

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

Lupin Ltd. is one of the most vertically integrated global generic majors with leadership on both, APIs and Formulations businesses. It is not only the 7th largest formulations major in the Indian Pharmaceutical Market, but also the 5th largest generics player by prescriptions in the US and is the only Indian company to achieve such a status. The company has a significant market share in the Cardiovascular, Diabetology, Asthma, Pediatrics, CNS, GI, Anti-Infective and NSAIDs therapy segments.

Investor's Rationale

Revenue visibility strong on robust product portfolio: With current portfolio of 42 products and planning to launch 120+ products in next three years, addressing a market of \$48 billion in brand revenue, the company's revenue from its formulation business in the world's largest economy is expected to grow at a CAGR of 29% in the next two years.

Alliance with MNC's provides significant revenue visibility: Lupin's tie-up with Eli Lilly India and Medicis Pharma would augment its growth in the domestic and global market. Revenue generated from Eli Lilly partnership (Aug'11 onwards) stood at ₹680 million. Besides, partnership with the US based Medicis Pharmaceutical Corporation would generate \$20 million as upfront payment and up to \$38 million for future development, research, regulatory and other purposes.

Moving on to next ladder: Lupin is the 7th largest formulations major in the Indian Pharmaceutical Market (IPM) and has been outperforming the industry with exemplary growth in the past three years. During FY'12, Lupin launched 30 new products in India, to increase its penetration in tier-II towns and rural areas of the country. We expect its domestic segment to grow at ~15% in the near term.

Stellar Q4FY12 performance led by growth in formulation business across all the geographies: During Q4FY'12, Lupin reported stellar performance as top-line grew by 24.9% year on year (YoY) to ₹19.2 billion, led by strong growth in the domestic and US business. Advanced markets sales (U.S., EU & Japan) grew impressively by 30% in Q4FY12, on back of new product launches in both the domestic and international market, coupled with consolidation of revenues from I'rom acquisition in Japan. We expect Lupin to continue its growth momentum, as the company is aiming to achieve revenue of \$3 billion by the end of FY15.

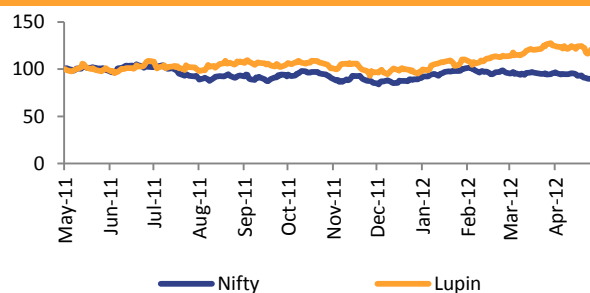
Market Data

Rating	BUY
CMP (₹)	537
Target (₹)	655
Potential Upside	~22%
Duration	Long Term
52 week H/L (₹)	574.0/409.5
All time High (₹)	574.0
Decline from 52WH (%)	6.4
Rise from 52WL (%)	31.1
Beta	0.3
Mkt. Cap (₹ bn)	239.9
Enterprise Val (₹ bn)	250.4

Fiscal Year Ended

	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	58.4	70.9	82.7	96.4
Net Profit(₹bn)	8.8	8.8	10.8	13.2
Share Capital	0.9	0.9	0.9	0.9
EPS (₹)	19.3	19.4	24.8	30.1
P/E (x)	27.8	27.6	21.7	17.9
P/BV (x)	7.3	5.8	4.9	4.1
EV/EBITDA (x)	21.0	17.2	14.6	12.5
ROE (%)	26.3	21.1	22.5	22.9
ROCE (%)	22.2	23.1	24.3	25.2

One year Price Chart



Shareholding Pattern

	Mar'12	Dec'11	Diff.
Promoters	46.93	46.93	-
FII	27.52	26.21	1.31
DII	16.53	17.23	(0.70)
Others	9.02	9.63	(0.61)

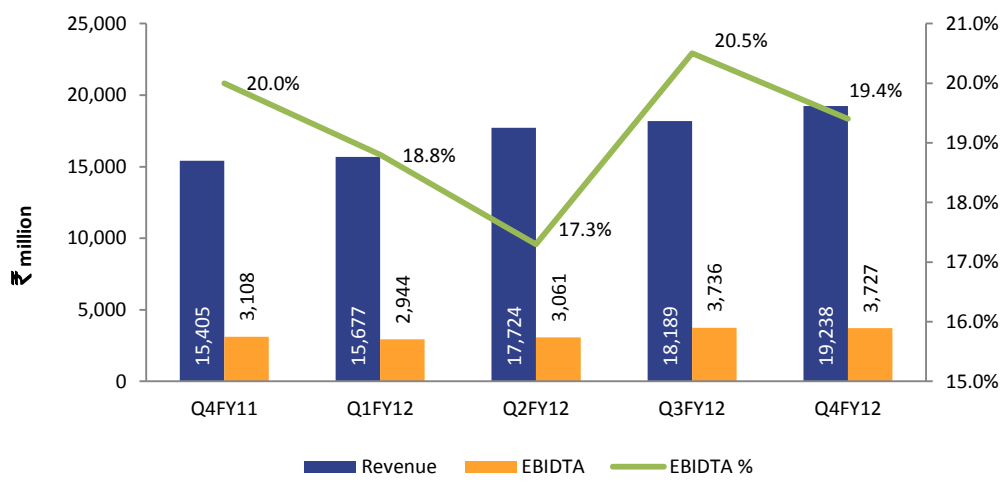


Stellar top-line growth of 24.9% led by launch of new products and improved business mix.

Robust revenue growth in Q4FY12 on strong demand from India and US

Lupin reported a strong quarterly performance, during Q4FY12, with the topline rising by 24.9% YoY to ₹19,238.5 million on the back of strong growth from India and US markets. Advanced markets sales (U.S., EU & Japan) grew impressively by 30% to ₹10,846 million in Q4FY12 as compared to ₹8,332 million in Q4FY11. Emerging markets formulation business (including India) expanded by 29% YoY to ₹5,554 million in Q4FY12. API business recorded revenues of ₹2,432 million in Q4FY12 as compared to ₹2,489 million in Q4FY11. In the branded segment, Suprax franchise recorded 30% growth, while Antara’s growth declined 6% its prescription share increased to 3.4% from 2.9% in Q3FY12. EBIDTA for Q4FY12 jumped by 19.9% YoY to ₹3,727.0 million, while, the operating profit margin (OPM) contracted by 62 basis points (YoY), mainly due to high litigation expenses and field force expansion. However, PAT de-grew by 33% to ₹1,611.9 million, led by one-time tax of ₹560.0 million on inventory sold to overseas subsidiaries and two plants ceased to get tax benefit. Post FY12 results, the company became the second largest drug maker by sales as it witnessed 22% growth in sales to ₹70.8 billion, ahead of Cipla. Going further, Lupin is expected to maintain its leadership position with strong revenue inflow in both formulation and API segments, on back of new drug launches in domestic and international market, large Para IV pipeline and strong OC basket in the US.

Quarterly trend of Revenue, EBIDTA and margins



Alliance with Eli Lilly and Medicis Pharma has strengthened the positioning of the company in both domestic and global market.

Alliance with MNC’s to augment future growth

Lupin had tied-up with leading players (Eli Lilly and Medicis Pharma) in the domestic and global market to leverage on its strong distribution channel and research skills. Lupin’s India formulations business promotes and distributes the Eli-Lilly’s Huminsulin range of products including Huminsulin RTM, Huminsulin NPHTM, Huminsulin 50/50TM, Huminsulin 30/70TM and Humapen Ergo II in India and Nepal, virtually doubling the number of sales representatives behind the diabetes care product. Revenues from Eli Lilly partnership (Aug’11 onwards) stood at ₹680 million. Lupin also made a research and development agreement with the US-based Medicis Pharmaceutical Corporation to apply its proprietary technologies to multiple therapeutic compounds. In return, Lupin will get US\$20 million as upfront payment from Medicis for formulating certain therapeutic products and up to \$38 million for future development, research, regulatory and other purposes. These deals provide significant revenue visibility for the Pharma giant.



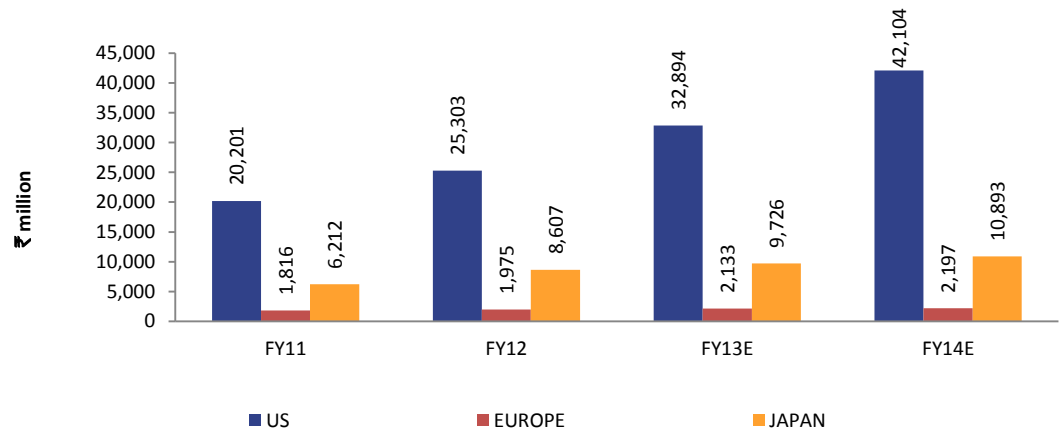
US business likely to drive growth with new product launches

Lupin is flying high in the US market on the momentum built up by its branded business and sustained, consistent growth in generics. The company continues to record the highest per product revenues among its Indian peers. Lupin is the 5th largest and the fastest growing top 10 generics player by prescriptions in the US by volume. The US Generic business is its main powerhouse of value creation as out of the 42 generic products marketed in the US, 17 are market leaders in terms of market share and have Top 3 market share in 36 products. Lupin's US generic business accounted for ~72% of the overall US business in FY12. It has differentiated itself from other generic companies by launching at least one low-competition product in the US every year for the past few years. Lupin's US branded business accounted for 28% of its overall US business, with Suprax and Antara driving the growth of its branded formulations segment. The company further aims to strengthen its branded portfolio with value-added line extensions and new products built on its proprietary advanced drug delivery technologies. It is also looking for brand acquisitions to fast track its formidable presence.

We expect growth in the US market would continue led by stabilized branded sales and growing generic portfolio, as the company has launched 3 OCs, Fortamet F2F, and Ziprasidone in FY12. Further, it is planning to launch 120+ products in next 3 years addressing a market of \$48 billion in branded revenue, of which, there are 86 Para IV's addressing market size of \$30 billion and 21 F2F generics (market size of 11 \$billion), including 9 exclusives (\$830 million). So far, Lupin's cumulative number of Abbreviated New Drug Applications (ANDA) filings stands at 173, with 64 approvals received till date (16 approvals in FY12). The company has also guided for launch of Yaz and Yasmin likely to happen in FY13.

Strong performance in US as out of 42 generic products marketed in US, 17 are market leaders in terms of market share.

Revenue from US market to drive the growth



Acquisition of I'rom Pharma aids further its first mover advantage in Japan

With Kyowa's acquisition in FY08 and I'rom Pharma's in FY12, Lupin stands among the few Indian companies with a formidable presence in the world's second largest Pharma market Japan, which is valued at \$95 billion. I'rom is a specialty injectables company with significant presence in the Diagnosis Procedure Combination (DPC) hospital segments which are fixed-rate payment hospitals and treat acute conditions. For FY11, the company clocked sales of USD70mn (JPY 5,361 million). The acquisition now strengthens Lupin's position in Japan and provides an entry into the injectable space in the region.

Acquisition of I'rom would strengthen Lupin's presence in Japan and help to foray into injectables space.



During Q4FY12, the revenue from the Japanese market increased by 66.3% YoY to ₹2,693 million and in FY12, the revenue rose by 38.6% to ₹8,607 million, which included a near ₹2,520 million from Irom. The management expects the combined sales of Kyowa and IP would reach \$300 million over the next two years.

Overseas growth to be aided by expansion of generic and strengthening of branded portfolio.

Successfully made the transition from acute to chronic therapy segment, ensuring constant growth for the company.

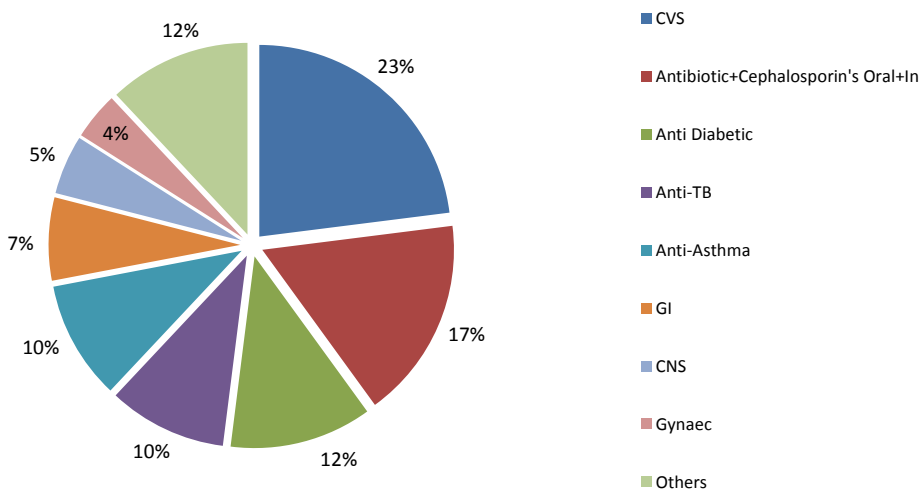
Overseas Growth Strategy

- The 5th largest generic player in the US is planning an expansion of its generic portfolio, introduction of new brands, increasing the geographic footprint in Europe and preparing for an entry into the Canadian marketplace. Additionally, the company intends to improve its current market share in varied segments to boost margins further.
- In FY12, Lupin has US sales force of over 160 medical representatives, which would help the company to build further critical mass to its specialty sales forces that addresses both Pediatricians and Primary Care Physicians and would also provide the company with significant headroom to increase branded sales in the US.
- Lupin further aims to strengthen its branded portfolio with value-added line extensions and to invest in developing new products on its proprietary advanced drug delivery technologies. It is also looking forward to fast track its formidable branded presence overseas.

Transition from Acute therapy to Chronic therapy segment ensures constant growth

Over the last 6 years, Lupin has successfully transitioned its product portfolio from acute therapy to chronic therapy. Now chronic constitutes 55-60% of the total revenues, while acute accounts for less than 40%. Lupin is now amongst the market leaders in fast growing and expanding chronic therapies like Cardiology, Central Nervous System (CNS), Diabetology, Anti-Asthma, Anti-Infective, Gastro Intestinal and Oncology. 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 leaders. Three Lupin products are amongst the Top 300 brands in the industry. Transition to chronic therapeutic segment has helped Lupin to attain higher margins and sustained revenue growth.

Increasing contribution of chronic therapies





Revenues from Eli Lilly deal and 30 new launches during the year led the company's domestic business to grow by 23% YoY.

Rich product pipeline and diversifying into new geographies will help in maintaining leadership in ROW market.

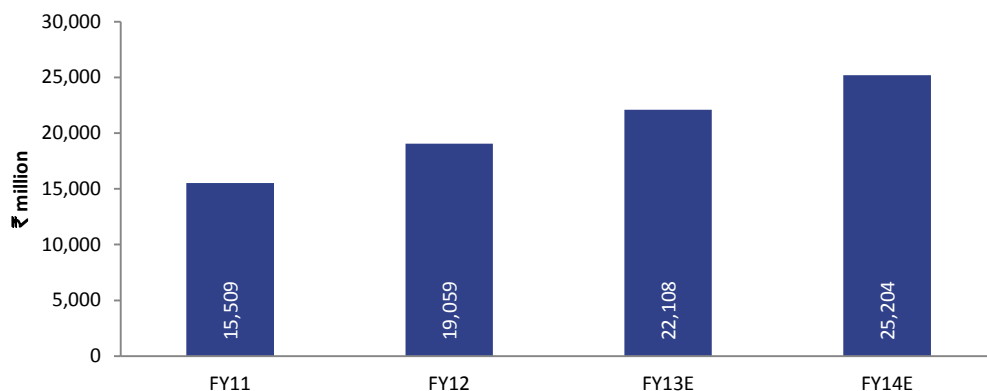
Consistent R&D expenditure of over 7.0% benefitted the company in building its own brands and a successful product pipeline.

Domestic Formulation business to augment growth on back of recent tie-ups

Lupin's Indian formulation business continues to record exemplary growth, as it continues to outperform the Indian Pharmaceutical Market (IPM) driven by entry into new therapeutic segments, expansion of field force and gradually increasing penetration in tier-II towns and rural areas. During Q4FY12, the revenue from the Indian market grew by 23% YoY to ₹19.06bn, on back of 30 new product launches. Besides, the formulation business in India would get a boost from the distribution of Eli-Lilly's human insulin range of products in Nepal and India through a dedicated field force of 300 medical representatives.

During the quarter, revenues from Eli Lilly deal came at ₹300 million. Further, the company is setting up a new plant at the MIHAN SEZ in Nagpur to augment the growth in formulations business. The company stated that it would entail an investment of ₹4 billion over a period of five years.

Growth in domestic formulation business to stay strong



New Products to help maintaining leadership in Rest of the World (ROW) market

Lupin's ROW business currently covers the markets of Australia, South Africa, South East Asia, Middle East and some markets within Latin America. During the quarter the revenue from South Africa increased by a whopping 38.2% YoY to ₹710 million. In FY12, it posted increment of 40% in revenue to ₹2,550 million. Further, Lupin's subsidiary in the Philippines, Multicare Pharmaceuticals registered a sales growth of 58% clocking sales of ₹663 million for FY12 as compared to ₹418 million in FY11. We expect that Lupin will continue to make strides in the ROW market through leveraging its rich product pipeline to increase presence and participation in these markets.

R&D expenditure ~7.5% of revenue in FY12

During FY12, Lupin invested 7.5% of its revenue on R&D and related spends, amounting to ₹5,228 million. Over the past 5 years, Lupin has been consistently investing 7-8% of its overall net sales into its R&D efforts and has also doubled the number of scientists. During the year, the company made significant addition to its development capabilities in new therapeutic areas such as Ophthalmics, Pulmonary pMDIs and DPIs and Dermatology, beside, strengthening its pharmaceutical research and novel drug delivery programs. Going forward, the company intends to maintain its R&D spends at the previous levels and would also focus on further developing its Novel Drug Discovery and Development (NDDD) and



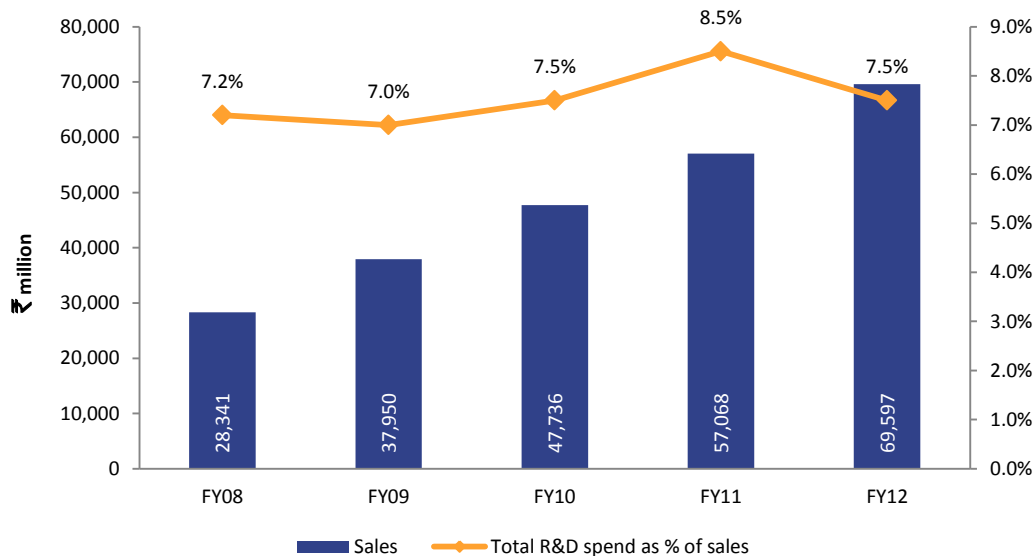
Biotechnology programs to build new revenue drivers and increased competitive advantage in the future, specifically for its Advance Markets Business.

R&D Highlights:

- Lupin filed 25 ANDA's and its cumulative ANDA filings with the USFDA rose to 173 with the company having received 64 approvals to date (16 approvals in FY12). The Company also filed 12 DMFs with the USFDA during the year. Additionally, 36 Marketing Authorisation Application (MAA)'s were filed with European Authorities.
- Cumulative filings with the European regulatory authorities stand at 127 with the company having received 58 approvals to date.
- Lupin entered into a research and development agreement with Medicis Pharmaceutical Corporation ("Medicis") to apply proprietary Lupin formulation technologies to multiple therapeutic compounds for formulating certain novel therapeutic products for Medicis.
- Novel Drug Discovery & Development – One NCE entering into clinic in 2012/13.

Robust product pipeline of 173 ANDAs filings with 64 approvals and 127 filings with EU.

Consistent R&D Expenditure of over 7.0% as a % of sales



Biotechnology research - Lupin's new growth mantra

Increased focus on Biotechnology research within the R&D value chain is the new mantra for Lupin to maintain its status as a global pharmaceutical powerhouse. Its biotechnology division have eight different proteins therapeutic in different stages of development with two of the most advanced products about to commence clinical trials. The division conducts research in different therapeutic areas encompassing oncology and immunology. Under its strategy to develop Biotechnology research, one of the key pillars of growth, it will launch its first Biological formulation in the Indian market by FY13. It is also exploring collaborative opportunities in the field of new biological formulations and entities.

Pipeline of 8 drugs in various phases of development, of which, 1 drug is expected to launch in FY13.

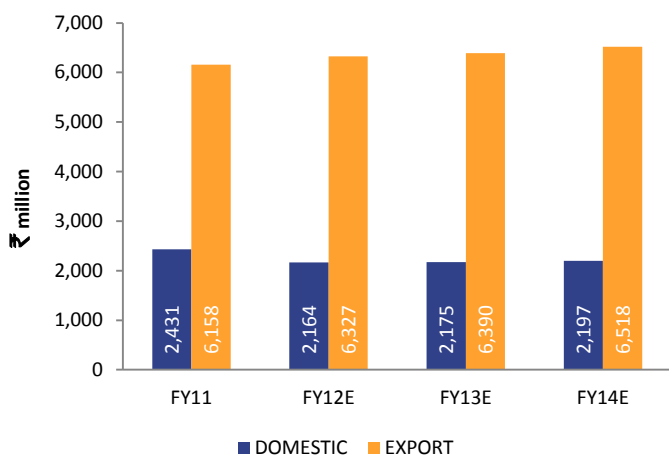


Vertically integrated global generic major is enhancing productivity and increasing capacities for the development of new APIs and intermediates.

New intermediates pipeline to drive API business further

Lupin is one of the most vertically integrated global generic majors; a market leader on both fronts of the pharmaceutical business, APIs and Formulations. In Q4FY12, the revenues from the company's API business de-grew by 2% YoY (up 23% QoQ) to ₹2,432 million, backed by persistent endeavour to improve operational efficiencies through strategic planning. The segment's revenue during FY12 was clocked at ₹8,491 million, powered by significant output growth both in terms of volume and value on consistent focus to improve the margins. In a strategic move during 2011, Lupin merged Novodigm with its API business to further streamline operations, enhance productivity and increase capacities for the development of new APIs and intermediates. Lupin has also made significant investments into expanding the Novodigm production facilities in Vadodara and planning new facility at Vizag in FY13. It has further imbibed a sizable API and intermediates pipeline for the future and plans to launch several new APIs and even forward integrate to finished products. Through market expansion, introduction of such new products and enhanced operational innovations, the company looks forward to create even greater efficiencies for manufacturing capacity utilizations.

Exports from API business to stay elevated in next 2 years



Increased focus on high yield therapy areas

Therapy Area	Differentiated Pipeline
Metabolic/EndocrinDiseases	Novel Mechanisms for new Anti-Diabetics
Pain & Inflammation	Holy grail of pain remedy
Auto-immune diseases	Targeted for Rheumatoid Arthritis and other immune disorders
CNS disorders	Robust treatments for cognitive deficits in different CNS conditions
Oncology	Highly differentiated anticancer treatment (hitting only cancer cells)
Infectious diseases	Highly potent anti-viral therapy

Strengthening its product portfolio by launching new products in FY13 at various markets across the globe.

FY13 to see the launch of new products

Lucrative product pipeline, promising new product launches and deeper customer relationships have been pillars of the Lupin growth story. In order to strengthen its product portfolio with value-added line extensions, the company intends to launch new products in FY13 in various markets across the globe. Of the proposed product line, the company is planning to launch products in oral contraceptives and other key therapeutic segments in the branded market. Lupin has already made over 23 filings in the oral contraceptives segment as a part of its strategy to exploit niche and low-competition segments in the region. It has also imbibed a sizable API and intermediates pipeline for the future and plans to launch several new APIs and even forward integrate to finished products. Through market expansion, introduction of such new products and enhanced operational innovations, the company looks forward to creating even greater efficiencies for manufacturing capacity utilizations.



Balance Sheet (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	892.0	893.3	893.3	893.3
Reserve and surplus	31,918.0	40,190.0	49,907.5	62,003.4
Net Worth	32,810.0	41,083.3	49,669.7	59,603.7
Minority Interest	515.0	714.0	863.2	564.8
Loan Funds	11,625.0	10,125.0	8,242.4	7,583.0
Capital Employed	46,361.0	53,333.3	60,186.3	69,162.5
Gross fixed assets	26,388.0	34,143.0	39,125.4	45,385.5
Less: accumulated depreciation	9,075.0	11,040.0	13,542.7	16,170.6
Net Fixed Assets	17,313.0	23,103.0	25,582.7	29,214.9
Capital Work in Progress	8,567.0	5,325.0	5,325.0	5,325.0
Investment	32.0	676.0	600.0	600.0
Net Current Assets	20,449.00	24,229.30	28,678.6	34,022.6
Capital Deployed	46,361.0	53,333.3	60,186.3	69,162.5

Profit & Loss Account (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
Revenue	58,411.6	70,972.6	82,683.1	96,408.5
Expenses	46,411.3	56,382.0	65,685.0	76,588.7
EBITDA	12,000.3	14,590.6	16,998.0	19,819.7
<i>EBITDA Margin %</i>	<i>20.5</i>	<i>20.6</i>	<i>21.0</i>	<i>21.0</i>
Depreciation	1,711.8	2,275.2	2,502.7	2,627.9
EBIT	10,288.5	12,315.4	14,495.3	17,191.9
Interest	344.8	354.7	283.8	272.4
Profit Before Tax	9,943.7	11,960.7	14,211.6	16,919.5
Tax	1,149.8	3,085.6	3,394.2	3,733.6
Profit after Tax	8,793.9	8,875.1	10,817.4	13,185.9
<i>NPM %</i>	<i>14.8</i>	<i>12.2</i>	<i>13.4</i>	<i>13.9</i>

Key Ratios

	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	20.5	20.6	21.0	21.0
NPM (%)	14.8	12.2	13.4	13.9
ROCE (%)	22.2	23.1	24.3	25.2
ROE (%)	26.3	21.1	22.5	22.9
ROA (%)	18.6	16.3	18.5	19.7
EPS (₹)	19.3	19.4	24.8	30.1
P/E (x)	27.8	27.6	21.7	17.9
BVPS (₹)	73.6	92.0	110.0	131.6
P/BVPS (x)	7.3	5.8	4.9	4.1
EV/Operating Income(x)	4.4	3.6	3.1	2.6
EV/EBITDA (x)	21.0	17.2	14.6	12.5

Valuation and view

Lupin's target to achieve revenue of \$3 billion by FY15, implies more than 30% CAGR over FY12-15. We believe that Lupin is likely to see strong growth in its formulations business (branded & generics) on the back of large portfolio of products in first-to-file opportunities, new product launches of oral contraceptives, focus on niche segments, expanding distribution network & geographical spread and alliances with MNC's. The pressure on margins should also ease out with an improvement in the utilisation of its Indore SEZ manufacturing facility. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹537. At the current market price, the stock is trading at PE of 21.7x on FY13E EPS of ₹24.8 and 17.9x on FY13E EPS of ₹30.1.



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