Lupin Ltd.

EQUITY REPORT

April 22, 2013

BSE Code:	500257	NSE Code:	LUPIN	Reuters Code:	LUPN.BO	Bloomberg Code:	LPC:IN

Lupin is one of the most vertically integrated global generic majors having a dominant position in both active pharmaceutical ingredient (API) and formulation businesses. Lupin is the 5th largest and the fastest growing generic pharmaceutical major in the US by prescription and is also the 3rd largest Indian pharmaceutical company by sales.

Investor's Rationale

Lupin is lined up with 120+ products launches in next 3-4 years, mainly in generics, of which 25 are first to file (FTF) with addressable market value of USD 1.5 bn. The new product launches will be key growth catalyst for the company. We expect the company's revenues to grow at a CAGR of ~27% for FY'12-FY'14E mainly led by growth in US, backed by strong growth from existing products and planned new product launches including Suprax drops and other niche generics.

Lupin has fortified its strength in the less competitive niche therapy segments like Oral Contraceptives (OC), ophthalmology and dermatology which are technically complex to develop and have relatively small addressable market size compared to the segments like acute and chronic. So far, it has filed ~25-30 OC products and has received approval for 8 OC products till date which are expected to contribute meaningfully in FY'14. It has further filed for some products in dermatology and ophthalmology segments which are expected to get commercialised by FY'14.

Lupin is well poised to exploit the strong growth opportunities in the Japanese generics market through its subsidiaries Kyowa and I'rom Pharmaceuticals. Further, the sourcing of product from India for its Japanese operations will help aid margins. The company has already initiate the process of supplies for three formulations of its Japanese subsidiaries from its Indian facilities with the target to cater to ~10-15% of Japanese volume requirement in the next two years.

We expect the company's domestic business to benefit from the launch of 30-50 new products every year that will help the company to outperform the domestic market. The company's strong presence in chronic therapy segment will drive volume growth and also help to sustain strong margins. We expect the domestic formulations business to grow at ~ 18% CAGR for the next two years.

Lupin is preparing for robust growth in the key markets of Europe and rest of world (ROW) by building a differentiated product pipeline. Besides, its subsidiaries, Pharma Dynamics and Multicare Pharmaceuticals continue to outpace the market growth.

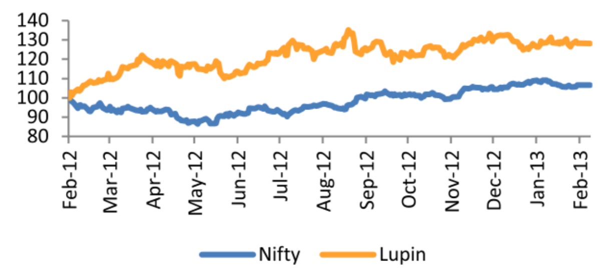
Market Data

Rating	**BUY**
CMP (₹)	670.8
Target (₹)	**752**
Potential Upside	~12.0%
Duration	Long Term
52 week H/L (₹)	686/507
All time High (₹)	1,985
Decline from 52WH (%)	2.2
Rise from 52WL (%)	32.2
Beta	0.7
Mkt. Cap (₹ bn)	299.6
Enterprise Value (₹ bn)	300.6

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Net Sales (₹bn)	58	71	93	115
EBIDTA (₹bn)	12	14	21	26
PAT (₹bn)	9	9	12	15
EPS (₹)	19.3	19.4	26.7	33.5
P/E (x)	34.7	12.4	12.1	10.9
P/BV (x)	1.8	1.8	1.8	1.8
EV/EBIDTA(x)	25.4	20.8	14.2	11.4
ROA (%)	16.8	15.5	19.4	19.8
ROE (%)	25.9	21.2	24.1	24.2

One year Price Chart



Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	46.85	46.89	(0.04)
FII	27.76	27.99	(0.23)
DII	15.64	15.38	0.26
Others	9.75	9.74	0.01

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Vertically integrated API business augurs well for the company

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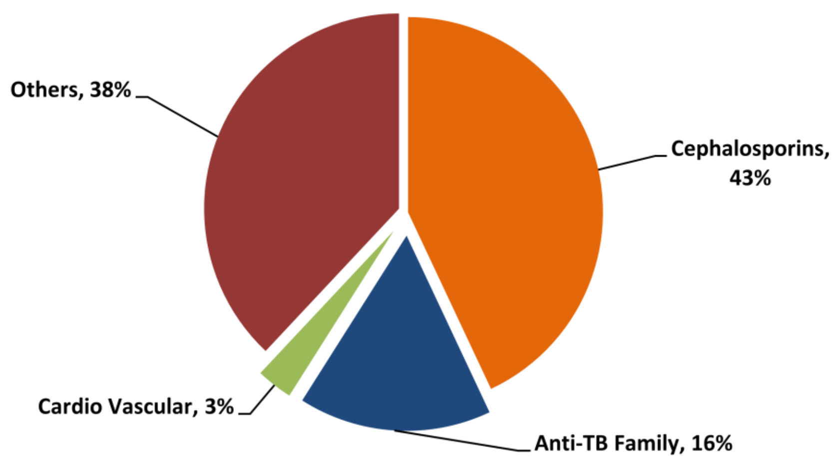
Lupin is one of the most vertically integrated global generic majors; a market leader on both fronts of the pharmaceutical business, APIs and Formulations. The company remains a global leader in the therapeutic areas such as Cephalosporins, Cardiovasculars and anti-TB. The company has also been the global leader in the products such as Rifampicin, Pyrazinamide, and Ethambuto, as well as in Cephalosporins such as Cephalexin, Cefacior, and their intermediates for over a decade. It has further imbibed a sizable API and intermediates pipeline for the future. It also plans to launch several new APIs. Introduction of new products enhanced operational innovations and market expansion will be the key drivers for growth.

API sales therapeutic contribution %



During Q3FY'13, Lupin filed 2 MAA with European regulatory authorities and has received 2 approvals as well.

Resilient brand franchisee to help strides the European and Rest of the World (ROW) market

US & Europe continue to be the principal growth engine for the Company and represent the major contributors to the Company's global revenues and margins. Lupin continues to focus towards future growth and is building a differentiated product pipeline by filing for niche opportunities in European market. During Q3FY'13, the company filed 2 marketing authorisation applications (MAA) with European regulatory authorities and has received 2 approvals as well. Cumulative filings with European authorities now stand at 49 with the company having received 34 approvals till date. Further, it is looking to expand its presence in Europe and preparing for robust growth in the key markets. The ROW business currently covers the markets of Australia, South Africa, South East Asia, Middle East and some markets within Latin American region.

Lupin's subsidiary, Pharma Dynamics is the fastest growing and 5th largest generic company in the South African market. Philippines subsidiary, Multicare Pharmaceuticals continues to outpace the market in the country. With a robust product pipeline in place, we expect the company to make strides in the European and ROW market to deepen its presence.

US business to aid growth on back of new product launches

Lupin's US business accounts for over 42% to the total revenues. Revenue growth in generics was driven by uptick in sales from its both existing and new products.

US business continued to be the major contributors to the company's global revenues and margins and accounts for over 42% to the total revenues. The Brands business contributed 28% of total US sales whereas the Generics business contributed 72% during FY'12. The strong product portfolio like Geodon, Seroquel, Fortamet and new launch like Tricor (booked 1.5 months of sales in Q3FY'13 garnering 25-30% category market share) drive the US generics business. The generics contribution grew to 75% in Q3FY'13 and we expect the company to maintain momentum going forward given Lupin's continuous focus towards new product launches. The Company continues to maintain its position as one of the top 10 abbreviated new drug application (ANDA) filers for the US market. During Q3FY'13 Lupin launched 5 products in the US market. Lupin is now the market leader in 22 products out of the 43 products marketed in the US generics market. Further, the company's 38 of these products are among the top 3 in terms of market share. Lupin's generic business lies in the strength of launching products in the segments having low competitive intensity due to technical complexity, high R&D and marketing spend to develop the product expertise and distribution. The company has fortified its strength in the less competitive niche therapy segments like Oral Contraceptives (OC), ophthalmology and dermatology. So far, it has filed ~25-30 OC products and has received approval for 8 OC products till date. Meanwhile, it has filed for some ophthalmology products and has now commenced filing for dermatology products also.

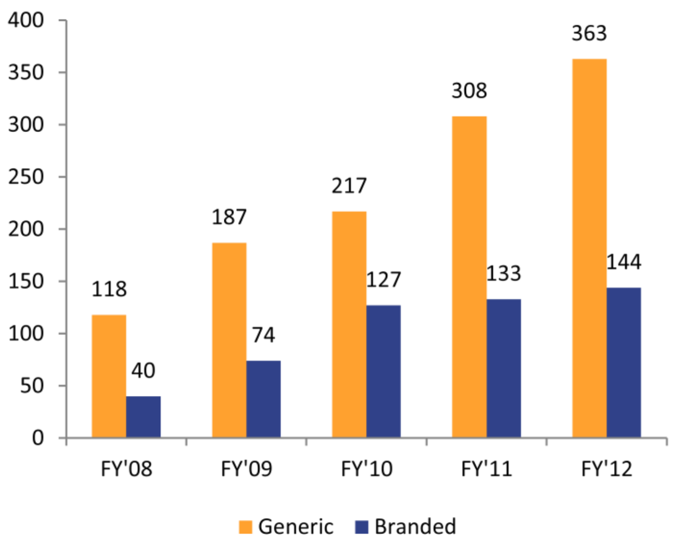
Among the Top 5 players in the generic market

	MAT Dec 2011		
	TRx Mn	% Market Share	% Growth
US Industry	2,927	100	4.8
1. Teva	488	16.7	(14.9)
2. Mylan Labs, Inc.	362	12.4	(3.8)
3. Watson Pharma	216	7.4	7.1
4. Sandoz (Novartis)	211	7.2	(4.7)
5. Lupin Pharma	155	5.3	16.9

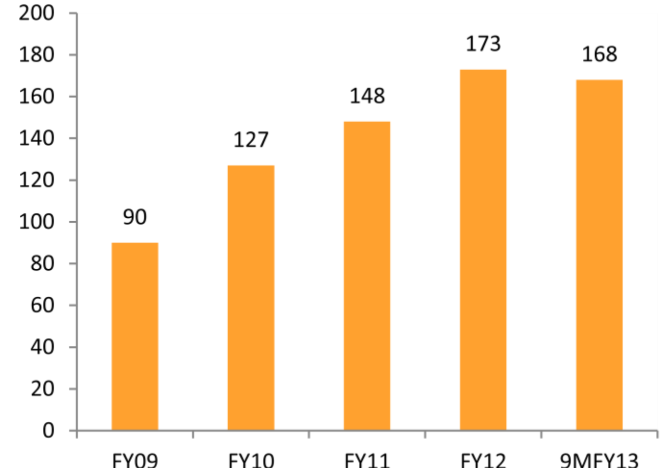
Lupin is expected to launch Suprax drops sooner to further strengthen its product portfolio.

Lupin is the only Indian Pharma Company with a significant Branded presence in the US market, contributing 28% to the overall US revenues in FY'12. This strength of the segment is stimulated by the launch of the company's flagship brands like Suprax and Antara. The company is expected to launch Suprax drops sooner to further strengthen its product portfolio. This product launch will help the company to offset any potential generic competition for the suspension dosage. In future, Antara is likely to go generic route. Meanwhile, US generic rival Mylan has launched its generic version of Lupin's Antara brand. To counter this challenge, management is actively pursuing brand acquisitions in US. Besides, it further aims to strengthen its branded portfolio with value-added line extensions and new products built on its proprietary advanced drug delivery technologies

Generic & branded revenues trend (in USD mn)



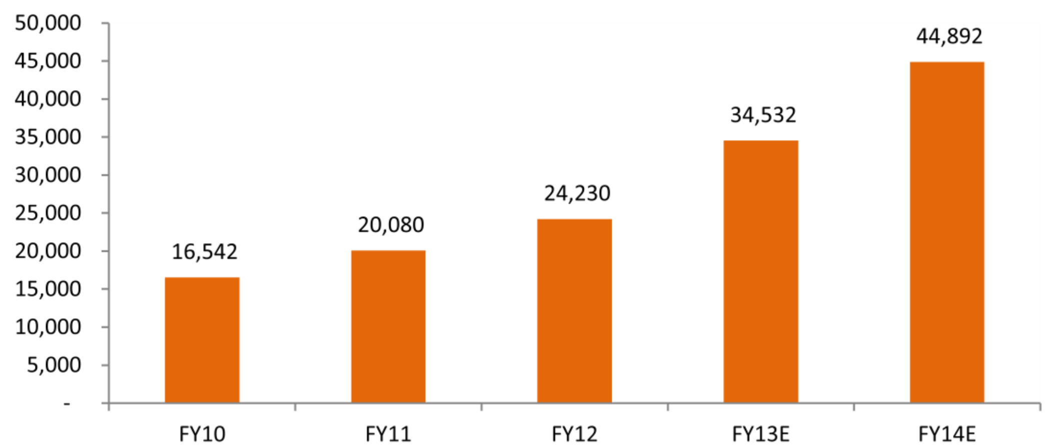
ANDA pipeline remains robust



Lupin is looking to launch more than 120 products in next 3-4 years to further strengthen its product portfolio.

US market would continue to remain the mainstay of the company's growth driven by consistent branded sales and growing generic portfolio (launched generic Lexapro and generic Tricor in 9MFY'13). In order to further strengthen its product portfolio, the company is looking to launch more than 120 products in next 3-4 years of which 25 are FTF's with addressable market value of USD 1.5 bn. The cumulative ANDA filings by Lupin with the USFDA as of December 31st, 2012 stood at 168 with the company having received 68 approvals to date. The company withdrew 16 ANDA's during Q3FY'13 which were pending for approval considering the high cost to benefit linked to these products.

Growth in US business to sustain (in ₹ mn)



Japan's business to benefit from the sourcing of products from Indian facilities

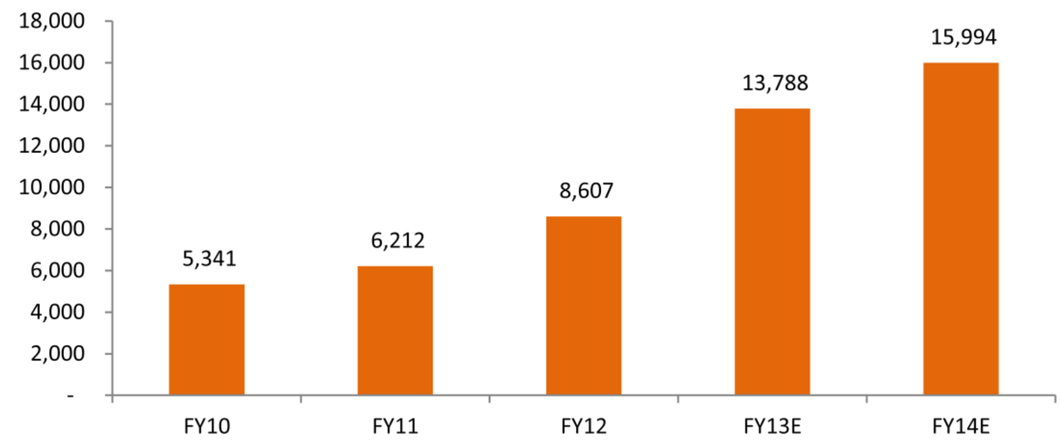
The growth of Lupin's Japan's business is driven by the acquisition of Kyowa in FY'08 and I'rom Pharmaceuticals in FY'12. Kyowa is a market leader in the generics space and has strong presence in the Neurology, Cardiovascular, Gastroenterology and the Respiratory therapy segments. I'rom is a specialty injectables company with significant presence in the Diagnosis Procedure Combination (DPC) hospital segment which is fixed-rate payment hospitals and treats acute conditions.

Lupin is on the phase of shifting the manufacturing from Japanese operations to its India facilities with the target to cater to ~10-15% of Japanese volume requirement in the next two years.

Negligible portion of generics has allured the company to venture into Japan. Further, the government's increased focused towards generics will help the company to cash in the burgeoning opportunities in this segment. The acquisition of injectable company, I'rom Pharma has paved the way for the company to mark a strong foothold in the DPC hospital segment. Going forward, patents worth USD 9 bn are coming off in the next 5 years and Kyowa along with I'rom are well placed to capitalise on the opportunities available.

Lupin is on the phase of shifting the manufacturing from Japanese operations to its India facilities that will help the company to benefit from the cost front. The company has already initiated the process of supplies for three formulations of its Japanese subsidiaries from its Indian facilities with the target to cater to ~10-15% of Japanese volume requirement in the next two years.

Revenue growth trajectory of Japan's business (in ₹ mn)



Sustained revenues from chronic segment to drive domestic formulation business

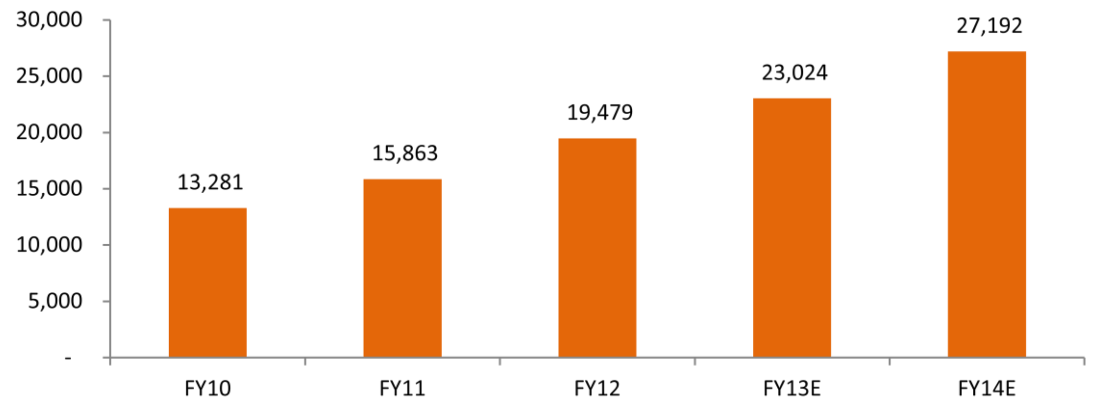
Transition to chronic therapeutic segment has helped Lupin to attain higher margins and sustained revenue growth.

Lupin's domestic formulation business continues its growth trajectory driven by entry into new therapeutic segments, expansion of field force and gradually increasing penetration in tier-II towns and rural areas. In the last 6 years, the company has successfully transitioned its product portfolio from acute to chronic therapy. Currently, chronic segment constitutes 55-60% of the total revenues, while acute accounts for less than 40%. Lupin has emerged as the fastest growing player in the chronic therapies like Cardiology, Central Nervous System (CNS), Diabetology, Anti-Asthma, Gastro Intestinal and Oncology. The increased focus towards the therapeutic segment has helped Lupin to attain higher margins and sustained revenue growth. The strategic alliance with Eli Lily to sell the latter's insulin products through its own franchise is expected to positively impact the company. Lupin is likely to generate around ₹1.2 bn from this deal in FY'13. The scope of the deal entails Lupin to distribute Eli Lily's insulin range of products through its fielded sales force of over 300 medical representatives.

Domestic business growth to be aided by 30-50 new products launch every year.

Lupin's sound business model and incisive product strategies, coupled with flawless execution have been the principal growth drivers for its domestic formulations business. It helped the company to build brands that have today become market leaders in the respective categories. Four of its products are amongst the Top 300 brands in the industry. We expect the company's move towards launching 30-50 new products every year will help the company to outperform the domestic market.

Trend in domestic formulations revenue (in ₹ mn)



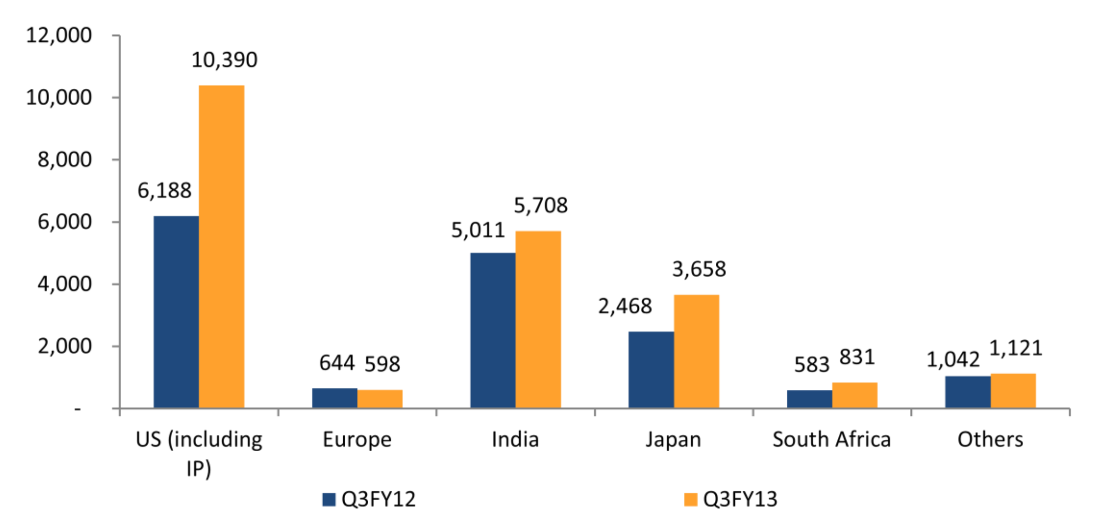
Robust Q3FY'13 performance: Higher revenue from US, Japan & South African markets powered the topline

Revenues grew 37.4% YoY to ₹24.7 in Q3FY'13 led by 68%, 48% and 14% increase in US, Japan and domestic formulations sales.

Lupin posted an impressive performance in Q3FY'13 with the net sales grew by 37.4% YoY at ₹24.7 bn, driven by 68%, 48% and 43% revenue growth from US, Japan & South African markets. The domestic formulations business (contributed 23% to the overall revenues) grew 14% YoY to ₹5,708 mn backed by strong show in cardiovascular system (CVS) and diabetes segment. On the product front, Suprax franchise (includes chewable tablets) reported a health growth of 48% YoY due to the occurrence of flu season in US. The sales growth in the US was further assisted by the improved sales of the newly launched generic Tricor. Further, the new product launches in Japan drive the company's Japan business sales (Kyowa + I'rom) to ₹3,658 mn and contributed ~15% to its consolidated revenues. API sales rose 10% YoY to ₹2,353 mn and contributed around 10% to consolidated revenues. Higher contribution from branded products and fall in other expenses (as % of sales) by 541bps fortified the EBITDA margin by 360bps YoY to 24.2% in Q3FY'13. While, the higher raw material costs and R&D expenditure constrained the margin expansion.

Lupin's net profit soared 42.6% YoY to ₹3,352 mn primarily led by robust sales despite the higher tax provision at 38.1% at ₹2,116 mn due to unrealised inventories at its US subsidiary.

Geography Mix (in ₹ mn)



Balance Sheet (Consolidated)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	892	893	893	893
Reserve and surplus	31,918	39,236	47,855	60,197
Net Worth	**32,811**	**40,129**	**48,748**	**61,091**
Minority Interest	515	723	723	723
Long term debt	2,992	4,330	5,630	6,730
Long Term Provisions	373	670	819	1,035
Current liabilities	22,201	30,846	38,294	46,220
Other liabilities	560	733	733	733
Deferred Tax Liabilities	1,792	1,910	1,910	1,910
Capital Employed	**61,244**	**79,340**	**96,856**	**118,441**
Goodwill	3,255	5,040	5,040	5,040
Fixed Assets	22,218	26,894	30,120	33,040
Loans & advances	3,144	3,939	5,042	6,181
Current Assets	32,170	42,972	56,157	73,658
Investments	32	28	28	28
Other Assets	45	-	-	-
Misc. exp	381	468	470	495
Capital Deployed	**61,244**	**79,340**	**96,856**	**118,441**

Profit & Loss Account (Consolidated)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Net Sales	**58,190**	**70,829**	**93,435**	**114,518**
Expenses	46,411	56,382	72,374	88,528
EBITDA	**11,778**	**14,447**	**21,061**	**25,990**
EBITDA margin (%)	*20.2*	*20.4*	*22.5*	*22.7*
Other Income	**222**	**144**	**472**	**498**
Depreciation	1,712	2,275	2,744	3,079
EBIT	**10,289**	**12,315**	**18,789**	**23,408**
Interest	345	355	391	438
Profit Before Tax	**9,944**	**11,961**	**18,397**	**22,971**
Tax	1,150	3,086	6,255	7,810
Profit After Tax before MI	**8,794**	**8,875**	**12,142**	**15,161**
Minority Interest	148	199	199	199
Net Profit	**8,626**	**8,677**	**11,944**	**14,962**
NPM (%)	*14.8*	*12.2*	*12.8*	*13.1*

Key Ratios (Consolidated)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	20.2	20.4	22.5	22.7
EBIT Margin (%)	17.7	17.4	20.1	20.4
NPM (%)	14.8	12.2	12.8	13.1
ROCE (%)	32.0	31.6	39.2	38.7
ROE (%)	25.9	21.2	24.1	24.2
EPS (₹)	19.3	19.4	26.7	33.5
P/E (x)	34.7	34.5	25.1	20.0
BVPS (₹)	74.6	91.5	110.8	138.4
P/BVPS (x)	9.0	7.3	6.1	4.8
EV/Operating Income (x)	24.9	20.6	13.9	11.2
EV/EBITDA (x)	25.4	20.8	14.2	11.4
EV/EBIT (x)	29.1	24.4	16.0	12.6

Valuation and view

We expect the company's revenues to grow at a CAGR of ~27% for FY12-FY14E mainly led by growth in US, backed by strong growth from existing products and planned new product launches including Suprax drops and other niche generics. Lupin is well poised to exploit the strong growth opportunities in the Japanese generics market through its subsidiaries Kyowa and I'rom Pharmaceuticals. Further, the sourcing of product from India for its Japanese operations will help aid margins. Domestic business will drive growth on back of new products launches. Moreover, brand acquisitions in US market could be an additional trigger.

Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹671, which implies a P/E of ~25.1x FY'13E EPS of ₹26.7 and 20.0x on FY'14E EPS of ₹33.5 respectively.

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