

Lupin Ltd.

Pharmaceuticals: India

Ticker Code: **LPC IN**

Rating: **Buy**

Target price: **Rs 510**

Share price (12 May): **Rs 424**

Lupin's (LPC) Q4FY11 results were above our expectations. The company clocked a topline growth of 18% for the quarter, driven by robust growth across the American, Indian, Japanese and RoW markets. Importantly, LPC posted a recovery in its US branded generic business, led by a sequential uptick in *Antara* sales and a strong 50% plus growth in *Suprax* (tablet form). We believe that the core growth drivers in India, US and Japan remain intact and LPC's plans to spruce up its investments in geographies like France and South Africa would pay-off well over the next 3–4 years. Maintain BUY.

Sales up by 18%: LPC reported an 18% increase in its Q4FY11 sales driven by growth across business verticals. The company's US branded generic business staged a recovery (run rate at ~US\$ 45mn now vs. an average run rate of ~US\$ 30mn for the past three quarters) aided by a strong 50% plus growth in *Suprax* (tablet form). It plans to introduce the 'drops' version of *Suprax* going ahead, which would aid topline growth. A sequential uptick in *Antara* sales is encouraging and the growth would gain momentum in the coming quarters. For the US generics business, LPC plans to launch ~10–12 products in FY12. For India, the company has indicated 20% plus growth over the next 2–3 years, with a focus on the 'chronic' therapy segment. New product launches in Japan would continue to aid growth in that market.

EBITDA margin dips on higher R&D and staff costs: R&D and staff costs rose 30%/23% to Rs 1.5bn/2bn for the quarter, restricting EBITDA growth to 8%. Going forward, the management has indicated that R&D costs would normalise and fall back to ~8–8.5% levels, aiding margin growth.

Valuations attractive; Maintain BUY: The stock is currently trading at PER of 19.4x/14.8x FY12e/13e earnings—which we believe is attractive, given LPC's anticipated growth trajectory. We, however, pare our revenues/earnings estimates by 2%/6% for FY12E and 4%/6% for FY13E primarily to factor in the delayed launch of *AllerNaze* and slower pick-up in *Antara* and *Suprax* sales.

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