9.0
52-week range	₹ 520.0/344.0
Sensex/Nifty	18,336/5,486
₹/US\$	45.0

Daily Performance



%	1M	3M	12M
Absolute	3.7	3.4	19.1
Relative	8.5	0.0	12.4

* To the BSE Sensex

Shareholding Pattern (%)

	Mar'11	Mar'10
Promoters	47.0	47.1
FII	22.0	17.3
DII	20.0	23.5
Public / others	11.1	12.0

Exhibit 1. Financial Summary

	(₹ mn)				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Net sales	37,759	47,405	57,069	64,615	79,395
Sales growth (%)	39.5	25.5	20.4	13.2	22.9
EBITDA	7,535	9,449	11,910	13,128	18,509
EBITDA (%)	19.7	19.7	20.6	20.1	23.1
Adjusted net profit	5,015	6,655	8,778	8,825	11,112
EPS (₹)	11.3	15.0	19.7	19.9	25.0
EPS growth (%)	42.8	32.0	31.9	0.5	25.9
ROCE (%)	20.9	22.7	24.6	22.0	24.2
ROE (%)	34.9	33.0	30.1	24.4	24.5
PE (x)	37.4	28.3	21.5	21.4	17.0
Price/Book value (x)	13.0	7.3	5.8	4.7	3.7
EV/EBITDA (x)	26.4	20.9	16.3	14.6	10.1

Source: Company data, JM Financial. Note: Valuations as of 12/05/2011

JM Financial Research is also available on:
Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see important disclosure at the end of the report

Exhibit 2. Adj net profits in-line with estimates

(₹ mn)	4QFY10	4QFY11	% chg	4QFY11E	% chg
Net sales	13,282	15,536	17.0	14,582	9.8
Raw Material	4,882	6,150	26.0	5,585	14.4
Staff Cost	1,624	2,004	23.4	2,030	25.0
Other expenses	3,852	4,274	11.0	4,314	12.0
EBITDA	2,924	3,108	6.3	2,654	-9.2
EBITDA (%)	22.0	20.0		18.2	
Other Income	105	33	-68.8	50	-52.4
Interest	78	78	0.1	90	15.5
Depreciation	408	463	13.5	450	10.3
PBT	2,543	2,600	2%	2,164	-15%
Tax	293	312	6.5	303	3.6
Tax Rate (%)	11.5	12.0		14.0	
Minority	-44.7	-16.0		-45.0	
PAT (Reported)	2,206	2,272	3.0	1,816	-17.7
PAT (Adj)	2,206	2,272	3.0	1,816	-17.7

Source: Company, JM Financial

Exhibit 3. Margins remain stable

% to sales	4QFY10	4QFY11	4QFY11E	3QFY11
RM to sales	36.8	39.6	38.3	37.7
Staff cost	12.2	12.9	13.9	13.1
Others	29.0	27.5	29.6	28.4

Source: Company, JM Financial

Exhibit 4. RoW sales higher YoY due to consolidation of Australian unit
(₹ mn)

Sales Mix	4QFY10	4QFY11	% chg	4QFY11E	% chg
Formulations	10,823	12,733	17.6	12,107	11.9
Domestic	2,845	3,301	16.0	3,357	18.0
US	5,455	5,838	7.0	5,500	0.8
Kyowa	1,262	1,618	28.2	1,450	14.9
Pharma Dynamics (SA)	345	510	47.8	500	44.9
EU	419	397	-5.3	600	43.2
RoW	497	1,069	115.0	700	40.8
APIs	2,091	2,589	23.8	2,200	5.2
Total	12,914	15,322	18.6	14,307	10.8

Source: Company, JM Financial

Exhibit 5. Increasing FY12 EPS by 8%/FY13E maintained

Particulars (₹ mn)	FY12E		FY13E		% change	
	Old	New	Old	New	FY12E	FY13E
Sales	63,878	64,615	78,558	79,395	1.2	1.1
Raw Materials	24,260	24,554	28,177	29,050	1.2	3.1
Staff Cost	9,090	8,905	10,907	10,686	-2.0	-2.0
R&D	4,198	4,409	4,953	5,203	5.0	5.0
Others	14,660	14,369	16,964	16,697	-2.0	-1.6
EBITDA	11,670	12,378	17,557	17,759	6.1	1.2
Depreciation	1,900	1,912	2,100	2,112	0.6	0.6
Profit before tax	10,610	11,306	16,347	16,537	6.6	1.2
Net Profit after tax	8,135	8,825	11,119	11,112	8.5	-0.1
EPS	18.3	19.9	25.0	25.0	8.5	-0.0

Source: Company, JM Financial

Exhibit 6. FY12/13 sales higher by 1%

	FY12E		FY13E		% change	
	Old	New	Old	New	FY12E	FY13E
Domestic formulations	18,480	18,415	21,622	21,545	-0.4	-0.4
US - Branded	6,525	6,525	7,335	7,335	-	-
US - Generics	16,425	16,425	24,865	24,865	-	-
EU	2,478	2,275	2,938	2,735	-8.2	-6.9
Kyowa (Japan)	6,769	6,957	7,582	7,792	2.8	2.8
Developing Formulations	5,263	5,718	6,316	6,862	8.6	8.6
Bulk	8,300	8,689	8,300	8,689	4.7	4.7
Total	64,240	65,004	78,958	79,823	1.2	1.1

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Net sales (Net of excise)	37,759	47,405	57,069	64,615	79,395
Growth (%)	39.5	25.5	20.4	13.2	22.9
Other operational income	403	664	802	750	750
Raw material (or COGS)	15,697	19,445	21,929	24,554	29,050
Personnel cost	4,570	5,872	7,677	8,905	10,686
Other expenses (or SG&A)	10,359	13,303	16,354	18,778	21,899
EBITDA	7,535	9,449	11,910	13,128	18,509
EBITDA (%)	19.7	19.7	20.6	20.1	23.1
Growth (%)	45.9	25.4	26.0	10.2	41.0
Other non-op. income	162	142	89	250	250
Depreciation and amort.	880	1,239	1,712	1,912	2,112
EBIT	6,817	8,352	10,287	11,466	16,647
Add: Net interest income	-456	-336	-325	-160	-110
Pre tax profit	6,361	8,016	9,962	11,306	16,537
Taxes	983	1,360	1,169	1,809	2,977
Add: Extraordinary items	-301	342	-170	0	0
Less: Minority interest	62	180	168	200	200
Reported net profit	5,015	6,817	8,455	9,297	13,361
Adjusted net profit	5,015	6,655	8,778	8,825	11,112
Margin (%)	13.1	13.8	15.2	13.5	13.9
Diluted share cap. (mn)	442	445	445	445	445
Diluted EPS (₹)	11.3	15.0	19.7	19.9	25.0
Growth (%)	42.8	32.0	31.9	0.5	25.9
Total Dividend + Tax	1,213	1,931	1,931	1,942	2,445

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Share capital	828	889	889	889	889
Other capital	0	0	0	0	0
Reserves and surplus	13,563	25,044	31,577	38,933	49,849
Networth	14,391	25,933	32,467	39,822	50,738
Total loans	12,233	11,399	9,496	6,597	4,243
Minority interest	0	0	0	0	0
Sources of funds	26,623	37,332	41,962	46,419	54,981
Intangible assets	3,174	3,197	3,197	3,197	3,197
Fixed assets	18,200	22,937	27,937	32,937	37,937
Less: Deprn. and amort.	6,188	7,072	8,784	10,696	12,808
Net block	15,186	19,062	22,350	25,438	28,326
Capital WIP	2,240	3,579	1,500	1,500	1,500
Investments	216	264	264	264	264
Def tax assets/- liability	-1,164	-1,435	-1,435	-1,435	-1,435
Current assets	22,309	27,755	31,880	34,913	42,500
Inventories	9,572	9,715	10,784	12,401	14,633
Sundry debtors	9,180	11,266	12,505	14,381	16,969
Cash & bank balances	778	2,015	3,693	3,092	5,719
Other current assets	0	0	0	0	0
Loans & advances	2,780	4,759	4,899	5,039	5,179
Current liabilities & prov.	12,162	11,893	12,597	14,261	16,176
Current liabilities	10,335	9,649	11,097	12,761	14,676
Provisions and others	1,827	2,243	1,500	1,500	1,500
Net current assets	10,147	15,862	19,284	20,651	26,325
Others (net)	0	0	0	0	0
Application of funds	26,623	37,332	41,963	46,419	54,980

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Reported net profit	5,015	6,817	8,455	9,297	13,361
Depreciation and amort.	1,491	884	1,712	1,912	2,112
-Inc/dec in working cap.	897	-2,915	-860	-1,829	-2,907
Others	0	0	0	0	0
Cash from operations (a)	7,403	4,786	9,307	9,380	12,566
-Inc/dec in investments	-157	-49	0	0	0
Capex	-5,919	-6,099	-2,921	-5,000	-5,000
Others	-37	-1,563	-883	-140	-140
Cash flow from inv. (b)	-6,113	-7,711	-3,804	-5,140	-5,140
Inc/-dec in capital	-2,303	6,657	10	0	0
Dividend+Tax thereon	-1,213	-1,931	-1,931	-1,942	-2,445
Inc/-dec in loans	204	-834	-1,903	-2,899	-2,354
Others	58	271	0	0	0
Financial cash flow (c)	-3,255	4,162	-3,825	-4,841	-4,799
Inc/-dec in cash (a+b+c)	-1,964	1,238	1,678	-601	2,627
Opening cash balance	2,742	778	2,015	3,693	3,092
Closing cash balance	778	2,015	3,693	3,093	5,720

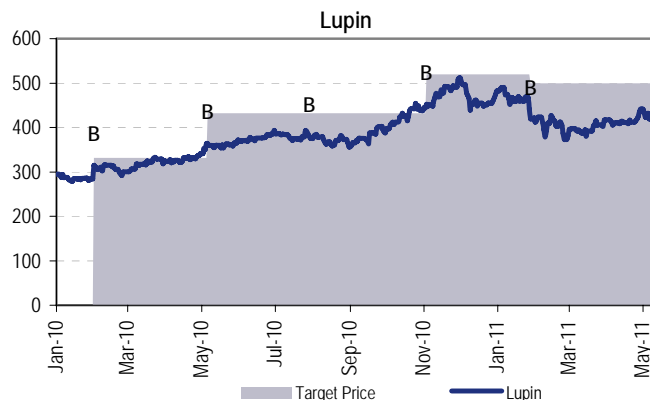
Source: Company, JM Financial

Key Ratios					
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
BV/Share (₹)	32.6	58.3	73.0	89.6	114.1
ROCE (%)	20.9	22.7	24.6	22.0	24.2
ROE (%)	34.9	33.0	30.1	24.4	24.5
Net Debt/equity ratio (x)	0.8	0.4	0.2	0.1	0.0
Valuation ratios (x)					
PER	37.4	28.3	21.5	21.4	17.0
PBV	13.0	7.3	5.8	4.7	3.7
EV/EBITDA	26.4	20.9	16.3	14.6	10.1
EV/Sales	5.3	4.2	3.4	3.0	2.4
Turnover ratios (no.)					
Debtor days	89	87	80	81	78
Inventory days	93	75	69	70	67
Creditor days	240	181	185	190	184

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY11E EPS (₹)	% Chg.	FY12E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
1-Feb-10	16.5		18.5		332	Mar-11	
6-May-10	18.8	13.9	21.6	17.0	432	Mar-11	30.1
29-Jul-10	18.8	0.0	21.6	0.0	432	Mar-11	0.0
3-Nov-10	19.3	2.7	21.0	-2.8	520	Dec-11	20.4
28-Jan-11	19.0	-1.6	18.3	-12.9	500	Mar-12	-3.8

Recommendation history**JM Financial Institutional Securities Private Limited**

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