

Company Report

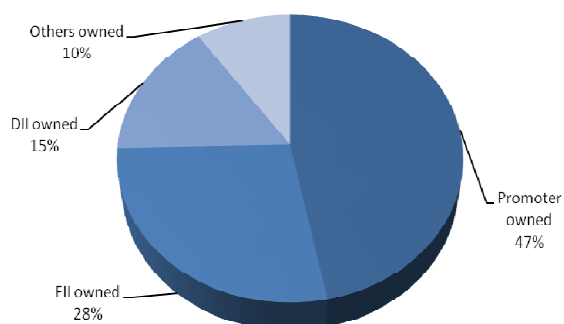
Lupin Ltd

5th April, 2013**BUY**
CMP **Rs.618.40**
Target Price **Rs.750.00**

BSE Code	500257
NSE Code	LUPIN
Market Cap (Rs Cr.)	27675.22
52 Week High/Low	644.80/507.00
Industry	Pharmaceuticals
Face Value	Rs.2.00
Shares O/S	447529493

EPS	19.43
Book Value	111.55
P/E	31.83
P/B	5.54

Shareholding Pattern



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- Lupin is the 5th largest and fastest growing generics player in the US (5.1% market share by prescriptions, IMS Health) and the 3rd largest Indian pharmaceutical company by sales. The company is also the fastest growing top 10 generic pharmaceutical players in Japan and South Africa (IMS).
- The company posted excellent numbers for the quarter ending December 2012. The Revenues for the quarter ended December 2012 of Rs.2501.06 crores rose by 37.40% from Rs.2300.68 crores y-o-y. The company has a record quarter driven by strong operating performance. Operating profit skyrocketed 61.38% at about Rs.605 crores as against Rs.515.93 crores in the like period last year. The company has reported 42.62% rise in its net profit at Rs.335.23 crore for the quarter as compared to Rs.290.46 crore for the same quarter in the previous year. It continues to improve margins consistently. Operating margin expanded 360 bps at 24.19% and Net profit margin surged about 50bps at 13.40%. EPS for the quarter stood at Rs.7.49.
- Material cost increased to 37.94% to net sales at Rs.935.67 crores in Q3FY12 as against Rs.625.78 crores in Q3FY12 which is 34.93% to net sales. R&D expense stood at 9.7% of net sales at Rs.238.20 crores as compared to Rs.141 crores during Q3FY12. Capital Expenditure stood at Rs.97 cr. During the quarter.
- Lupin has launched five products in the US market and has received approval for 3 products from the USFDA during the quarter.

Valuation

With increasing traction in Indian business, strong contribution from US business, robust pipeline of products and USFDA approvals; Lupin's growth prospects looks promising. We believe Lupin Ltd. is trading at an attractive valuation at 23.64x and 19.56x of FY13EPS of Rs.26.16 and FY14EPS of Rs.31.62. We initiate a 'BUY' on the stock with a target price of Rs.750 (appreciation of about 21%) with the medium to long term investment horizon.

Business Details

Headquartered in Mumbai, Lupin is an innovation led transnational pharmaceutical company producing and developing a wide range of quality, affordable generic and branded formulations and APIs for the developed and developing markets of the world.

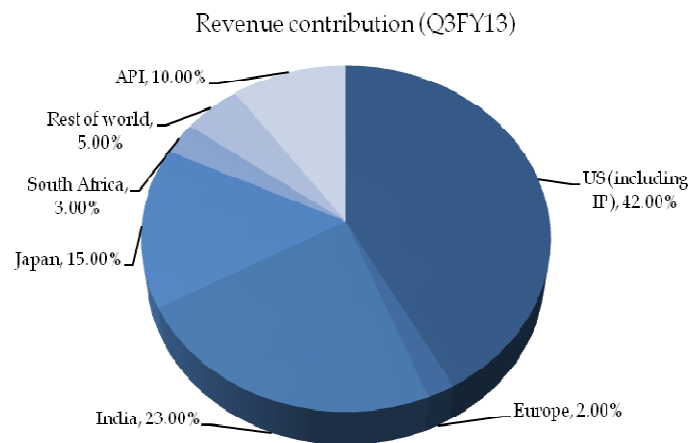
Lupin first gained recognition when it became one of the world's largest manufacturers of Tuberculosis drugs. The Company today has significant market share in key markets in the Cardiovascular (prils and statins), Diabetology, Asthma, Pediatrics, CNS, GI, Anti-Infectives and NSAIDs therapy segments, not to mention global leadership positions in the Anti-TB and Cephalosporins segments. The Company's R&D endeavours have resulted in significant progress in its NCE program. The Company's foray into Advanced Drug Delivery Systems has resulted in the development of platform technologies that are being used to develop value-added generic pharmaceuticals. Lupin's world class manufacturing facilities, spread across India and Japan, have played a critical role in enabling the companies realize its global aspirations. Benchmarked to International standards, these facilities are approved by international regulatory agencies like US FDA, UK MHRA, Japan's MHLW, TGA Australia, WHO, and the MCC South Africa. Major business areas include:

In formulations it offers wide range of products for treatment of Cephalosporins, CVS, CNS, Anti-Asthma, Anti-TB, Diabetology, Dermatology, GI, and many more. It constitutes 70% of Lupin's business. It has presence in USA, Europe, Japan, Australia and emerging markets of India and some of the other rest of world countries.

In APIs segment it has a basket of product offerings for treatment of TB, Cardiovasculars, Cephalosporins and many more.

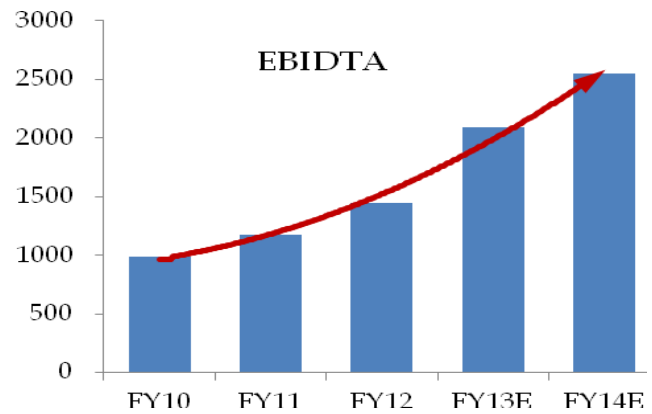
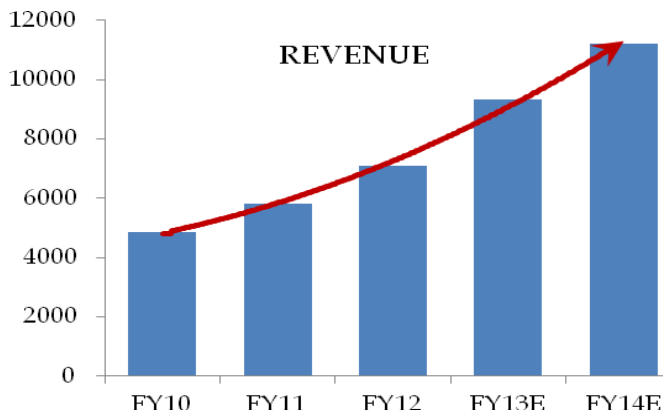
In CRAMS (Contract Research and Manufacturing Services) space, it has acquired Novodigm who is engaged into developing and validating of products.

Its Drugs and products reach over 70 countries in the world. Today, Lupin has emerged as the 5th largest and the fastest growing Top 5 company in the U.S (by prescriptions), the only Asian company to achieve that distinction. The company is also the fastest growing, top 5 pharmaceutical players in India (ORG IMS) and the fastest growing top 10 Generic players in Japan and South Africa. (IMS), Today, Lupin also has the unique distinction of being the fastest growing top 10 Generics players in the two largest pharmaceutical markets of the world - The U.S (ranked 5th by prescriptions & growing at 52 %) and Japan (ranked 7th and growing at 23%).



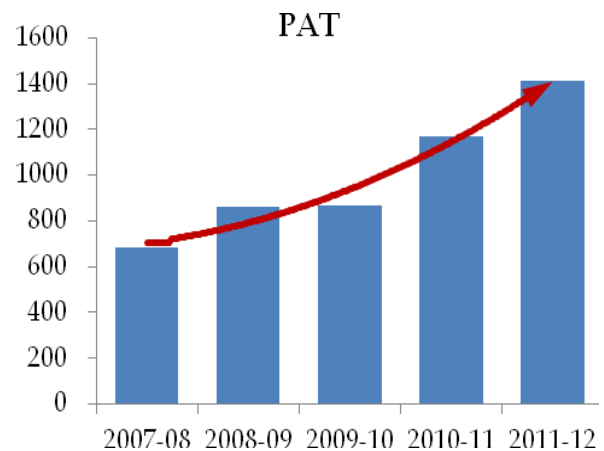
Firm growth ahead

Lupin’s management is confident to achieve 25% plus growth ahead supported by 30% plus growth from US business and new launches and become a USD 3 billion company by 2015. The company has a strong pipeline of products and efficient business mix of branded business and generic business. The company plans 2-3 launches in the fourth quarter of FY13 and about 20 launches per year going ahead on the condition of USFDA approvals. It also indicates launch of about 120 products in the US market over the next 3-4 years. Indian business is expected to grow at 18-20% in FY13 and even in the years ahead. The company is witnessing sharp expansion on the margins front. It expects to achieve EBIDTA margin between 22%-23% going forward on account of better quality business, cost reduction through use of technology as well as operations management and better supply chain management. Research and Development expenses are estimated to stay at 7%-8% of topline in FY13. Tax guidance for FY13 is between 34%-35%.



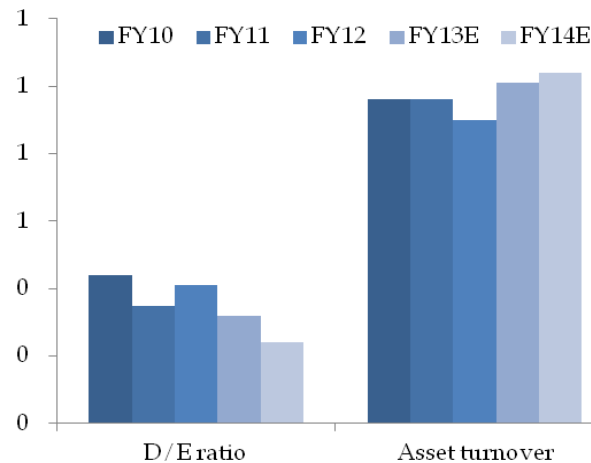
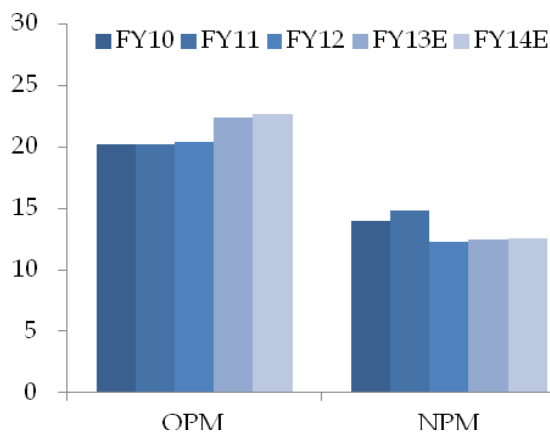
Recent USFDA Approvals

Lupin filed 8 ANDAs and received 3 approvals from the US FDA during the quarter. The Company withdrew 16 ANDA’s which were pending for approval with the US FDA. Cumulative ANDA filings with the US FDA as of December 31st, 2012 stood at 168 with the company having received 68 approvals to date. The Company filed 2 MAAs with European regulatory authorities during the quarter & has received 2 approvals as well. Cumulative filings with European authorities now stand at 49 with the company having received 34 approvals to date.



Growth coming from all around

The company's revenue contribution from all around the world is increasing despite adverse macro-economic environment. US & Europe formulation sales contributed 44% to the company's revenues for Q3FY13. Revenues from US increased sharply by 56% at USD 19.3 crores from USD 12.4 cr. US Formulations sales including IP income skyrocketed 68% at Rs.1039 cr in December 2012 quarter from Rs.618.80 cr. The Indian formulations contributed 23% to the overall revenues and growing 14% during the quarter at Rs.570.8 cr from Rs.510.1 cr in Q3FY12. Japan revenues contribute about 15% to total revenues. Sales from Japan (Kyowa plus I'rom) grew by 48% at Rs.365.8 cr in Q3FY13 from Rs.246.8 cr in the like quarter a year ago. Lupin's South African Business, Pharma Dynamics clocked in revenues of Rs.83.1 cr during Q3FY13, representing a growth of 43%.



Suprax(new strength) launch expected soon

The company's subsidiary Lupin Pharmaceuticals Inc. (collectively, Lupin) has received approval for SUPRAX (cefixime) for Oral suspension 500mg/5ml from the United States Food and Drugs Administration (FDA). This new drug application provides for a new strength, 500mg/5mL of SUPRAX (Cefixime) for Oral Suspension is for the treatment of otitis, acute exacerbation of chronic bronchitis, uncomplicated urinary tract infections, uncomplicated gonorrhoea (cervical/urethral) and pharyngitis/tonsillitis. The new dosage form will add to company's growing SUPRAX franchise and gives health care providers and patient a new formulation to treat the indicated infections. The approval will expand Lupin's range of SUPRAX dosage forms available to treat approved indications in appropriate patients. SUPRAX is currently available as 100mg/5mg and 200mg/5mL suspensions; 400mg tablets as well as chewable tables 100 & 200mg and now the company has moved to drops. Lupin expects to commence shipping the product in the near future. Suprax has gross sales of about USD 800 million and ranges across various strengths.

Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Net sales	4870.79	5818.97	7082.91	9349.44	11219.33
Growth		19.47%	21.72%	32.00%	20.00%
Expenditure	3886.90	4641.13	5638.20	7255.17	8672.54
EBITDA	983.89	1177.84	1444.71	2094.27	2546.79
Growth		19.71%	22.66%	44.96%	21.61%
EBITDA margin	20.20%	20.24%	20.40%	22.40%	22.70%
Other income	14.20	22.19	14.35	21.50	25.80
Depreciation & Amortisation	123.91	171.18	227.52	277.71	331.61
EBIT	874.18	1028.85	1231.54	1838.07	2240.99
EBIT margin	17.95%	17.68%	17.39%	19.66%	19.97%
Interest	38.49	34.48	35.47	35.46	32.91
PBT	835.69	994.37	1196.07	1802.61	2208.08
Tax	136.02	114.98	308.56	612.89	772.83
PAT	699.67	879.39	887.51	1189.72	1435.25
Minority interest	11.16	14.84	19.86	21.45	23.16
Share of Associates	6.88	2.00	0.00	0.00	0.00
Adjusted PAT	681.63	862.55	867.65	1168.27	1412.08
Growth		26.54	0.59	34.65	20.87
Net Profit margins	13.99	14.82	12.25	12.50	12.59
Extraordinary item	0.00	0.00	0.00	0.00	0.00
Reported PAT	681.63	862.55	867.65	1168.27	1412.08
Equity Capital	88.94	89.24	89.33	89.33	89.33
Res. & Surplus	2478.89	3191.84	3923.56	4,913.15	6,101.88
Equity Shares	44.47	44.62	44.67	44.67	44.67
Adjusted EPS	15.33	19.33	19.43	26.16	31.62

Ratios

Particulars	FY10	FY11	FY12	FY13E	FY14E
Return on Equity	26.54	26.29	21.62	23.35	22.81
Return on Capital employed	23.58	23.19	21.82	27.79	29.15
Debt/Equity	0.44	0.35	0.41	0.32	0.24
Asset turnover	0.96	0.96	0.90	1.01	1.04
Current Ratio	2.33	2.43	2.32	2.25	2.22

Balance Sheet

Rs. Crore

Particulars	FY10	FY11	FY12	FY13E	FY14E
Share Capital	88.94	89.24	89.33	89.33	89.33
Reserves & Surplus	2478.89	3191.84	3923.56	4,913.15	6,101.88
Shareholders' funds	2567.83	3281.08	4012.89	5002.48	6191.21
Borrowings	1139.85	1155.76	1632.22	1611.97	1495.91
Deferred tax liability	143.50	141.13	144.23	144.23	144.23
Minority Interest	25.49	51.51	72.29	86.75	99.76
Sources of funds	3876.67	4629.48	5861.63	6845.43	7931.11
Gross block	2,293.71	2,638.85	3,687.84	4628.44	5526.76
Accumulated Depreciation	707.22	907.51	1,442.18	1,719.89	2,051.50
Net block	1586.49	1731.34	2245.66	2908.55	3475.26
Capital work in progress	357.87	490.41	443.72	370.27	425.56
Investments	26.43	3.15	2.80	4.63	5.53
Goodwill on consolidation	319.68	325.49	504.00	527.78	531.95
Projects in progress	0.00	0.00	0.00	0.00	0.00
Inventories	971.49	1,199.96	1,732.67	2,048.08	2,415.20
Sundry debtors	1,126.57	1,255.64	1,731.81	1,966.16	2,288.08
Cash and bank balance	201.53	420.14	402.47	491.54	540.24
Other current assets	0.00	117.36	121.05	136.54	158.89
Loans and advances	475.86	542.82	703.06	819.23	953.37
Total current assets	2,775.45	3,535.92	4,691.06	5,461.55	6,355.78
Current liabilities and provisions	1,189.25	1,456.83	2,025.61	2,427.36	2,862.96
Net current assets	1,586.20	2,079.09	2,665.45	3,034.20	3,492.81
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	3,876.67	4,629.48	5,861.63	6,845.43	7,931.12

Quarterly Financial Highlights

Rs. Crore

Particulars	Q3FY13	Q3FY12	Q2FY13	YoY%	QoQ%
Revenues	2501.06	1820.27	2300.68	37.40	8.71
Expenditures	1896.12	1445.42	1784.75	31.18	6.24
Operating Profit	604.94	374.85	515.93	61.38	17.25
Adjusted Net Profit	335.23	235.05	290.46	42.62	15.41
OPM%	24.19	20.59	22.43	360bps	176bps
NPM %	13.40	12.91	12.62	49bps	78bps
Adjusted EPS*	7.49	5.25	6.49	42.67	15.41

*At current no. of equity shares

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
<i>1. Analyst Ownership of the Stock</i>	<i>No</i>
<i>2. Hem & its Group Company Ownership of the Stock</i>	<i>Yes</i>
<i>3. Hem & its Group Companies' Director Ownership of the Stock</i>	<i>No</i>
<i>4. Broking relationship with company covered</i>	<i>No</i>

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