

Lupin Ltd.**₹ 1888****Time to Loop In !****Buy**

Aug 21, 2015

Company Background

Lupin Ltd. (Lupin) is an innovation led transnational pharmaceutical company producing a wide range of quality, affordable generic and branded formulations and APIs for the developed and developing markets of the world. It 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. 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. Its Drugs and products reach over 100 countries in the world. It has emerged as the 6th largest & the fastest growing Top 10 company in US (by prescriptions), the only Asian company to achieve the distinction.

Key Highlights

- ➔ Lupin has received its final approval from te USFDA for its Fenofibrate Tablets 54 mg and 160 mg as a generic version of Teva's Finobibrate Tablets. Its US subsidiary will soon promote the product shortly in the US. Fenofibrate is widely used to lower cholesterol and in dyslipidemia and has a US sale of USD 156 mn per year.
- ➔ Lupin recently opened a new Center of Excellence for Inhalation Research in Coral Springs, Florida. The new facility will focus on the research and development of inhalation products for the treatment of asthma, allergic rhinitis, chronic obstructive pulmonary diseases and other lung diseases
- ➔ Lupin has been on an expansion spree and recently acquired Gavis for a sum of 880 mn USD this takes Lupin's US portfolio to 101 from 81, plus it also adds around 22 stable, high margin product of Gavis in Lupin's basket. Lupin also inherits a strong IPR base of Gavis with a robust pipeline of over 130 products including 66 ANDAs and 65 under development drugs.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	71,341.6	93,783.1	99,603.3
Rev. growth (%)	32.0	31.5	6.2
EBITDA (INR mn)	18,840.3	33,526.4	34,861.5
Net profit (INR mn)	12,604.3	23,546.4	23,973.5
Shares outstanding (mn)	447.5	448.4	449.5
EPS (INR)	28.2	52.5	53.3
EPS growth (%)	252.1	86.5	1.6
P/E (x)	22.3	17.8	37.6
RONW (%)	29.7	39.3	29.7
ROCE (%)	24.6	36.8	29.4

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Info Codes

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

Market Data

52 Wk Range (₹)	: 1231 / 2112
Shares in Issue (mn)	: 449.5
Mkt. Cap (₹ bn)	: 843.79
BSE 2 Wk Avg Vol	: 102000

Share Holding Pattern (%)

Promoters	: 46.59
FII's	: 36.75
DII's	: 6.82
Others	: 9.84

Investment Theme

Year 2015 saw 4 acquisitions for Lupin that too in different countries. The recent acquisition of Gavis has put Lupin on a fast track. It now has a stable hold on the US Generic business and also has easy access to to U.S. government business. It can now enter high barrier-to-entry U.S. controlled substances market. Further it has inherited a robust pipeline of over 130 products including 66 ANDAs and 65 under development drugs. Even its current US portfolio has gone up to 101 plus it has now around 22 stable, high margin product of Gavis in Lupin's basket. All these high breadth capabilities compliment Lupin's existing infrastructure. Further Lupin has got its final approval of Fenofibrate from the US FDA and in a quarter even that should start showing up on the revenue charts of the company. We therefore feel there is good scope of growth in the company.

The Superfast Pharma Express

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	71507.8	89775.7	25.55	98323.2	9.52
Other Income	399.4	4876.5	1120.96	2313.8	(52.55)
Change in Stocks	1824.4	762.1	(58.23)	1708.0	124.12
Raw Material Con.	19092.5	21349.9	11.82	22917.4	7.34
Employee Exp.	7264.4	8443.2	16.23	10525.5	24.66
Indirect Taxes	1252.7	1513.2	20.80	1794.9	18.62
Other Exp.	34100.3	39529.3	15.92	42457.0	7.41
Operating Exp.	59885.5	70073.5	17.01	75986.8	8.44
Operating Profit	11622.3	19702.2	69.52	22336.4	13.37
Total Interest	332.8	209.9	(36.93)	49.0	(76.66)
Gross Profit	11688.9	24368.8	108.48	24601.2	0.95
Net Dep.	(5519.0)	(7342.2)	33.03	(7561.6)	2.99
Total Taxation	4603.6	8164.6	77.35	8189.3	0.30
Net Profit/Loss	12604.3	23546.4	86.81	23973.5	1.81

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	48,334.3	55,153.9	71,235.1	90,729.5
Equity Share capital	893.3	895.1	896.8	899.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	36,450.8	47,572.0	68,893.6	89,378.4
Long Term Loans	2,412.9	1,425.9	293.1	242.6
Short Term Loans	8,577.3	5,260.9	1,151.6	209.5
USES OF FUNDS	48,334.3	55,153.9	71,235.1	90,729.5
Gross Block	23,554.5	27,885.7	30,892.2	33,104.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	6,479.7	7,749.2	9,097.6	12,748.5
Net Block	17,074.8	20,136.5	21,794.6	20,356.0
Capital Work in Progress	3,573.3	2,401.2	2,670.5	4,899.6
Investments	6,872.9	6,880.4	11,636.6	34,442.3
Current Assets	34,611.4	41,636.4	52,846.9	51,261.9
Less : Current Liabilities	13,798.1	15,900.6	17,713.5	20,230.3
Total Net Current Assets	20,813.3	25,735.8	35,133.4	31,031.6
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	6,872.9	6,880.4	9,890.5	17,902.6
Mkt Val. Quoted Investments	0.0	0.0	1,746.1	16,539.7
Contingent Liabilities	5,422.9	4,777.3	5,315.9	5,927.4
Dividend (%)	160	200	300	375

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	22572.9	23277.4	21654.2	25950.1
Cost Of Sales	16574.3	15910.7	16297.0	16650.5
Operating Profit	5998.6	7366.7	5357.2	9299.6
Recurring Income	905.4	782.9	327.0	797.5
Adjusted PBDIT	6904.0	8149.6	5684.2	10097.1
Financial Expenses	10.2	10.8	15.8	8.2
Depreciation	858.1	845.3	793.0	750.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	6035.7	7293.5	4875.4	9338.5
Tax Charges	1439.5	2160.5	798.4	2339.3
Adjusted PAT	4596.2	5133.0	4077.0	6999.2
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	4596.2	5133.0	4077.0	6999.2

52 Week Index Relative Percentage Appreciation



Lupin vs SENSEX

Risks Associated

- The Company has operations in many countries around the world. Each such country poses its own challenges in terms of the economic and political conditions of that country. Any adverse political and/or economic development in these countries may affect the business of the Company in those countries.
- The Company is present in the generics segment of pharmaceutical markets in different countries. The generics market is characterized by the presence of a large number of players who compete with each other continuously to increase their respective market shares. This competition puts constant pressure on the prices which the Company charges to its customers. Apart from this, the governments of different countries apply periodic price cuts on the pharmaceutical products so as to keep the healthcare cost under control.
- Stringent regulations and quality standards are prescribed by the regulatory authorities across the globe for the pharmaceutical products and their manufacturing and supply chain processes in order to protect the interests of the patients. Any deviation from the prescribed regulations or any variation in the quality from the prescribed standards may lead to punitive actions by the regulatory authorities.
- Competitors and innovator pharmaceutical companies holding patents for products and processes may sue the Company if the Company's products or processes are claimed to be infringing upon their intellectual property rights.

Lupin

In a Nutshell

Headquartered in Mumbai, Lupin is an innovation led transnational pharmaceutical company producing and developing a wide range of branded & generic formulations, biotechnology products and APIs globally. The Company is a significant player in the Cardiovascular, Diabetology, Asthma, Pediatric, CNS, GI, Anti-Infective and NSAID space and holds global leadership positions in the Anti-TB and Cephalosporin segment. Lupin is the 6th largest and fastest growing top 10 generics player in the US (5.5% market share by prescriptions) and the 3rd largest Indian pharmaceutical company by sales globally. The Company is also the fastest growing top 10 generic pharmaceutical players in Japan (ranked 8th) and South Africa (ranked 4th). The company has been on an expansion spree and has made 5 strategic acquisitions in 2015 (Pharma Dynamics in South Africa, Medquimica in Brazil, Biocom in Russia & Gavis Pharma in New Jersey & Specialty Product Portfolio of Temmler Pharma GmbH & Co. in Germany). Out of them the acquisition of Gavis Pharma will be one of the most important milestones for Lupin in the long run. The company will benefit directly from its 22 stable high margin drugs which are already in the US market. Lupin has also received the Final approval from USFDA for Fenofibrate which is a cholesterol lowering drug having a market of around 160 mn dollars in the US. We feel the whole scenario for Lupin should change to a better version in a short while.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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