

## Lupin: US sales lower than expected

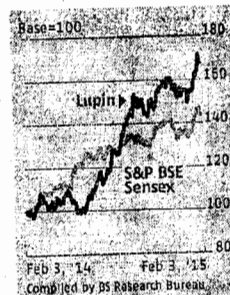
Fewer product launches in the US, fall in Japan sales affect revenues

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Lupin's performance in the December quarter came below the Street expectations, leading to the stock falling from intra-day high levels of ₹1,573 to ₹1,523 before closing at ₹1,548, down half a per cent over the previous close. The lower-than-expected US growth and decline in Japan sales seem to be the reasons, as Lupin did reasonably satisfactory in other geographies. Net sales, though up 5.4 per cent over a year at ₹3,145 crore, thus came lower than consensus Bloomberg estimate of ₹3,378 crore.

The US market, contributes 45 per cent of Lupin's total revenues, grew only four per cent over a year and one per cent in constant currency terms. Just one product launch in the quarter, compared to three mega launches a year ago, added to challenges. Also, branded products must have contributed lesser, analysts say. US revenues at ₹1,404 crore came much below the ₹1,520 crore estimated by analysts at Karvy, who also say Japan business witnessed a decline of eight per cent over a year at ₹342.2 crore (four per cent growth in yen currency) versus their estimates of ₹366.4 crore. Lupin continues to face challenges in this region. While its subsidiary Kyowa sales grew 18 per cent in yen terms, Lupin's management feels it will take some time to turn around due to challenges on the contract manufacturing front.

In terms of profitability, lower raw material costs provided the boost. Earnings before interest, taxes, depreciation, and amortisation (Ebitda) came at ₹883 crore, up 14 per cent y-o-y, while margins at 28.1 per cent were better than



25.9 per cent in the December 2013 quarter. However, Ebitda was still below consensus estimates of ₹900.4 crore. Net profit, which was helped by higher other income and lower tax rate at ₹601.4 crore, grew 26.3 per cent and hence, came in better than the estimate of ₹576.4 crore.

Lupin is seen maintaining its growth trajectory in the US and domestic markets. The management expects some key approvals in the next six months that will boost US sales. They also feel the quarter was not favourable for domestic growth. Domestic revenues (a fourth of sales) grew 14.4 per cent in the quarter, compared to 21 per cent in the first nine months of FY15.

The management also expects 20 per cent-plus growth momentum to sustain in US sales as generics of Trizivir (HIV treatment), anti-hypertensive Fortamet and many other products launched earlier still face limited competition. Analysts at Kotak Securities estimate Lupin's US generics to register 21 per cent compounded annual growth rate during FY14-17. They see Lupin's gradual shift towards specialty segment and around 100 pending abbreviated new drug applications, or ANDAs, as the key growth drivers. They have a target price of ₹1,775, while consensus Bloomberg target price stands at ₹1,621.

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