

Lupin -----Maintain OUTPERFORM

Continued investments in growth

EPS: ◀▶ TP: ◀▶

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- Lupin seems to be re-investing its margin for future growth: with generic Lotrel and Antara sales picking up, margins should have expanded QoQ. But sales and marketing rose, and R&D was 9% of sales (7% in 3Q) as 4Q saw 22 of the 37 ANDA filings in FY10.
- Higher Lotrel sales in the US and growth in Suprax offset weaker growth elsewhere: sales in India, Japan and developing markets were weaker than expected. A diversified revenue base allows for different markets to surprise positively at different times.
- Antara sales decline has been stemmed, but currently trending below the pre-Lupin US\$70 mn sales. The company expects to reach January 2009 levels (when Oscient stopped promoting) by January/February 2011.
- Working capital days fell 18 days YoY. The fall in interest costs had to do with lower debt (down Rs200 mn QoQ), and more with lower rates as it used less of working capital loans.
- Work is on for 120 products (not yet filed): 30-40 controlled release, 24 ophthalmics, etc. With 80 ANDAs pending approval, Lupin is confident of maintaining growth despite the rising base. We maintain OUTPERFORM.

price declines, though high Suprax sales should continue, with Lupin's brand extensions doing well, and genericisation still a year away.

As flagged in the preview, Antara sales are currently annualising below earlier expected FY11 run rate of US\$70 mn: we are at US\$60 mn. However, with the salesforce expanded from 70 to 170 in February 2010, the company expects prescriptions to pick up, reaching January 2009 levels (when the earlier owner Oscient stopped promoting it) by January 2011.

37% of FY10 US sales were branded products (US\$127 mn) and led to margin expansion.

OC launches are expected to contribute meaningfully to sales starting 2H FY12, and become a major earnings driver in FY13 – this is in line with our estimate, as detailed in our note, *Quantifying the OC opportunity*, published 04 May 2010.

Domestic formulations grew 18% YoY (adjusted for excise), missing our estimates by 4% (Fig. 2). Formulations sales in developing markets also were weaker than expected. Growth in Japan was a tepid 10%.

Bbg/RIC	LPC IN / LUPN.BO	Price (04 May 10 , Rs)	1,745.00		
Rating (prev. rating)	O (O)	TP (Prev. TP Rs)	2,040 (2,040)		
Shares outstanding (mn)	89.63	Est. pot. % chg. to TP	17		
Daily trad vol - 6m avg (mn)	0.25	52-wk range (Rs)	1764.00 - 720.50		
Daily trad val - 6m avg (US\$ mn)	3.0	Mkt cap (Rs/US\$ bn)	156.4/ 3.5		
Free float (%)	47.0	Performance			
Major shareholders	Promoters 52%	Absolute (%)	1M	3M	12M
		Relative (%)	7.9	13.3	142.2
			11.4	7.3	71.5
Year	3/09A	3/10A	3/11E	3/12E	3/13E
Revenues (Rs mn)	37,759	47,405	56,365	64,200	74,092
EBITDA (Rs mn)	6,485	8,536	11,505	13,945	16,379
Net profit (Rs mn)	5,049	6,817	8,709	10,325	12,615
EPS (Rs)	57	76	97	115	141
- Change from prev. EPS (%)	n.a.	n.a.	0	0	
- Consensus EPS (Rs)	n.a.	n.a.	92.0	97.2	0.1
EPS growth (%)	22.2	34.5	27.8	18.6	22.2
P/E (x)	30.8	22.9	18.0	15.1	12.4
Dividend yield (%)	0.8	0.6	0.8	0.9	0
EV/EBITDA (x)	26.1	20.1	14.6	11.7	9.5
P/B (x)	10.9	7.8	5.7	4.3	3.2
ROE (%)	35.1	33.6	31.4	28.2	25.6
Net debt (net cash)/equity (%)	84.7	78.0	44.1	17.4	(5.0)

Note 1: Lupin is a vertically integrated Indian pharmaceuticals manufacturer focusing on Cephalosporins and Anti-TB medicines. It is now expanding in regulated markets, and also changing product mix towards formulations. Note 2: Lupin is a vertically integrated Indian pharmaceuticals manufacturer focusing on Ceph and Anti-TB medicines.

In-line results: strong US offsets weak India and Japan

EBITDA was in line, with higher sales offsetting slightly weaker than expected margin. R&D expenses were 9% of sales, as 4Q saw 22 out of the 37 ANDA filings in FY10. Marketing expenses on Antara likely picked up as well. The company seems to be re-investing higher margin in the US to fund future growth. Higher other income, and lower interest and taxes led to a 31% EPS beat.

US: Sales beat expectation, with strong sales of Lotrel (26% share) and Suprax (10% YoY). With further competition Lotrel is likely to see

Figure 1: 4Q10 results vs CS estimates

(Rs mn)	4Q10A	4Q10E	Diff. (%)	4Q09A	YoY %
Net sales	12,848	12,595	2	10,434	23
Total expenditure	10,358	10,096	3	8,544	21
Material cost	4,882	5,038	-3	4,910	-1
Personnel cost	1,624	1,841	-12	1,363	19
Other expenses	3,852	3,218	20	2,271	70
EBITDA	2,491	2,499	0	1,890	32
EBITDA margin	19.4%	19.8%	-0.5	18.1%	1.3
Depreciation	407	359	14	266	53
EBIT	2,084	2,140	-3	1,623	28
Other income	539	156	246	258	109
Interest cost	78	135	-42	124	-37
Pretax income	2,544	2,161	18	1,758	45
Income taxes	293	432	-32	139	110
Minority interest	45	42	5	0	
Net income	2,207	1,687	31	1,574	40
EPS (Rs) diluted	24.73	18.82	31	17.59	40

Source: Company data, Credit Suisse estimates.

Figure 2: Geography-wise split of revenues

(Rs mn)	4Q10A	4Q10E	Diff. (%)	4Q09A	YoY %
Formulations	10,623	10,534	1	9,196	16
Developed markets	7,141	6,670	7	5,680	26
Domestic	2,651	2,765	-4	2,304	15
Developing markets	830	1,099	-24	1,212	-31
API	2,226	2,062	8	1,798	24
Total	12,848	12,595	2	10,434	23

Source: Company data, Credit Suisse estimates.

Takeaways from the result/analyst meet

- **Interest cost:** Net debt fell Rs200 mn QoQ, but interest costs fell even more sharply as the average cost of debt came down. This was primarily due to a lower drawdown of working capital lines.
- **US Product pipeline:** Lupin is currently working on 120 products, of which 30-40 are controlled release, 24 ophthalmic, etc.

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Companies Mentioned (Price as of 04 May 10)

Lupin Ltd (LUPN.BO, Rs1745.00, OUTPERFORM, TP Rs2040.00)

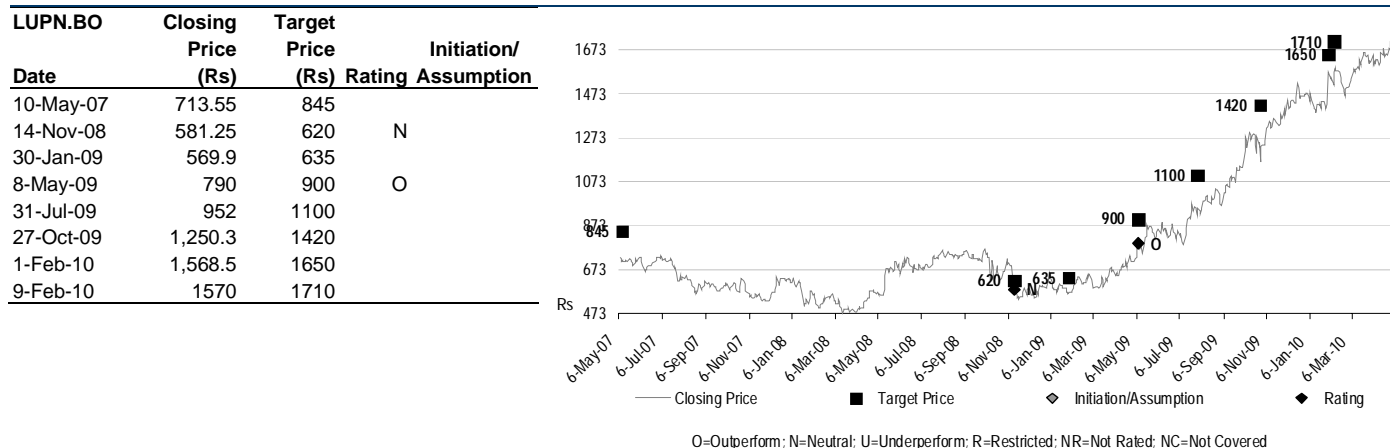
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3-Year Price, Target Price and Rating Change History Chart for LUPN.BO



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Price Target: (12 months) for (LUPN.BO)

Method: For our Rs2040 FY12 target price for Lupin, we use sum of the parts valuation, applying 18x to forward earnings for the domestic markets formulations businesses. We use 18x for formulations profits from developing markets and 18x from developed markets and a 12x for bulk drug profits. These multiples are in line with peers. We do not apply any value to the NCE pipeline.

Risks: Downside Risks to our Rs2040 target price for Lupin include: 1) slowdown in domestic sales growth; 2) slowdown in new product approvals in United States - we expect the company to get approvals for its ANDA filings in OCs in FY11 3) sharp decline in Suprax sales due to increasing competition 4) Higher than expected competition in Lotrel and Oral Contraceptives leading to faster price erosion

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