UBS

UBS Investment Research

Lupin Limited

Q4 FY11: In line, focus on rapid growth

Global Equity Research

India

Pharmaceuticals

12-month rating	Buy *Unchanged*
12m price target	Rs525.00/US$11.76 *Unchanged*
Price	Rs423.60/US$9.49

RIC: LUPN.BO BBG: LPC IB

13 May 2011

■ Sales Rs15.1bn (+18% YoY, +3% QoQ)

Q4 FY11 revenues were above UBS-e of Rs14.5bn driven by strong growth in API, Japan and ROW markets. Japan revenues grew 28% YoY to Rs1.6bn. Formulation sales for the US and EU markets were Rs6.2bn (+6% YoY). India formulations grew only 3% YoY to Rs3bn and 15% YoY for FY11.

■ EBITDA Rs2.7bn (+8% YoY), PAT Rs2.2bn (+3% YoY)

EBITDA grew 8% YoY to Rs2.7bn. The core EBITDA margin came in at 17.8%, below UBS-e of 19.4% on higher raw material (RM) cost and higher R&D expenses. RM cost increased 269bps YoY to 40.7% of sales. R&D expense increased 30% YoY to 9.7% of sales due to bunching up of Abbreviated New Drug Application (ANDA) filings. The company filed 21 ANDAs in FY11 (11 in Q4 FY11) and received approvals for eight.

■ Targeting US$3bn of revenues by FY14, larger acquisitions

Management at the investor meet stated its broad target to reach ~US$3bn of revenues by FY14. The company intends to look at larger, more meaningful acquisitions in future given its increasing scale. Near term, it reiterated plans to launch more than 10 products in the US in FY12 including Geodon. The company plans to launch seven products in Japan and expects India growth to remain close to 20% YoY. However, management stated there is no timeline for the Allernaze launch as yet. The Prescription Drug User Fee Act (PDUFA) date for Suprax drops is September 2011. The company is focusing on dermatology, biosimilars and asthma as areas of future growth.

■ Valuation: maintain Buy, price target of Rs525

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 11%.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	37,759	47,405	56,392	66,133	78,068
EBIT (UBS)	6,434	8,694	10,112	12,480	14,970
Net Income (UBS)	5,021	6,816	8,710	9,957	12,249
EPS (UBS, Rs)	12.18	15.84	19.59	22.39	27.55
Net DPS (UBS, Rs)	2.51	2.85	3.00	3.60	4.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	16.9	18.3	17.9	18.9	19.2
ROIC (EBIT) %	27.9	28.7	26.7	28.6	30.1
EV/EBITDA (core) x	10.1	11.0	16.7	13.3	10.7
PE (UBS) x	16.3	14.4	21.6	18.9	15.4
Net dividend yield %	1.3	1.2	0.7	0.8	0.9

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs423.60 on 12 May 2011 19:31 SGT

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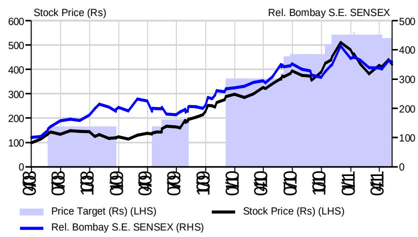
Trading data (local/US$)	
52-wk range	Rs510.80-353.83/US$11.26-7.56
Market cap.	Rs189bn/US$4.23bn
Shares o/s	446m (ORD)
Free float	48%
Avg. daily volume ('000)	1,064
Avg. daily value (m)	Rs433.7

Balance sheet data 03/11E	
Shareholders' equity	Rs32.8bn
P/BV (UBS)	5.7x
Net Cash (debt)	(Rs7.84bn)

Forecast returns	
Forecast price appreciation	+23.9%
Forecast dividend yield	0.9%
Forecast stock return	+24.8%
Market return assumption	13.0%
Forecast excess return	+11.8%

EPS (UBS, Rs)	03/11E		03/10
	UBS	Cons.	Actual
Q1E	4.54	-	3.26
Q2E	4.96	-	3.72
Q3E	5.12	4.87	3.73
Q4E	4.96	4.96	5.13
03/11E	19.59	*19.59*	
03/12E	22.39	*22.39*	

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

Table 1: Profit & Loss Statement

(Rs m)	Mar-11	Dec-10	Mar-10	QoQ	YoY	FY11	FY10	YoY
Net sales	15,115	14,672	12,848	3%	18%	57,068	47,405	20%
Material cost	6,150	5,700	4,882	8%	26%	22,379	19,694	14%
Personnel cost	2,004	1,977	1,624	1%	23%	7,677	5,872	31%
R&D	1,461	1,178	1,125	24%	30%	4,834	3,570	35%
Other expenses	2,813	3,105	2,727	-9%	3%	11,519	9,733	18%
Total Expenditure	12,428	12,130	10,358	2%	20%	46,410	38,869	19%
EBITDA	2,687	2,542	2,491	6%	8%	10,659	8,536	25%
Other income	453	464	539	-2%	-16%	1,341	1,445	-7%
Interest expense	78	78	78	1%	0%	325	385	-16%
Depreciation	463	413	408	12%	14%	1,712	1,239	38%
PBT	2,600	2,516	2,543	3%	2%	9,963	8,357	19%
Tax	312	237	293	31%	6%	1,169	1,360	-14%
PAT	2,288	2,279	2,251	0%	2%	8,794	6,997	26%
Minority Interest	16	38	45	-58%	-64%	168	180	-7%
Net profit	2,272	2,240	2,206	1%	3%	8,625	6,816	27%

Source: Company data

Table 2: Cost Structure

Expenses as a % of sales	Mar-11	Dec-10	Mar-10	QoQ	YoY	FY11	FY10
Net Material Cost	40.7%	38.8%	38.0%	184 bps	269 bps	39.2%	41.5%
Personnel cost	13.3%	13.5%	12.6%	-21 bps	62 bps	13.5%	12.4%
R&D	9.7%	8.0%	8.8%	164 bps	91 bps	8.5%	7.5%
Other expenses	18.6%	21.2%	21.2%	-255 bps	-261 bps	20.2%	20.5%
EBITDA margins	17.8%	17.3%	19.4%	45 bps	-161 bps	18.7%	18.0%
Tax Rate (%)	12.0%	9.4%	11.5%	256 bps	48 bps	11.7%	16.3%

Source: Company data

Lupin Limited

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	16,954	20,137	27,064	37,759	47,405	56,392	19.0	66,133	17.3	78,068	18.0
Operating expenses (ex depn)	(14,603)	(17,215)	(22,705)	(31,274)	(38,869)	(45,712)	17.6	(53,475)	17.0	(61,783)	15.5
EBITDA (UBS)	3,089	4,692	6,252	7,314	9,933	11,846	19.3	14,735	24.4	17,901	21.5
Depreciation	(409)	(466)	(647)	(880)	(1,239)	(1,735)	40.0	(2,255)	30.0	(2,932)	30.0
Operating income (EBIT, UBS)	2,680	4,226	5,605	6,434	8,694	10,112	16.3	12,480	23.4	14,970	19.9
Other income & associates	0	221	171	130	47	242	409.5	213	-11.7	152	-28.6
Net interest	(313)	(372)	(374)	(499)	(385)	(342)	-11.2	(840)	145.6	(540)	-35.7
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	2,367	4,075	5,402	6,066	8,357	10,011	19.8	11,853	18.4	14,582	23.0
Tax	(521)	(988)	(1,318)	(983)	(1,360)	(1,301)	-4.3	(1,897)	45.7	(2,333)	23.0
Profit after tax	1,846	3,086	4,084	5,083	6,997	8,710	24.5	9,957	14.3	12,249	23.0
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(4)	(1)	(2)	(62)	(180)	0	-	0	-	0	-
Net income (local GAAP)	1,842	3,086	4,083	5,021	6,816	8,710	27.8	9,957	14.3	12,249	23.0
Net Income (UBS)	1,842	3,086	4,083	5,021	6,816	8,710	27.8	9,957	14.3	12,249	23.0
Tax rate (%)	*22*	*24*	*24*	*16*	*16*	*13*	-20.1	*16*	23.1	*16*	0.0
Pre-abnormal tax rate (%)	*22*	*24*	*24*	*16*	*16*	*13*	-20.1	*16*	23.1	*16*	0.0

Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	4.59	7.67	10.00	12.18	15.84	19.59	23.7	22.39	14.3	27.55	23.0
EPS (UBS)	4.59	7.67	10.00	12.18	15.84	19.59	23.7	22.39	14.3	27.55	23.0
Net DPS	0.65	1.00	2.01	2.51	2.85	3.00	5.4	3.60	20.0	4.00	11.1
Cash EPS	5.61	8.83	11.59	14.32	18.72	23.49	25.5	27.46	16.9	34.14	24.3
BVPS	15.53	21.75	31.20	34.42	57.95	73.82	27.4	92.00	24.6	114.87	24.9

Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	6,718	7,971	11,125	14,252	19,444	22,709	16.8	26,454	16.5	29,522	11.6
Net intangible fixed assets	0	0	1,872	3,174	3,197	3,197	0.0	3,197	0.0	3,197	0.0
Net working capital (incl. other assets)	4,917	6,563	10,230	9,369	13,847	16,189	16.9	18,545	14.6	21,316	14.9
Other liabilities	(939)	(1,026)	(1,107)	(1,164)	(1,435)	(1,435)	0.0	(1,435)	0.0	(1,435)	0.0
Operating invested capital	10,695	13,508	22,120	25,630	35,052	40,660	16.0	46,760	15.0	52,600	12.5
Investments	28	28	58	216	264	264	0.0	264	0.0	264	0.0
Total capital employed	10,723	13,536	22,178	25,846	35,316	40,924	15.9	47,024	14.9	52,864	12.4
Shareholders' equity	6,233	8,733	12,797	14,248	25,678	32,827	27.8	40,911	24.6	51,079	24.9
Minority interests	16	0	95	143	255	255	0.0	255	0.0	255	0.0
Total equity	6,249	8,733	12,891	14,391	25,933	33,082	27.6	41,166	24.4	51,334	24.7
Net debt / (cash)	4,475	4,803	9,287	11,455	9,383	7,841	-16.4	5,858	-25.3	1,530	-73.9
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	10,723	13,536	22,178	25,846	35,316	40,924	15.9	47,024	14.9	52,864	12.4

Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	2,680	4,226	5,605	6,434	8,694	10,112	16.3	12,480	23.4	14,970	19.9
Depreciation	409	466	647	880	1,239	1,735	40.0	2,255	30.0	2,932	30.0
Net change in working capital	(1,128)	(1,646)	(3,667)	860	(4,478)	(2,342)	-47.7	(2,356)	0.6	(2,771)	17.6
Other (operating)	0	221	171	130	47	242	409.5	213	-11.7	152	-28.6
Operating cash flow (pre tax/interest)	1,961	3,267	2,756	8,305	5,503	9,746	77.1	12,593	29.2	15,282	21.4
Net interest received / (paid)	(313)	(372)	(374)	(499)	(385)	(342)	-11.2	(840)	145.6	(540)	-35.7
Dividends paid	(298)	(470)	(961)	(1,213)	(1,433)	(1,561)	8.9	(1,873)	20.0	(2,081)	11.1
Tax paid	(493)	(860)	(1,137)	(877)	(1,110)	(1,301)	17.3	(1,897)	45.7	(2,333)	23.0
Capital expenditure	(769)	(1,540)	(5,674)	(4,617)	(6,076)	(5,000)	-17.7	(6,000)	20.0	(6,000)	0.0
Net (acquisitions) / disposals	83	0	0	0	0	0	-	0	-	0	-
Other	123	24	(30)	0	0	0	-	0	-	0	-
Share issues	(58)	18	965	377	3,393	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	237	67	(4,454)	1,476	(107)	1,542	-	1,983	28.6	4,328	118.2
FX / non cash items	(410)	(395)	(29)	(3,644)	2,179	0	-100.0	0	-	0	-
Balance sheet (inc)/dec in net debt	(173)	(328)	(4,484)	(2,168)	2,072	1,542	-25.6	1,983	28.6	4,328	118.2
Core EBITDA	3,089	4,692	6,252	7,314	9,933	11,846	19.3	14,735	24.4	17,901	21.5
Maintenance capital expenditure	(409)	(466)	(647)	(880)	(1,239)	(1,735)	40.0	(2,255)	30.0	(2,932)	30.0
Maintenance net working capital	(1,000)	(1,500)	(3,500)	(1,000)	(3,000)	(3,000)	0.0	(2,500)	-16.7	(2,500)	0.0
Operating free cash flow, pre-tax	1,680	2,726	2,105	5,434	5,694	7,112	24.9	9,980	40.3	12,470	24.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Pharmaceuticals

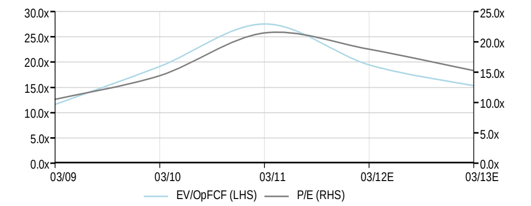
12-month rating	Buy
12m price target	Rs525.00

Lupin Limited

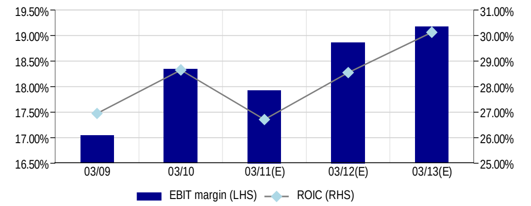
Company profile

Incorporated in 1968, Lupin is an India-based pharmaceutical company focused on the manufacture and global marketing of finished dosages and active pharmaceutical ingredients (APIs). Lupin is the eighth largest company in the domestic market and is the largest Indian company in the US based on TRx. Lupin is also increasing its presence in Japan and Europe. FY10 revenue was Rs47.4bn, with 19% derived from global API sales, 28% from Indian finished dosages, 35% from US finished dosages and 18% from RoW and Japan finished dosages.

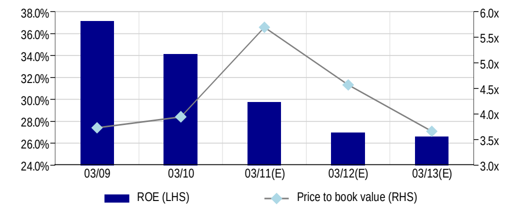
Value (EV/OpFCF & P/E)



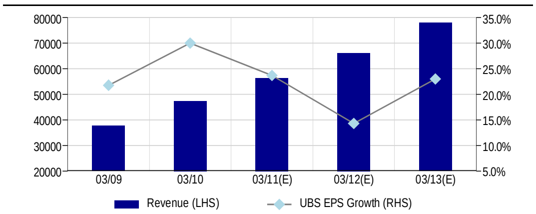
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	16.3	10.5	14.4	21.6	18.9	15.4
P/E (UBS)	16.3	10.5	14.4	21.6	18.9	15.4
P/CEPS	13.2	9.0	12.2	18.0	15.4	12.4
Net dividend yield (%)	1.3	2.0	1.2	0.7	0.8	0.9
P/BV	4.6	3.7	3.9	5.7	4.6	3.7
EV/revenue (core)	2.0	1.7	2.3	3.5	3.0	2.5
EV/EBITDA (core)	10.1	8.6	11.0	16.7	13.3	10.7
EV/EBIT (core)	11.5	9.8	12.6	19.5	15.7	12.9
EV/OpFCF (core)	18.3	11.6	19.2	27.7	19.6	15.4
EV/op. invested capital	3.2	2.6	3.6	5.2	4.5	3.9

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	52,875	98,779	188,743	188,743	188,743
+ minority interests	119	199	255	255	255
+ average net debt (cash)	10,371	10,419	8,612	6,850	3,694
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(216)	(264)	(264)	(264)	(264)
Core enterprise value	63,149	109,132	197,346	195,584	192,428

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	31.5	39.5	25.5	19.0	17.3	18.0
EBITDA (UBS)	47.0	17.0	35.8	19.3	24.4	21.5
EBIT (UBS)	51.2	14.8	35.1	16.3	23.4	19.9
EPS (UBS)	51.9	21.8	30.0	23.7	14.3	23.0
Cash EPS	46.3	23.5	30.7	25.5	16.9	24.3
Net DPS	40.2	24.9	13.3	5.4	20.0	11.1
BVPS	29.6	10.3	68.4	27.4	24.6	24.9

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	19.3	19.4	21.0	21.0	22.3	22.9
EBIT / revenue	16.9	17.0	18.3	17.9	18.9	19.2
Net profit (UBS) / revenue	12.4	13.3	14.4	15.4	15.1	15.7

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	27.9	27.0	28.7	26.7	28.6	30.1
ROIC post tax	-	22.6	24.0	23.2	24.0	25.3
Net ROE	33.9	37.1	34.1	29.8	27.0	26.6

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	10.7	13.2	22.7	NM	15.1	28.0
Dividend cover (UBS EPS)	5.6	4.8	5.6	6.5	6.2	6.9
Div. payout ratio (%, UBS EPS)	19.3	20.6	18.0	15.3	16.1	14.5
Net debt / EBITDA	1.5	1.6	0.9	0.7	0.4	0.1

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	1.6	1.6	1.6	1.5	1.5	1.6
Revenue / fixed assets	2.5	2.5	2.4	2.3	2.4	2.5
Revenue / net working capital	3.6	3.9	4.1	3.8	3.8	3.9

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	0.6	0.8	0.7	0.7	0.8	0.8
Capex / revenue (%)	12.1	12.2	12.8	8.9	9.1	7.7
Capex / depreciation	5.1	5.2	4.9	2.9	2.7	2.0

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	73.2	80.4	36.5	23.9	14.3	3.0
Net debt / (net debt + equity)	42.3	44.6	26.8	19.3	12.5	2.9
Net debt (core) / EV	13.1	16.4	9.5	4.4	3.5	1.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs423.60 on 12 May 2011 19:31 SGT Market cap(E) may include forecast share issues/buybacks.

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Lupin Limited

Incorporated in 1968, Lupin is an India-based pharmaceutical company focused on the manufacture and global marketing of finished dosages and active pharmaceutical ingredients (APIs). Lupin is the eighth largest company in the domestic market and is the largest Indian company in the US based on TRx. Lupin is also increasing its presence in Japan and Europe. FY10 revenue was Rs47.4bn, with 19% derived from global API sales, 28% from Indian finished dosages, 35% from US finished dosages and 18% from RoW and Japan finished dosages.

Statement of Risk

Key risk for Speciality business is erosion of the business due to generic substitution. We believe risks include regulatory risks, FDA approval, timing of approvals, litigation (including the appeal process), accounting/disclosure, and product pricing risk from generics competition. Pricing pressure in the US market remains high.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	52%	41%
Neutral	**Hold/Neutral**	40%	37%
Sell	**Sell**	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	30%
Sell	**Sell**	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
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UBS Securities India Private Ltd: Sonal Gupta.

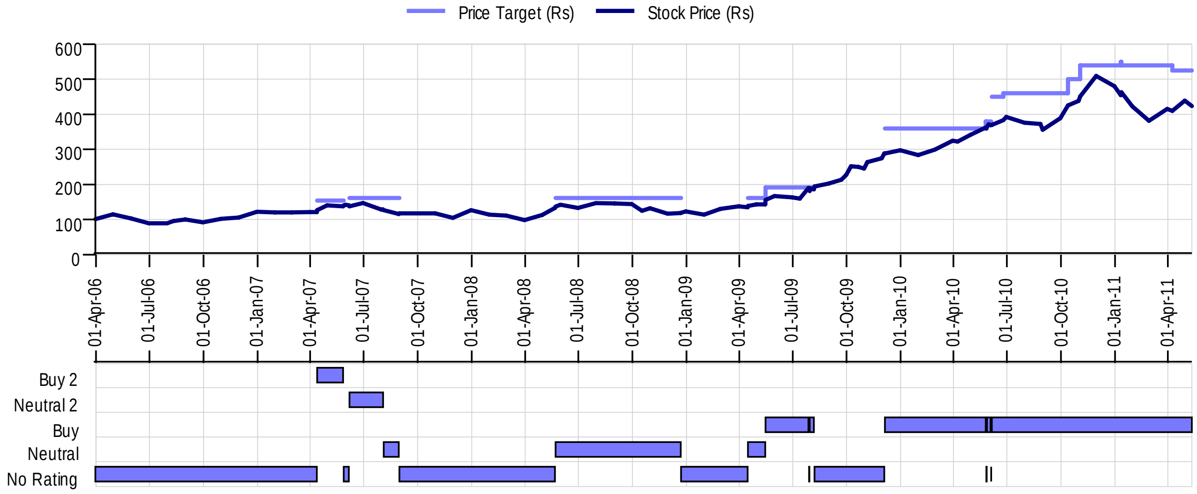
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Lupin Limited	LUPN.BO	Buy	N/A	Rs423.60	12 May 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Lupin Limited (Rs)



Source: UBS; as of 12 May 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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